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No. 176

House of Representatives

The House was not in session today. Its next meeting will be held on Monday, September 24, 1951, at 12 o'clock noon.

Senate

FRIDAY, SEPTEMBER 21, 1951

(Legislative day of Wednesday, September 19, 1951)

The Senate met at 10 o'clock a. m., on the expiration of the recess.

The Chaplain, Rev. Frederick Brown Harris, D. D., offered the following prayer:

Father of Lights, in a world that lieth in darkness, swept by the fitful winds of doubt and despair, we pause at this sheltered sanctuary of Thy grace to make sure that the light within us is not dimmed. Out of the shadows we would lift our faces to the one true light, knowing that if we keep our hearts with Thee there is no darkness from without which can quench the light that is within.

In this desperate hour when the world's hope of a brighter tomorrow is committed to our frail hands, join us to the great company of unconquered spirits who in evil times have stood their ground, preserving the heritage of man's best, and whose flaming faith has made their lives as lighted windows amid the encircling gloom. We ask it in the ever-blessed name of that One who is the light of the world. Amen.

THE JOURNAL

On request of Mr. McFARLAND, and by unanimous consent, the reading of the Journal of the proceedings of Thursday, September 20, 1951, was dispensed with.

COMMITTEE MEETING DURING SENATE SESSION

On request of Mr. LEHMAN, and by unanimous consent, the Committee on Labor and Public Welfare was authorized to meet today during the session of the Senate.

LEAVE OF ABSENCE

Mr. SALTONSTALL. Mr. President—

The VICE PRESIDENT. The Senator from Minnesota has the floor under

the unanimous-consent agreement. Does the Senator from Minnesota yield to the Senator from Massachusetts?

Mr. HUMPHREY. I yield to the Senator from Massachusetts.

Mr. SALTONSTALL. Mr. President, I ask unanimous consent that the junior Senator from Utah [Mr. BENNETT] be excused from attendance on the session of the Senate today.

The VICE PRESIDENT. Without objection, it is so ordered.

The Senator from Minnesota has the floor.

On request of Mr. SALTONSTALL, and by unanimous consent, Mr. MARTIN was excused from attendance on the session of the Senate tomorrow.

REVENUE ACT OF 1951

The Senate resumed the consideration of the bill (H. R. 4473) to provide revenue, and for other purposes.

Mr. HUMPHREY. Mr. President, as I concluded my remarks yesterday I was discussing that portion of the tax bill which deals with the subject of tax-free redemption of stock to pay estate taxes. I have a brief survey of that, but prior to introducing it I should like to make a few remarks to tie our two days of argument together in one piece, for a continuous analysis of the bill.

It is my feeling that the tax bill, first of all, must make provisions for raising more revenue than it does if we are to meet the cost of our defense program and the cost of our governmental expenditures for the fiscal year 1952.

Secondly, it is only proper that, before any effort is made to increase the tax burden upon the great rank and file of our people and upon the legitimate enterprises of American business, we should plug loopholes in the tax law.

Mr. President, I feel very strongly about the urgency and the ethical neces-

sity for developing a firm and fair tax base. I feel this particularly now, since we are going to be compelled, by the exigencies of national defense, by the imperatives of the protection of our freedom, to raise a considerable revenue for our defense establishments and for our commitments at home and abroad. To put it in another way, we ought to have a tax system that has as much equity in it as is humanly possible; we ought to have a tax system that continues to be based upon the sound and democratic principle of the ability to pay; we ought to have a tax system in which earned income constitutes one part of the broad base of our taxation and legitimate corporate profits represent the other part of the base of our tax system. We ought to have a tax system in which there are as few openings or as few temptations for tax avoidance as the human mind can possibly contrive or conceive.

Mr. President, yesterday I emphasized that as corporate tax rates rise—and they are high—and as the earned-income-tax rates rise—and we boosted them in 1950, and we are preparing to give them a sizable boost in 1951—as these rates rise, likewise the capital-gains tax rate must rise and keep its historic relationship with income-tax rates, as well as the corporate-business-profits tax rates.

I also point out that unless the capital-gains tax rate is raised we are going to place before the taxpayers, particularly those in the upper-income brackets, an incentive for tax avoidance far beyond anything we have ever experienced up to date. I think it is a fair statement when I say that as the rates on earned incomes and as the rates on corporate business profits have gone up, there has been more and more of a tendency in our economy to find legal ways of avoiding the payment of taxes under the high

tax rates. That is what we mean when we talk about loopholes. Loopholes, in the tax law, do not mean that one escapes from paying any tax. In the main what they mean is that one escapes paying at the high income tax rates or the high corporate tax rates, and takes the benefit of the preferential treatment which comes in the capital-gains tax rate.

So, Mr. President, it is my intention, first, to offer an amendment to raise the tax on earned income from 11 to 12½ percent. It is my intention to offer an amendment to have the corporate rate apply back to January 1, 1951. It is my intention to do that because the quarter from January 1 to April 1, 1951, was the most prosperous quarter for corporations in the history of American enterprise. It was during that quarter that American corporations were earning gross profits at the annual rate of \$50,000,000,000. It was during that quarter that American corporations, under existing tax schedules, were netting, after taxes, at the annual rate of \$23,000,000,000 a year.

These are just two of the amendments I intend to offer.

Mr. President, I also desire to point out, so that it will stand out in bold type in this debate and in the RECORD, that the tax bill before the Senate is not merely a revenue-raising bill alone. It plays a very fundamental part in checking the inflationary pressures which are ever growing in our economy.

Mr. President, since the recess last evening certain items have come to my attention which I wish to have incorporated in the RECORD. I have in my hand a chart which represents "1948 Tax Payments as Percent of Income by Income Brackets." This chart shows by percentage points and by graphs State and local taxes compared to the Federal taxes which are paid by the respective income groups. It starts at the income group under \$1,000 and goes to the income group of \$7,500 and up. The chart was taken from "Notes for Panel Discussion on Fiscal Policy" by R. A. Musgrave before the Joint Committee on the Economic Report, on January 31, 1951. It shows the 1948 tax payments distribution of various income payments in the following manner:

	State and local taxes	Federal taxes
Under \$1,000.....	9.7	13.9
\$1,000 to \$1,999.....	6.8	13.5
\$2,000 to \$2,999.....	6.1	15.5
\$3,000 to \$3,999.....	6.0	15.8
\$4,000 to \$4,999.....	5.6	16.1
\$5,000 to \$7,499.....	5.4	17.7
\$7,500 and up.....	5.5	26.3
Total.....	5.8	18.8

I ask unanimous consent that a portion of the report of the Joint Committee on the Economic Report dated August 15, 1951, being Senate Report No. 644, entitled "Inflation Still a Danger," and appearing on page 27 of the report under the heading "Long-term implications of the defense program" be incorporated in the RECORD at this point as a part of my remarks.

The VICE PRESIDENT. Without objection, it is so ordered.

The matter referred to is as follows:

The second implication can be derived from an examination of the relationship between gross national product and Government expenditures (see appendix A, table XII, p. 41, and chart 3, p. 46). Federal defense expenditures for goods and services took about 4.9 percent of gross national product in fiscal 1950; this rose to 7.2 percent in fiscal 1951 and it is estimated at almost 15 percent for 1952; for fiscal 1953 the ratio may rise to over 18 percent. Subsequently the proportion may decline as gross national product increases and defense expenditures taper off. At the peak, therefore, of the defense effort in fiscal 1953, Federal, State, and local expenditures for defense and non-defense activities may total over 26 percent of gross output. Such is approximately the schedule outlined in the First Quarterly Report of the Director of Defense Mobilization.

Mr. HUMPHREY. Also, in a report which was made available recently by the Federal Trade Commission, we received some very interesting information on profits and costs of American business. The Associated Press, under date of August 15, 1951, digested this Federal Trade Commission report in a feature story entitled "Profit Rate Is Higher Than in 1940." This report is an analysis of taxes, profits, and costs of the manufacturing industries. I think it would be interesting to note just one paragraph:

The Federal Trade Commission reported Sunday—

This was on August 15—

that despite higher costs and taxes, "all but 3 of 25 major manufacturing industries" showed a higher rate of profit in 1950 than in prewar 1940.

The report goes on and discusses the entire manufacturing industry as a group, with specific reference to certain industries, and gives some very illuminating and interesting percentage figures on costs and profits. I ask that the article from the Minneapolis Morning Tribune of August 15, 1951, be printed in the RECORD at this point as a part of my remarks.

There being no objection, the article was ordered to be printed in the RECORD, as follows:

PROFIT RATE IS HIGHER THAN IN 1940

WASHINGTON.—The Federal Trade Commission (FTC) reported Sunday that despite higher costs and taxes, "all but 3 of 25 major manufacturing industries showed a higher rate of profit in 1950 than in prewar 1940."

The report, fourth in a series submitted to Congress comparing prewar and postwar rates of return, after taxes, further said that "in all but six industries 1950 profit rates also showed an increase over 1949."

The FTC measured the profit rates by comparing the proportion of earnings for each year to amounts invested in the industries.

"The only three industries which failed to show a higher profit rate in 1950 than in 1940 were cigarettes; cigars; and plug, smoking, and chewing tobacco, where the 1950 rates of return were, respectively, 12.7, 6.2 and 9.5 percent," the report said.

"Industries which showed the most striking increases in their rates of return from 1940 to 1950," it added, "were motor vehicles, from 17.3 to 31.7 percent; matches, from 5.3 to 17 percent; industrial chemicals, from 14.4

to 23.7 percent; rayon, from 8.6 to 17.9 percent; flat glass and glassware, from 11.7 to 21.3 percent, and petroleum refining, from 6.7 to 14.3 percent."

The six industries showing a decline in profits from 1949 to 1950 were listed as: dairy products; cigarettes; cigars; plug, smoking, and snuff tobacco; bread; biscuits and crackers.

"In the comparison of 1949 and 1950 profit rates, the most striking increases were shown in soap, from 6.6 to 18.2 percent—the exact reverse of its decline from 1948 to 1949; matches, from 6.9 to 17 percent; and tires and tubes, from 9 to 17.1 percent," the report said.

The FTC made a comparison of the "level of profitability of the four largest companies in an industry with the rates of all other companies reported for that industry," with the notation that the "other companies" are mostly "concerns of medium or slightly less than medium size" and "not the distinctly smaller size corporations."

The comparison, it said, showed that profit rates of the four largest corporations in each industry during the postwar period "were generally higher" than those of the smaller corporations covered in this report.

Mr. HUMPHREY. There was published in the Washington Post of September 21, 1951, an article entitled "Investment Data Promise Prosperity." This article is by one of the noted reporters of the Washington Post, Alfred Friendly. Let me read a paragraph or two from this article:

Federal agencies yesterday made public two important indicators pointing to the future economic good health of the Nation:

1. The Federal Reserve Board revealed that in the 3-month period ending last July 1, individuals were saving at the yearly rate of \$21,000,000,000, a peacetime record. The high rate of savings has an enormous anti-inflationary effect, Board economists said.

2. A joint Commerce Department-Securities and Exchange Commission study forecast the expenditure of almost \$25,000,000,000 this year by business on plant and equipment, also an all-time record. Technicians forecast that the rate will be maintained throughout 1952. The data on business investment of this nature are considered as particularly sensitive indicators of business activity in general.

Here we have conclusions by two eminent boards in our Government. First, there is the Federal Reserve Board, a Board removed from politics, a Board which makes economic judgments generally along the conservative line. Second, we have the joint Commerce Department and Securities and Exchange Commission report.

What do they say? First, that investment in business is at an all-time high. They say that the investment in capital structure, in new plant and new facilities, will be higher next year than this year, or as high as it is this year; and this year it is at an all-time high.

I remind Members of this body to look at the debates on the tax bill of 1950. If they will look into the CONGRESSIONAL RECORD of those debates, they will find that warnings were given on this floor. Senators said, "If we boost corporation tax rates, we are going to drive them out of the capital investment business. They will not expand."

What is the record? There has been an expansion such as this country has never known in its history. What is the

prophecy? What is forecast for next year? Roughly, it is that the investment next year will be at least equal to that of this year. This is exclusive of and separate from Government assistance in terms of Government expansion and Government aid.

What else does this report point out? It points out that individual savings for the past year have been at an all-time high—\$21,000,000,000 of individual savings. Mr. President, I surmise that most of those savings are not in the hands of people with incomes of \$5,000 or less, who represent 81 percent of all the taxpayers of the country. Those savings are primarily in the hands of the group with incomes above \$5,000 a year. So I am not moved to crocodile tears, or any other kind of tears, when I hear warnings to the effect that we are about ready to break our economic back.

Mr. President, this is an expanding economy, a developing economy. The economic facts reveal that our economy is strong, that it is moving ahead, that investment capital is expanding, and that savings are increasing. This report tells me that while the tax bill we have before us will, of course, take another bite out of the taxpayer, it is one that we can bear. It also tells me that this tax bill ought not to have loopholes which permit preferential treatment. It tells me that we must consider taxation on the basic principle which I have enunciated again and again, and which men long before my time talked about much more eloquently and precisely—the principle of the ability to pay.

Mr. President, I ask unanimous consent that the article of September 21 from the Washington Post be printed in the RECORD at this point, as a part of my remarks.

There being no objection, the article was ordered to be printed in the RECORD, as follows:

INVESTMENT DATA PROMISE PROSPERITY

(By Alfred Friendly)

Federal agencies yesterday made public two important indicators pointing to the future economic good health of the Nation:

1. The Federal Reserve Board revealed that in the 3-month period ending last July 1, individuals were saving at the yearly rate of \$21,000,000,000, a peacetime record. The high rate of savings has an enormous anti-inflationary effect, board economists said.

2. A joint Commerce Department-Securities and Exchange Commission study forecast the expenditure of almost \$25,000,000,000 this year by business on plant and equipment, also an all-time record. Technicians forecast that the rate will be maintained throughout 1952. The data on business investment of this nature are considered as particularly sensitive indicators of business activity in general.

SCARE BUYING PAST

The present annual rate of individuals' savings appeared to Reserve Board economists as an indication that, barring unforeseen developments, America is done with post-Korean "scare buying."

During the first wave of panic purchasing, in the third quarter of 1950, savings were accumulated at an annual rate of only \$4,600,000,000. During the second wave, in the first 3 months of this year, the rate was \$9,300,000,000, or less than half of the rate in the quarter just ended.

The board predicted that the present high savings level won't continue.

If it does, it will mean that the problem of the Treasury, in finding nonbank buyers for Federal securities, will be greatly eased. Private citizens with savings on hand, will be prone to buy the Government obligations, a process that has direct anti-inflationary effects.

CONSUMERS SATIATED

Economists think the higher saving indicates consumers have satiated their demands for goods and are not competing in the markets, as heretofore, with the demands of the rearmament program. While they did, the two forces produced strong inflationary pressure.

Less frantic private buying does not presage any depression, however, in the light of the continued high business investment outlays.

With business planning new plants, facilities and equipment at the unprecedented rate shown in the study, a high level of demand and business activity should prevail this year and the next.

The study reveals that although the rate of new investment by nondefense industries will decline in this quarter and the next, it will be more than offset by increased outlays of defense-related enterprises.

EFFECT OF SHORTAGES

Some of these may not spend as much as they expected to because of more severe curtailments of steel and nonferrous metals. But even so, and even after correcting for the factor of increased costs, the physical amount of new plant and equipment to be bought this year will be about one-sixth more than in the previous peak year, 1948, and one-fourth greater than last year.

From several different approaches—preliminary inquiries to businessmen on their plans, estimates of the amount of steel available, totals of specific expansion projects which the Government has promised to see through—it is estimated that the present record rate of business investment will carry on through 1952.

The sensational acceleration in the rate of business investment which has gone on for the past six or eight quarters is, however, about at its peak. Although the absolute amount of annual investment is not expected to decline, it will no longer go up by such leaps and bounds.

Mr. HUMPHREY. I have before me an editorial from the Washington Post which is very interesting, in view of what was stated a few days ago in one of its editorials. This editorial is entitled "Search for Revenue." A few days ago, the same newspaper showed great concern over what might be happening as we search for revenue, and stated that we might be at the breaking point. I do not want to underestimate the seriousness of the tax measures, but I believe that we can bear these tax burdens if we share them equitably. It is just like the work of the Senate. If all bear equal burdens, to the best of our ability—and there are differences, I suppose, in our respective abilities—we all do our job, and we move ahead.

I see present in the Chamber my friend the majority leader, who must be here every day. His is no easy job. He has to stand the torment of all the stresses and strains on the floor of the Senate. If those of us who are working with him will bear our share of the burden, the majority leader will not have to bear quite so much. That is the way it ought to be in tax measures.

Mr. McFARLAND. Mr. President, will the Senator yield?

Mr. HUMPHREY. I yield.

Mr. McFARLAND. Let me say that I do not know of any time when the distinguished Senator from Minnesota has not been willing to carry his share of the burden.

Mr. HUMPHREY. I thank the majority leader. I hope I shall always try to help the majority leader and my colleagues.

Mr. MILLIKIN. Mr. President, will the Senator yield?

Mr. HUMPHREY. I welcome my good friend back to the fray.

Mr. MILLIKIN. The distinguished majority leader is sitting here. I think the Senate should have a full appreciation of the burdens he bears, and also the burdens which must be carried by the distinguished leader of the minority. They must sit here day after day, from the beginning of the session to the end, and listen to interminable yak-yak. The distinguished majority leader is now sitting here listening to a speech the theme of which is that everything is O. K. We have a debt of \$260,000,000,000, which means a debt on every family in the country of between \$5,000 and \$6,000. We are adding new burdens this year of about \$1,800 on every family. Everything is fine. Everything is wonderful. We have a 40-cent dollar. Everything is fine. Everything is wonderful. We have a war in Korea. Everything is fine; everything is wonderful. The majority leader, poor devil, must sit there and listen to that sort of stuff day after day after day. I do not see how he can stand it.

Mr. HUMPHREY. Sometimes it bothers me, too.

Mr. LEHMAN. Mr. President, will the Senator yield?

Mr. HUMPHREY. I yield.

Mr. LEHMAN. The distinguished Senator from Colorado has referred to our indebtedness of approximately \$260,000,000,000. I wish to point out that it is because we do not want the indebtedness to increase and to become so unwieldy that it will submerge us that my colleague from Minnesota and some of the others of us are making this fight for higher taxes. We want to keep the deficit down to reasonable limits. Unless we strengthen this bill, in the present fiscal year we will have an additional deficit of more than \$7,000,000,000. In my opinion, the deficit next year will be two or three times that much. We are trying to avoid that kind of deficit financing. It is a very serious matter. Yet my distinguished and beloved colleague from Colorado is fighting our efforts to secure a bill which will keep the deficit at least within a reasonable size.

Mr. MILLIKIN. Mr. President, will the Senator from Minnesota yield?

Mr. HUMPHREY. Of course.

Mr. MILLIKIN. I may say to my good friend from New York that nothing would please me more than to see a balanced budget. I would say that during the Eightieth Congress we had a balanced budget. We produced a sizable surplus, and we reduced taxes. That is the way to run the country.

The Senator speaks about deficits. In my opinion, under the existing spending program we will have a deficit of more than \$20,000,000,000 or \$30,000,000,000 in the next fiscal year. Let us face up to it.

Let us face up to the next fact, which is an important one. We cannot cover that deficit unless we reach down and get into the lower income-tax brackets, which is something Senators do not want to do. We cannot cover the deficit with a sales tax. It will take something much more dynamic than a sales tax.

At our hearings we learned about the tremendous sales tax which would have to be added to existing State sales taxes. We were told that an estimated \$5,000,000,000 could be obtained from such a tax. One group of witnesses finally whittled it down, after allowing exemptions which must be made, to about \$750,000,000, as I recall.

When we are talking about a deficit, we are looking into the face of a deficit next year of from \$20,000,000,000 to \$30,000,000,000. It cannot be covered with taxes produced from the middle and upper income groups. It is not there. If we took all the taxable income they have, we still could not cover that deficit.

Mr. LEHMAN. Mr. President, will the Senator yield?

The VICE PRESIDENT. The Senator from Minnesota has the floor.

Mr. HUMPHREY. I yield to the Senator from New York.

Mr. LEHMAN. I have been hearing a great deal about a pay-as-you-go policy, and I favor it. Although I cannot speak for my distinguished colleague from Colorado, I believe that he voted, as I did, for every bill making appropriations for the defense of this country, and every appropriation which would make us strong against possible aggression. Having voted for the appropriations, if we are sincere in our protestations of trying to keep the country strong and trying to adhere as closely as possible to a pay-as-you-go policy, certainly I can see no reason or justification for opposing the imposition of higher taxes. Although I realize that the imposition of higher taxes would not wipe out the prospective deficit, at least it would minimize it and leave the country in a far more secure position than it would be if we were to close our eyes to the realities and permit the deficit to climb higher and higher, ad infinitum.

Mr. MILLIKIN. I certainly do not close my eyes to the realities. In just a little over a year I have participated in the framing of three tax bills which will empty the pockets of the American citizen, when we get through, of about fifteen or sixteen billion dollars.

So here we are again, and it will be urged that we will have to get still more taxes to balance future budgets. We will have to get them next year, probably after election, not before; but if we would balance future budgets more taxes will have to be raised.

Then comes the next question: From what sources are we to raise them? The Senators propose to raise additional revenue. I assume they want to raise \$10,000,000,000 for the current fiscal

year. This bill would produce approximately \$5,500,000,000. Therefore there will be a shortage of \$4,500,000,000 for the current fiscal year under the estimates of the Senate. Let the President of the United States put his mind on reducing expenditures by \$4,500,000,000, and he will accomplish the job without breaking the backs of the American taxpayers.

Mr. HUMPHREY. Mr. President, let me say a few words in reply to the Senator from Colorado. First of all, it is the Congress of the United States which makes the appropriations, not the President. The President does not have a vote in Congress. Just the other day the Congress overrode one of his vetoes, which results in a little greater increase in the Federal financial responsibility. I felt the President was wrong, and I helped to override his veto. However, let us not go around saying that the President of the United States should cut expenditures. We are the ones who make the expenditures. The President of the United States merely recommends.

If Congress does not want to vote for foreign aid, it does not have to vote for it. If it does not want to appropriate \$59,000,000,000 for national defense, it does not have to do so. Congress knows the appropriations were necessary, and that is why Congress overwhelmingly votes for the expenditures.

Mr. President, we are not talking in a vacuum about Federal expenditures. We are talking about expenditures at this time because we are faced with the worst menace in the history of the world. We are faced with a menace which is one of the gravest menaces which has faced us in our history, and which is world-wide in its scope. We are spending by far the largest part of the money for the defense of our country and for our national security. I may point out, too, that while we are making these expenditures our country is not going bankrupt.

The Senator from Colorado speaks about the war in Korea. That was not our idea and we must never underestimate the blame which the Communists must carry for this aggression. He talks about our enormous national debt. We got it by fighting Hitler. That was not our idea. He says that every family is carrying a big debt. That big debt results from our Government's efforts to save the freedom of our people.

The other day I placed in the RECORD an editorial entitled "Good Old Days," published in a fine Minnesota newspaper. The editorial reads as follows:

GOOD OLD DAYS

People have railed against taxes ever since the system was originated and no doubt they will continue to complain until the crack of economic doom. And some delight in looking back to the good old days when taxes were more bearable and life was less harassed by world problems of rehabilitation, international relief and welfare, the Marshall plan, and point 4.

But it wouldn't be a bad idea to just think back to what other things accompanied the low-tax scale of long, long ago. And it really wasn't so long, long ago either.

In the fiscal year that ended June 30, 1933—just after the patron saint of the Re-

publican Party went back to his Palo Alto home in California—Federal taxes totaled only \$1,600,000,000. But did this low percentage bring joy and happiness to the millions? Was life more livable for the folks who made up the great population of the United States of America? Not at all. Those were the days when "Hoovervilles" were springing up all over the land. Those were the days when returned World War I veterans sold apples on the corners close to the breadlines and the soup kitchens the Republicans have forgotten to remember.

And the total personal income of the people that year was only \$46,000,000,000 so after the United States Treasury took its annual bite out of the national personal income only \$45,000,000,000 remained to buy the necessities of life and to lay a little away for a rainy day.

In contrast to all this the national personal income of the American people is presently \$250,000,000,000 a year. On June 30, 1951, Federal taxes collected for 1950 reached an all-time record of \$50,000,000,000. Subtract this from the \$250,000,000,000 total before taxes and the people still have \$200,000,000,000 to buy the necessities of life, TV sets, new cars, giggle juice, and OPS-upped steaks, chops, and cereal-packed hamburger. And even allowing for the tremendous drop in the buying power of the United States dollar, the common folks are still at least twice better off than they were the year Herbert Hoover pouted and mumbled something to the effect that prosperity is just around the corner.

The good old days when farmers burned wheat because it was cheaper than coal may seem very desirable just now from the standpoint of the Federal tax differential but no one in his right mind would want to go back to them. And the man who tries to argue that those times were better than this living moment is either dishonest, drunk, or mentally deficient.

I merely quote the statements contained in the editorial; certainly I do not agree with all of them.

I conclude my reference to the editorial by saying that I do not want the Senator from Colorado to try to put words of interpretation upon what I was saying. I did not say these are happy days or days without burden or days without sacrifice.

I have simply stated the facts, namely, that last year the savings totaled \$21,000,000,000. I have said that last year the capital investments in our country totaled more than \$25,000,000,000, an all-time record. I have said that in the first quarter of this year profits were at an all-time high, running at the annual rate of \$50,000,000,000 gross and \$23,000,000,000 net. Those are not any individual's opinions, but they are the facts, taken from the records as developed by the Federal Reserve Board, the Department of Commerce, the Treasury Department, the Federal Trade Commission, the City National Bank, and all other reputable economic organizations in America.

Mr. MILLIKIN. Mr. President, will the Senator yield?

The VICE PRESIDENT. Does the Senator from Minnesota yield for a question?

Mr. HUMPHREY. Yes; I yield.

Mr. MILLIKIN. The Senator from Minnesota has covered a great deal of territory in a few moments. He reminds me of a steer that was being fattened in a steer lot. A hungry steer came by

and said to the steer that was being fattened, "How are you doing, Mr. Steer?"

The steer being fattened said, "I am doing fine. I never had it so good. They are feeding me with corn and fattening me all up. I never drank better water. They take good care of me."

The hungry steer said, "What happens next?"

The other steer said, "Next I go to the slaughterhouse."

What I am trying to say to the Senator from Minnesota is that the \$265,000,000,000 debt still hangs there, despite all the attractive polemics which may be thrown into the picture; and the net result of that debt has been that we got rid of one enemy, only to acquire another. That is good management. That is fine. That makes a wonderful world, and makes ours a wonderful country.

That is the result; that is what has happened. We have only commenced to see the beginning of it.

We have a sample of it in Korea, and we have to pay for that. There may be more Koreas, and we shall have to pay for them. Two and one-half million or three million of our boys are under arms.

Oh, that is fine. What a wonderful day these managers of our affairs have brought us to. That is great stuff; that is wonderful stuff.

They are piling up these debts and these taxes on the backs of the people, and taking away the liberty of the people, in terms of their individual spending power.

That is freedom. That is the Senator's kind of freedom, but it is not my kind of freedom.

I want the people to have the liberty and the freedom of controlling more of the contents of their pocketbooks than will remain to them if we impose the additional taxes desired by the Senator.

I agree with the Senator from New York that we have a problem of defense. I have supported every one of the defense measures. I say we must set up an effective resistance to the perils we have gotten ourselves into through the superlative management of our Government.

This is no time to sit around and say, "Oh, well; look at the stupidity and blundering of the Government that has gotten us into this mess."

We have no alternative but to get out of this mess, and it costs money and taxes to do so.

My point to the distinguished Senator is that if he wants a balanced budget, the easiest way that can be done, at a time when we are talking about spending \$70,000,000,000 or \$80,000,000,000 or \$90,000,000,000 a year, will be for the President to reduce expenditures by the sum of \$4,500,000,000 and then every present objective of the Senator would be met.

Mr. HUMPHREY. May I make a very brief and, I think, pertinent observation at this point?

Mr. MILLIKIN. May I say one other word—

The VICE PRESIDENT. The Senator from Minnesota has no right, under

the rule, to yield to a Senator for a speech; and if he continues to do so, the Chair will be compelled to enforce the rule.

Mr. MILLIKIN. Mr. President, will the Senator yield for a question?

Mr. HUMPHREY. I yield for a question.

Mr. MILLIKIN. I was supposed to leave the floor about 5 minutes ago, but I am always intrigued into discussing matters with the distinguished Senator from Minnesota. I wonder whether he will do me the great favor of continuing the discussion we are on now, if he so feels inclined, when I return to the floor, which will be as soon as possible. [Laughter.]

Mr. HUMPHREY. I shall. I simply wish to leave this one thought with my friend, the Senator from Colorado, before he leaves the Chamber. He is a great lawyer; I would say he is one of the most eminent members of the legal profession in this body. He knows that every appropriation bill must be passed by the Congress, and he well knows that every request the President makes is subject to all kinds of slashing and cutting and slicing by the Congress. The Senator from Colorado has even participated in that process.

If the Senator from Colorado wishes to cut expenditures, let him persuade the Congress to make cuts in the expenditures. The Senator cannot have his cake and eat it, too. He knows that only the Congress can make appropriations.

The Senator is an eminent authority on government, and he knows about the separation of powers in our Government and he knows about the power of the Congress to lay and collect taxes and to make appropriations.

So why all these polemics about "the President should cut the budget"?

Mr. President, should the President of the United States cut the budget? The Congress is the place where the budget is made or cut, and the Congress determines the policy of the United States of America.

Mr. MILLIKIN. Mr. President, will the Senator yield?

The VICE PRESIDENT. Does the Senator from Minnesota yield to the Senator from Colorado for a question?

Mr. MILLIKIN. Yes; will the Senator yield for one brief moment, for a question?

Mr. HUMPHREY. I yield for a question.

Mr. MILLIKIN. Is it not a fact that the President brings his budget to the Congress? Is it not a fact that the committees of Congress are not set up to make proper analysis of the budgets? Is it not a fact that a considerable portion of the Members of the Senate voted to make cuts which were proposed in the appropriations to which the Senator from Minnesota refers? In many instances I have had the pleasure of going along with the reductions proposed by the distinguished senior Senator from Illinois [Mr. DOUGLAS.]

I do not want to be personal, but perhaps I may say that I have voted for more reductions in appropriations than has

the distinguished Senator from Minnesota.

Mr. HUMPHREY. The Senator from Colorado is not being personal; he is being accurate.

Mr. MILLIKIN. Mr. President, will the Senator yield for another question?

Mr. HUMPHREY. Yes, and I shall come closer to the Senator, so that we can hear each other better.

Mr. MILLIKIN. I hope the Senator will pardon me if I leave the Chamber for a brief time at this point. I do not wish to give the impression that I am running away.

Mr. HUMPHREY. Oh, no.

Mr. MILLIKIN. I shall return as soon as possible; but please hold up this matter until I return.

Mr. HUMPHREY. Just as the Senator from Colorado leaves the Chamber, let me say that as the President presents the budget—

Mr. MILLIKIN. I leave the Chamber with reluctance, I assure the Senator.

Mr. HUMPHREY. As I was saying, Mr. President, as the President presents the budget, so has the President presented the Brannan plan and many other proposals about which the Congress did not do one thing. That has occurred many times. So let no Member of Congress say that the President determines the legislative policy. Let no Member of Congress say that we are not prepared to do a better job in making appropriations if we wish to do so. We can revise the functions of our committees, and we can equip our committees with staffs sufficient to enable them to investigate or analyze in great detail all these matters, if we wish to do so. However, I find that it is so much more convenient for many Members of Congress to blame the President, whenever the Congress gets into a jam.

Mr. LEHMAN. Mr. President, will the Senator yield for a question?

Mr. HUMPHREY. I yield.

Mr. LEHMAN. When the Senator from Colorado stated, as he did a few minutes ago, that he has voted for every one of the defense appropriations—the \$59,000,000,000 bill we passed a few days ago, the bill appropriating nearly \$6,000,000,000 for the construction of military installations in the United States and abroad, and the many other defense measures—is it not fair to assume that he did so out of conviction, because he felt those measures were necessary.

Mr. HUMPHREY. I am sure he did.

Mr. LEHMAN. Is it not a fact that when a Senator votes for appropriations, particularly those for the defense of his country, out of conviction of their urgent necessity, he should be willing at the same time to accept the unpopular position, as we are doing, of proposing higher taxes in order to meet the essential expenditures for the security of our country, and as a means of securing peace in the world?

Mr. HUMPHREY. I surely concur with the Senator. I think we should meet those obligations so far as it is humanly possible to do so.

I say that even some of the war debt which now hangs over us could have

been avoided. We did not need to have all this debt incurred. Higher taxes could have been imposed during World War II. There were corporate profits from 1940 up to 1946 to the tune of \$102,000,000,000, net, after taxes—\$102,000,000,000, net. I have read some of the record of those years. I know that a considered policy based on considered judgment was made in the Finance Committee to pay for the war by deficit financing. I know that the taxes could have been raised and more and more revenue taken in; but that was not the policy adopted. Now we are talking about another situation. Now the question is, Do we want at this point to go into deficit financing in order to provide for the national defense? Perhaps 2 years from now we shall have to. Perhaps if the international scene becomes more grave and more critical, we shall have to go into deficit financing. But, Mr. President, I repeat, that when we look at the facts of our economy, it is apparent that we can bear the burden of the present debt. I am not saying it is easy; no one is saying that. I am simply saying that we are strong enough, despite the load and despite the weight that is upon our respective backs and upon our collective backs to sustain this tax burden.

Now, Mr. President, I have before me the August 31, 1951, issue of the United States News and World Report, which I consider to be a very reputable and authoritative magazine insofar as its news is concerned—and I may also point out that I enjoy its editorials.

What is this editorial? What does this story say, on page 20? What is the headline? The headline is, "Ahead: Biggest boom in history; record output, jobs, pay, spending in 1952." Let me read the opening paragraph:

Prosperity is moving in for an extended stay. Signs point to a boom the whole family can enjoy for a long time ahead.

There will be plenty of everything. That includes jobs, spending money, and things to buy. Prices will not change drastically.

What's ahead, barring a big war: rising living standards even as United States piles a big arms program atop a going civilian business.

Mr. President, this article documents itself. For example, let us take a look at our total production:

Gross national product, pre-Korea, \$275,000,000,000 in the second quarter of 1950. That was from April to July, 1950.

After Korea, second quarter, 1951, gross national product, \$326,000,000,000, as compared with \$275,000,000,000 prior to Korea.

1952, estimated gross national product, \$342,000,000,000.

These estimates are not conjecture or a concoction of fantasy; they are based upon the tremendous capital improvement which is taking place in this country, a record-breaking capital improvement, the greatest in the history of America.

What about personal income? Pre-Korea, second quarter, 1950, \$217,000,000,000; second quarter, 1951, \$250,000,000,000; estimated personal income, 1952, \$266,000,000,000.

Employment: Pre-Korea, 60,916,000; second quarter, this year, 63,704,000; estimated, 1952, 65,700,000.

Mr. President, let us take a look at something else. How is American industry doing? Let us note that this report is using the index of 100, taking 1939 as the base period. In the war year of highest American output the figure was 239; in other words, two and one-third times higher than 1939. The postwar year of lowest output was 1946, when the figure was 170. The output today is 223. The estimated output for 1952 is 240.

Mr. President, a study of the economic facts reveals that our country is not growing weaker and weaker, but is growing stronger. I have heard a great deal of oratory, I have heard great polemics, but I have yet to hear evidence that tells me that the growth of our economy is being strangled. I have yet to hear any evidence which convinces me that American corporate business is being driven into the ground because of taxation.

But how about the little fellow? How about the man with an income of \$5,000 a year? He is the one who has really suffered from inflation. He is the one who has had to see his children go without an extra coat to wear to school because he did not have the money. He is the man whose condition we must consider, and I submit, Mr. President, that before we place the heavy burden of taxation on the backs of such people, which they will have to accept, because they are going to have to solve the problem which faces the country, we should close up the loopholes in the tax law.

The Senate Finance Committee says, and other Members of the Senate have said to me, privately and publicly, "Well, you want to raise more money. How are you going to do it?" I will tell you how we propose to do it, Mr. President. It is by closing the loopholes which I outlined in my address of yesterday, by voting for the amendments which my colleagues and myself will offer on this floor, which will make it possible to raise \$4,500,000,000 of additional revenue—\$4,500,000,000. From whom? From those who have been enjoying the preferential treatment which is possible through tax avoidance, through the loopholes, from those who have been able to convert earned income into capital gain, to be taxed at the preferential rate of capital gains.

Mr. PASTORE. Mr. President, will the Senator yield?

The PRESIDING OFFICER (Mr. SMITH of North Carolina in the chair). Does the Senator from Minnesota yield to the Senator from Rhode Island?

Mr. HUMPHREY. I yield.

Mr. PASTORE. I desire to say to the distinguished Senator from Minnesota that I agree with him explicitly in the argument he has made, and that I think he has made a very brilliant speech, which only points up the fact that he has given tremendous time and effort to the analysis which he has made.

I should like to say, however, not in refutation of anything the Senator may have said, but in order to point up the situation, with which I am somewhat familiar, in my own State. We have

drifted into the habit of talking about "average consumer" and "average standard of living," and sometimes, of course, that does not indicate the situation which might exist in a particular locality.

I am speaking specifically of my own State. Forty-five percent of our entire income comes from textiles, and of course, over a period of years there has been a tendency toward an exodus of the textile industry from our State to the South.

About 15 or 20 percent of our income comes from jewelry, which has been hit by the restrictions on the basic metals used in its manufacture. While it may be said that we now have generally throughout the country a high level of employment and a high level of prosperity, the fact still remains that dollars are tight in Rhode Island, and we have more people out of work than we would like to have for the reason that small industry has not been able to get some of the defense contracts, most of which have gone to the large industries. For that reason we have more people out of work than we would like to have, and we do not have at the moment the high prosperity about which the Senator from Minnesota has been talking.

So, we must be careful in framing the tax bill which is going to take effect pretty soon, and I think we should be doubly careful to make sure that whatever tax legislation we pass takes into account the low-income group.

That is the reason why I was very much interested in the argument which the Senator made yesterday as to split incomes, and how the provision on that subject would affect persons with incomes up to the \$10,000 bracket. While we talk about the high level of prosperity and the high level of employment throughout the country, the fact still remains that it does not reflect the real situation in some areas of the country.

Mr. HUMPHREY. I thank the Senator from Rhode Island, because I think he knows from our conversations, both on committees and privately, that I concur in the observations he has made. But the tax bill as such is not the factor which has caused the problems in Rhode Island or in Minnesota. It is a fact that in my State hundreds of small businesses have not been able to share in defense orders.

Mr. PASTORE. I realize that completely. The Senator's argument is that taxes should be high enough to take up all the loose money. How much loose money is there in some parts of the country?

Mr. HUMPHREY. There is not much loose money among the low-income groups. I have said repeatedly that, in the main, it is the fellow who receives \$5,000 or less who pays the excise taxes. As Lincoln said, "God must have loved the common people, because he made so many of them." They happen to be the ones who use most of the commodities which are on the excise-tax list. It is such people and their families who suffer the most. It is such people, in the main, who suffer from intermittent employment. When a man is laid off for 6 or 8

weeks while his plant is being retooled for defense, usually the most he can get is \$20 a week as unemployment compensation. No one gives him special treatment to tide him over.

Mr. President, it is such conditions the Senator from Rhode Island is pointing to. He is pointing to the jewelry industry, which I know has suffered. In my section of the country there are aluminum fabricators who do not have defense contracts. They have lost their business; they are being penalized. Any tax bill must be measured in terms of what it might do further to injure them. The answer to the problem is not to excuse them from paying taxes; the answer to the problem is to give them sufficient business so they can pay taxes, in order to share in the great defense effort fairly and equitably.

Mr. PASTORE. The Senator has stated a truism which no one can dispute. There are more poor people than there are rich people, and my heart goes out to them. I realize, too, that the tax bill has nothing to do with the amount of business that will go to Rhode Island or to any other State of the Union. But the argument which is being developed is that taxes should be high enough to pick up a lot of loose dollars; yet in my State there are not too many loose dollars around now. When Congress reassembles in January, if taxes in certain categories are not sufficiently high, they can be made higher to stop the threat of inflation.

I go along with the Senator from Minnesota in his statement that we should stop the loopholes and spread the burden to where it can be best sustained. I was very much impressed with his argument with reference to split incomes; I go along with him in his argument. All I am trying to point out is that while we hear a great deal of talk about a great many dollars being in the pockets of many people, I find back home that that is not exactly true. There are many people there looking for work. Many jewelry firms are looking for contracts and cannot get them. I am not trying to say that we have gone as far as we should go with the tax bill; I do not say that it is satisfactory in every respect, and I go along with many of the arguments the Senator is making. The only question I am raising is with reference to a lot of loose money all over the country.

Mr. HUMPHREY. I have not said that there is a lot of loose change to be picked up from the great group of little people. My argument has been that today there are areas in our economy that are prosperous, where the evidence is indisputable as to prosperity, and it is in those areas that the people should bear a fair share of the tax burden. Even the low-income group will pay extra taxes, but let no one say there is a lot of loose purchasing power amongst those people. I have had many arguments with the newspapers in my home town. They say that the kind of tax bill we should pass is one which will sop up the purchasing power of the man who runs a small hotel, or the proprietor of a little filling station.

I say that has already been sopped and souped up by inflation.

Mr. PASTORE. That is correct.

Mr. HUMPHREY. Obviously, there is some money somewhere, and I submit that in taxing that money as little as we are now proposing to tax it, we are not going to break or jeopardize our economy. I am deeply grateful to the Senator from Rhode Island for his helpful contribution to the discussion.

Mr. President, I ask unanimous consent to have two pages of the United States News and World Report, pages 20 and 21, with the appropriate tables, printed in the RECORD at this point in my remarks.

There being no objection, the matter was ordered to be printed in the RECORD, as follows:

AHEAD: BIGGEST BOOM IN HISTORY—RECORD OUTPUT, JOBS, PAY, SPENDING IN '52

A boom now being refueled is to develop into the biggest in the country's history. It will be a boom in business activity and in incomes, not one in terms of sharply rising prices.

More goods will be turned out by industry than ever before. There will be more people with jobs than ever held jobs in the past. Incomes will be larger than ever. People will eat more, wear better clothes, enjoy more and better living quarters, own more automobiles, take better and longer vacations than in any past period. This assumes big armament spending but no major war.

Retail trade that has been lagging will revive and push ahead. Prices that had eased will firm. Pockets of unemployment that have developed will disappear as the months pass by.

Prosperity is building up for an extended stay. The boom will be fed by spending for arms. It will get well under way in the final 3 months of this year, will go on growing in the first 6 months of 1942, and probably will reach its peak in the final 6 months of that year.

What happens after that will be related to what the Nation decides that it wants permanently in the form of armament, and what it intends to do in supplying its allies. But, as of now, the boom seems certain to continue well into 1953.

Armament making is to have widespread effect. Industry, to fill orders for arms and to meet civilian demand, will need to work harder than ever. The rate of output in this year's April-June quarter was 223 percent of the prewar 1935-39 average. But in 1952, as the chart on page 21 shows, production promises to approach two and a half times the prewar rate.

Production will go down sharply in some lines, up sharply in other lines. Gains in output will more than offset losses. Defense business will move in, but will not take over the economy as it did in World War II.

Fewer automobiles will be produced than in the record year 1950. But production of aircraft will more than double between now and late 1952. Industry will turn out many more tanks, many more artillery pieces.

Auto makers, shifting to war orders, will produce more, not less, in 1952 than in 1951.

Television production will be held down, but TV makers will have their hands full turning out electronic apparatus for the military.

There will be less aluminum and copper for the building industry, but much more for the armament industry. As 1952 wears on, new steel capacity will begin to come into use, providing more steel to be processed into more things by more workers earning higher wages. The same goes for aluminum.

As the output of basic materials rises, there will be a gradual increase in the volume of

goods made of metal that civilians can buy. By late 1952 or early 1953, Government will start taking off some of the restraints on production of major consumer items—autos, refrigerators, radios, TV sets.

Living, even while output is under curbs, will not be badly cramped. Production of metal goods for civilian use will be reduced, but not cut off. People will not starve for goods.

The auto industry will turn out about 5.4 million passenger cars in 1951, which will be more than in any previous year except 1950. About 4.5 million will be produced in 1952. That still will beat any year prior to 1949.

Appliances, plentiful now, will be in short supply in a few months. But production will pick up again before the shortages become very painful.

Home building is declining. About a million homes will be started this year. In 1952, starts may drop below 850,000. At that, about as many homes will be built next year as in postwar 1947. New houses will be limited mainly by material shortages. Credit terms are being eased on cheaper houses, the kind that represents the bulk of the market.

Goods needed for day-to-day living will be in adequate supply. There is to be no shortage of food, clothing or other essentials. Civilian services are not to be crippled.

Families, even though they spend more than ever before, will be able to save toward the time when metal goods and houses become plentiful again. Personal incomes, in total, were at an annual rate of 217 billion dollars just before Korea. They are up to 250 billion dollars now, and will rise to an estimated 266 billion in 1952.

Wages, despite controls, will keep going up. Jobs will be plentiful at pay rates that will induce a lot of housewives and oldsters to go to work.

By 1952 well over 65,000,000 will be working. Not so long ago, many doubted whether this country ever could provide as many as 60,000,000 jobs in a period other than all-out war. Employment already has passed that by more than 3,000,000, and more jobs keep opening up.

Prices, here and there, will rise, but no new spiral is in sight. People are likely to find that their dollar in 1952 will go about as far as it does now. Government controls will keep most raw-material prices in check. After armament spending levels off, prices will be regulated by the market place. Huge capacity then will be available to take up the slack in civilian output.

Personal taxes will rise, but not enough to drain off the public's increase in buying power. "Real" income will grow.

Total spending—what the economists call gross national product—has increased from an annual rate of \$275,000,000,000 before Korea to \$326,000,000,000 last quarter, and will go up to an estimated \$342,000,000,000 in 1952.

What's ahead, then, is a period of relative plenty, with high business activity, big incomes, record spending.

Christmas trade in 1951 will break all records. The summer slump in consumer spending will not last long.

Buying gradually will shift to the things that remain plentiful.

Some businessmen will lose as others gain. Dealers in automobiles will have fewer cars to sell. But the supply of cars, new and used, will be enough to keep them going. Appliance dealers will be hit hard.

Billions that will be diverted away from hard goods will go into food stores, dry-goods stores, haberdasheries, drug stores, filling stations, hotels.

Restaurants will prosper as families, with more ready cash to spend, start eating out oftener. New fabrics that are coming on the market will find plenty of customers.

More money will be spent on travel, vacations, entertainment, football games. Vacation resorts, night clubs, and gambling houses will do well.

Farmers, in general, will be well off, with high incomes. There will be no farm price collapse.

There will be annoyances. Maids, yardmen, and clerks will be hard to find. Shoppers often will have to wait to be served. Minor hardware for the household, in many instances, will be scarce.

Still, living for most people will be good. This will be a boom that the average family can enjoy. The country will build a vast military machine, but defense output will simply be piled on top of high civilian output. Living standards, in the process, will rise, not decline.

Total spending (gross national product)

Pre-Korea (2d quarter 1950) ¹ -----	\$275,000,000,000
Now (2d quarter, 1951) ¹ ---	326,000,000,000
1952 (probable)-----	342,000,000,000

¹ Annual rate.

Personal income

Pre-Korea (2d quarter 1950) ¹ -----	\$217,000,000,000
Now (2d quarter, 1951) ¹ ---	250,000,000,000
1952 (probable)-----	266,000,000,000

¹ Annual rate.

Employment (includes military)

Pre-Korea (2d quarter, 1950) ¹ ---	60,916,000
Now (2d quarter, 1951) ¹ -----	63,704,000
1952 (probable)-----	65,700,000

¹ Annual rate.

Mr. HUMPHREY. Mr. President, yesterday I concluded by talking about tax-free redemption of stock to pay estate taxes, and I intended at that time to ask unanimous consent to have a prepared statement on this item of the tax bill printed in my remarks. I now ask unanimous consent that that may be done.

There being no objection, the statement was ordered to be printed in the RECORD, as follows:

E. TAX-FREE REDEMPTION OF STOCK TO PAY ESTATE TAX

In the Revenue Act of 1950 the House proposed to permit the tax-free redemption of the stock of a closely held corporation where the proceeds of the redemption were needed to pay the estate tax of a stockholder. The House bill limited the privilege of tax-free redemption to cases where stock of the closely held corporation constituted 70 percent of the decedent's taxable estate.

The Finance Committee amended the House bill to delete the 70-percent limitation therein. We debated the provision on the floor last year. Thereafter the conference committee limited the provision to those cases where stock of a closely held corporation constituted 50 percent of a decedent's estate.

The Finance Committee has now come forward with a proposal in section 339 of the bill to reduce the 50-percent limitation to a 25-percent limitation.

As we pointed out in last year's debate, the problem for which the tax-free redemption feature was enacted would not arise in cases where a closely held corporation regularly distributed its profits in dividends, instead of constantly accumulating those profits. The reason these closely held corporations accumulated the profits was usually in order to protect the stockholders from the ordinary income tax imposed on dividends.

This purposeful failure to declare dividends means that when the principal owner of a closely held corporation dies, he has no cash outside of his corporation with which

his estate can pay the estate tax. The only way the estate can withdraw the cash necessary to pay the estate tax is by liquidating a portion of the stockholders' interest in his corporation. And a partial liquidation of a stockholder's interest is taxed as it should be, as a dividend at ordinary income-tax rates.

Stockholders of closed corporations having put themselves into this jam came to Congress last year, and are back this year, to get relief from it.

There may be some justification for tax-free redemption where an individual stockholder has all of his property tied up in a single corporation. There is some, but less, justification for allowing tax-free redemption where the stockholder of a closely held corporation has half of his property tied up in a closed corporation. We see no justification for giving tax-free redemption relief to those estates of those who have only one-fourth of their property tied up in a closely held corporation. If they have to pay an income tax on the distributions necessary to pay the estate tax, that is only because they have escaped the tax on dividends by cutting close to the corner of section 102 of the Internal Revenue Code.

The Senate should reject the Senate Finance Committee's request and leave the qualifying percentage at 50.

F. SECTION 117 (J)

Mr. HUMPHREY. Mr. President, the bill contains another chapter in the old story about conferring capital gains treatment on property used in a business. The story started in 1942—the first year that the capital gains rate on this type of property was ever allowed—with the enactment of section 117 (j) of the code. Section 117 (j) was not only unprecedented in that it allowed capital gains treatment on the sale of land, buildings, and other properties used in a business; it was also the first provision of law ever to declare as to certain properties that if sold at a gain, the gain would be capital gain, but if sold at a loss, the loss would be ordinary loss.

Let me make that quite clear. In that provision of the revenue act it was provided that if one sold property at a gain he paid at the 25 percent capital gains rate, and if he sold it at a loss the loss would be ordinary loss. Under this provision he would charge off the whole amount on the basis of the loss. In other words, "heads I win, tails you lose." Is it any wonder that Uncle Sam comes out on the short end and does not have sufficient money to pay his bills?

Take the case of two firms operating a fleet of delivery trucks which have been fully depreciated against ordinary business income and which are still in use. They sell their trucks to each other. Each pays a capital-gains tax and each acquires a new cost basis to write off against ordinary business income once more. Each one has 10 trucks, and they sell the trucks to each other. When they acquire new trucks they have a whole new area of depreciation. That is merely one illustration of the result of making capital gains treatment available for ordinary business properties, whose cost is charged against ordinary income as long as they are in use.

One of the problems involved was brought up in this body a year ago. I supported what was proposed, Mr. President, because I contend that so long as this kind of treatment for ordinary business purposes is contained in the law, it

ought to be extended to other areas in our economy. The area that was brought up a year ago, and I believe by my distinguished colleague, the senior Senator from Minnesota [Mr. THYE], was that dealing with the livestock problem. It was inevitable that this problem would be met, because once section 117 (j) was in the tax system, it was inevitable that other commodities would be involved.

As I have said, the livestock problem was inevitable, once this irrational section 117 (j) system was adopted. The question whether taxpayers who owned draft, breeding, or dairy animals, and who from time to time make sales from the herd, were disposing of property held for sale which was not entitled to section 117 (j) treatment, was a difficult one in many cases. After contesting many of these cases with no success the Bureau of Internal Revenue earlier this year issued a ruling that section 117 (j) treatment should be accorded such animals as were sold after their full period of usefulness for draft, breeding, or dairy purposes. The House has proposed to substitute for the Bureau rule merely the requirement that the animal sold shall have been held for 12 months or more in order to come within section 117 (j).

That means that when one sells beef and beef animals certainly have to be held by the owners for 12 months, so that the cattle may be fattened—he is not going to get the benefit of the earned income tax rate or the capital gains rate. In section 324 of the bill, the Committee on Finance approved this proposal, recommended that it be made retroactive to January 1, 1942, and included turkeys along with draft, breeding, and dairy animals.

Mr. President, this is about the most unpopular subject the present speaker can talk about, because in my State there are great numbers of turkeys and a great deal of livestock. But I should like to have somebody explain to me why the kind of treatment provided for in the bill should be afforded. Of course, if we are to extend treatment like this to ordinary property used in the conduct of a business, then we have to extend it to the livestock people, to the turkey people, and I see no reason why we should not extend it to others.

Our basic problem in taxation is equality of treatment of those similarly situated. The farmer who disposes of property used in his business should not be taxed differently from the manufacturer or merchant who does the same thing. There is no doubt that draft, breeding, and dairy animals are property used in the business of the farmer.

But this does not justify the retention of section 117 (j) as a whole. Special capital gains treatment, if proper at all, is proper for investment properties and investment properties only. Properties used in business must regularly be acquired, regularly used, and regularly sold or junked in order for the business to continue. There is not the same problem of the "bunching" of income, or the same problem of discouraging the conversion of investments, which arises in connection with investment properties.

Unless the rate structure for ordinary income is to be junked by making capital gains rates of universal application, section 117 (j) should be repealed, and we are offering an amendment to that effect.

Mr. President, I desire to repeat and recap this argument, because I know the pitfalls and difficulties the Senator from Minnesota is about ready to get himself into. I submit that if Congress is going to keep section 117 (j) in the Revenue Act, then Congress should keep it not only for those who have business properties which are treated as capital, for capital-gains purposes, but I want it, of course, to apply to livestock, turkeys, and others.

Mr. DOUGLAS. Mr. President, will the Senator from Minnesota yield?

Mr. HUMPHREY. I yield.

Mr. DOUGLAS. Would the Senator suggest that there be added thereto the breeding of Angora cats and high-priced dogs?

Mr. HUMPHREY. Of course. That is a logical conclusion. People engage in such businesses. Since there are such businesses, and we are going to treat profits that are made in connection with ordinary business activities on the capital-gains basis, the principle can be extended ad infinitum.

As I have said, the logic of this kind of procedure would lead to the inevitable conclusion that we are destroying the earned-income-tax basis except for a wage earner. And I can see that a wage earner may say that his wages are his business, and he wants his business, as he dispenses his labor, to be treated as a capital-gains transaction. If that is done, we shall be going far along the road of irrationality. I suggest that this section needs really careful analysis.

Did anyone dream a year ago that we would be taking in turkeys under this section? Did anyone dream that under depletion allowance we would be taking in oysters and clam shells? How far shall we go? Where shall we draw the line? The Senator from Illinois pulled out of the record various fancy named minerals in this connection. If we are to give depletion allowances to sand and gravel and oystershells and clamshells I do not see any reason why we should not give depletion allowances to anything that can be taken from the earth. It seems very logical to do so.

Some people may say "You are going too far." I think not. I think I am being a prophet. I think what I am now saying hooks up logically with what I said last year in connection with capital gains and depletion allowances. I submit that any persons who have appealed for this special treatment are not appealing unfairly. They simply say, "If you treat some people on the basis of a preferential tax treatment, give me the same deal." One of the foundation stones of a democracy is equality, and since we should have equality, there should also be equality of privilege. Democracy is supposed to represent the abolition of privilege, but if there is privilege it should be equally distributed amongst all our people. There is privilege contained in this bill, and that privilege is not equally distributed.

Mr. DOUGLAS. Mr. President, will the Senator yield?

Mr. HUMPHREY. I yield.

Mr. DOUGLAS. As a matter of fact did not the House Committee on Ways and Means in extending the depletion provisions make exactly the same statement the Senator from Minnesota has made when the committee stated:

The testimony received by this committee both in connection with this bill and the bill which became the Revenue Act of 1950 revealed that in a number of cases non-metallic minerals which are not in the enumerated group under existing law are competitive with those receiving percentage depletion, or have just as good a claim for such treatment as the enumerated minerals.

It does not say they have a good claim. It says they have just as good a claim as those which have been exempted. So, as the Senator from Minnesota has so well said, once a start is made it leads inevitably and with inexorable logic to a ridiculous conclusion.

Mr. HUMPHREY. The Senator from Illinois is exactly right. There are two ways of handling the matter, either to withdraw the privilege or extend it further.

Mr. DOUGLAS. And such an extension is contained in the bill which is now before the Senate.

Mr. HUMPHREY. Yes; and the House bill, as a matter of fact, started it by extending the privilege further.

G. CORPORATE SPIN-OFF

I wish to direct my attention for a few moments to that often misunderstood and I am sure seldom-heard-of subject of corporation spin-off. That always makes me think of the Fourth of July. I remember the spinners which were so popular among children on the Fourth of July, so when I speak of spin-offs I am reminded of those spinners.

Section 317 of the bill deals with a tax-free distribution of common stock in connection with a reorganization of a business. This is commonly referred to as the "spin-off" provision. Its general effect is to allow a business conducted by one corporation to be conducted by two. Unless strictly safeguarded, it can result in a loophole that will enable a corporation to distribute earnings and profits to stockholders without payment of the usual income taxes.

I digress here to remark that we are not saying that there are not times when a separate business entity should be created. I am not saying that there are not times when reorganization ought to be indulged in. As a matter of fact, it may be very desirable. I recall that a year ago the chairman of the Finance Committee discussed this question very fully with us and suggested that in the bill appropriate safeguards were needed to make sure that the spin-off was not abused and that the section of the bill providing for them contained all the safeguards which could possibly be placed in it.

The spin-off provision was in last year's bill but was eliminated in conference.

As I indicated in my statement last year, if corporation A conducts a lock-and-key business it may, under this pro-

vision, transfer the key business to new corporation X in exchange for X's common stock, and then distribute to the corporation A stockholders all the stock of X, tax free. If this seems complicated, that is exactly what it is, but it is also productive. The best tricks are the ones the spectators cannot see. It is like the performance of a magician.

Mr. DOUGLAS. Mr. President, will the Senator yield?

Mr. HUMPHREY. I yield.

Mr. DOUGLAS. The Senator from Minnesota said that this practice was productive. Productive to whom? To the Treasury or to the taxpayer?

Mr. HUMPHREY. It is productive to the corporation A stockholders. At the present time the Treasury would attempt to impose a tax upon the stockholders of corporation A based upon the receipt of corporation X's stock. The value of the X stock would ordinarily be taxed as dividends, because that is exactly how corporation X was set up. It was set up out of dividends, out of the undistributed reserves. It was set up as a separate business. The stock in corporation X was owned by corporation A; and, of course, corporation X is nothing more or less than the child of corporation A, anyway.

If the corporation A stockholders merely wished to divide the two businesses for good business reasons and operate them by means of two corporations, the provisions of section 317 allowing the tax-free distribution of the X stock do not result in tax avoidance. If there is a real, legitimate business purpose, corporations can be divided. The stockholders merely continue to operate the same business through two entities rather than one.

Clauses (A) and (B) of section 317 provide very important safeguards against the tax avoidance which would be possible if section 317 were adopted without clauses (A) and (B). To illustrate, assume that corporation A has a factory and a very large amount of cash and Government bonds which it does not particularly require in its business. This is surplus. If corporation A declares a dividend of cash and bonds, the shareholders are taxable on the full value of the cash and bonds at ordinary surtax rates. However, if the protection afforded the revenue by paragraphs (A) and (B) were removed, the stockholders might obtain the cash and bonds at low capital-gain rates in the following manner—here we go again. How do we get earned income into capital gains treatment? This is how it can be done:

Corporation A, claiming some trumped-up business purpose, would transfer the cash and bonds to the new corporation X in exchange for X's stock, and distribute X's stock to the stockholders of corporation A. After permitting a decent interval to elapse, corporation X would be liquidated. The stockholders would receive the cash and bonds in liquidation, which transaction gives rise to capital gain rather than ordinary income—or the stockholders could merely sell their stock and cash

in on their dividend at the capital-gains rates.

Wherever there are large amounts of undistributed dividends, large amounts of reserves in Government bonds and cash, this is the temptation. The temptation is to have what we call the "spin-off." This is what it means. You spin off the surplus, and as you spin off the surplus you set up a new creature. The new creature does not have separate parentage. It has the parentage of the original corporation. It has as its relatives, brothers, and sisters, the stockholders of the original corporation. The new corporation is owned by the stockholders of the old corporation. When the stockholders of the old corporation want to get rid of their ill-begotten relative they liquidate it, sell it, and turn their income in for treatment as capital gains rather than as earned income.

Mr. President, I ask that the remainder of my statement on the subject of the corporate spin-off be printed in the *RECORD* at this point as a part of my remarks.

There being no objection, the matter referred to was ordered to be printed in the *RECORD*, as follows:

Paragraphs (A) and (B) prevent this type of avoidance by requiring that in order for the distribution of stock in corporation X to be tax-free, both corporations A and X are intended to carry on active business after the reorganization and by providing that corporation X was not used as a device to distribute the earnings and profits of either corporation.

There is one type of tax avoidance possible under the spin-off which is not prevented by paragraphs (A) and (B), namely, a corporate tax on appreciated assets and a tax upon the proceeds of a sale of these assets. Going back to the lock and key business owned by corporation A, let us assume that corporation A wants to get out of the lock business and receives a very advantageous offer for the lock assets. If corporation A sells the lock assets the profit will be taxable income to corporation A and then when the profit is distributed as dividends to the stockholders, the dividend is taxable to them as ordinary income. Under section 317 as it now stands it might be possible for corporation A to transfer the lock assets to corporation X in exchange for X's stock and then distribute X's stock to the A stockholders. (In all these corporate exchanges no gain or loss is recognized or taxed under the reorganization sections.)

The stockholders would then sell the stock of X corporation and would receive the proceeds as capital gain. Accordingly, both the corporate tax and the tax upon the distribution as a dividend could be avoided if the transaction were properly handled.

If the section is to remain—and the provision is not without merit in effectuating bona fide business adjustments—a further safeguard should be added to meet the last example. This safeguard might be a provision to the effect that the distribution of X corporation stock (in the example) would be tax free only if there were no intention to sell the stock at the time of its distribution and if there were in fact no sale for a period of 3 years thereafter. Without this safeguard, I believe the provision is undesirable and should be eliminated.

Now, I ask the distinguished chairman of the Finance Committee if the purpose of this amendment is not to afford capital gain treatment for an otherwise taxable dividend, what objection can there be to the safeguard I propose?

H. OTHER LOOPHOLES

Mr. HUMPHREY. Mr. President, I should like to talk a little about some of the other income-tax loopholes, which I personally feel are evident in the bill. I do not think we have covered them all, but I have gone into a few more of them, and would like to direct attention to them.

Let us now turn to the minor loophole provisions.

Over all they are much too involved and too numerous to warrant a detailed analysis here. I have been going into quite a little detail in the past couple of days. I do not want to be apologetic about the time we have taken. Some of us feel that it is worth while to discuss the bill in considerable detail and try to enlist as much attention to it as we can, and promote as much intelligent discussion of the tax bill as we can.

I have said to as many people as I can reach that until the American people understand taxation, until they understand how their Government raises revenue, they will never truly understand the political forces which are at work in their country. They will never truly understand the nature of their political economy. It is easy to be an advocate of, let us say, housing. There is a great deal of public housing. It is easy to be an advocate of more and better roads, more public health, more money for education. It is easy to advocate such things because most people are for them. But the question is, Where do we raise the money to pay for such things? How do we raise the money? From whom is the money obtained? Is the revenue for these great enterprises obtained equitably? Is the burden shared fairly? Has the great principle of the ability to pay been preserved? I notice that the more our Government goes into welfare programs the more the tax burden is shifted to those whom the welfare program are supposed to be helping, and the more the tax burden is shifted away from those who are best prepared to pay their share of the cost of such enterprises. That is what we mean when we talk about loopholes in the tax law.

It is important, therefore, that we be able to identify some of the sections in the tax bill which have loopholes, and know, in general, what they do.

Senators will recall the earlier simple tests which I mentioned. The most favorable result that can be attained by a taxpayer is to have his income exempt from tax—and sections 302 and 303 do that for those taxpayers lucky enough to fit the specifications.

The next best thing taxwise is to turn ordinary income into capital gains, taxable at the maximum rate of 25 percent; and sections 323, 324, 328, and 330 do that, again, not for you or for me, or for the factory worker, but for a particular taxpayer, or a narrow group of taxpayers.

I am continually receiving mail from people complaining about the tax bill, people who only a few years ago, in many cases, did not have enough income to pay taxes. It is a peculiar thing that the more they get, and the more the tax rate goes up, the more they complain.

Some years ago there were millions of people in this country who did not even have the privilege of paying taxes because their incomes were not large enough. Today many of them are very well off. They find themselves in the very best economic condition, whereas a number of years ago, even with the low rates and the low schedules, their incomes were not large enough to give them the privilege of paying taxes. Now they find themselves with plenty and they complain. There are not too many of them, thank goodness. I think the great majority of our people are willing to do their share.

The next best thing, as I have said, is to turn ordinary income into capital gains. We have talked about that subject a great deal.

Another desirable achievement is to cut down the amounts of certain penalty taxes; and sections 315 and 316 of this bill do that—again not for you or the man next door but for those corporations improperly accumulating surpluses and for taxpayers owning personal holding companies. The poor workingman may break into a grocery store and steal a loaf of bread, for which he is sent to jail. We are talking about a revenue act. Sections 315 and 316, instead of increasing the penalties for violations of the tax laws, modify them.

All these special provisions should be considered in their proper context. This bill is not the Internal Revenue Code. To understand the full effect of the loopholes we need to look not only at this bill but at the Internal Revenue Code itself, as it has been amended in the past few years. There are 16 loopholes in this bill. Six were added last year, and several the year before that. Added together, they mean that in a few short years, perhaps, the only person who will be affected by the general provisions, without a special relief gadget, will be the wage earner. For the wage earner this bill raises taxes. The only generous gadget is one which will let him agree with his employer to withhold more taxes from his pay envelope.

Millions of wage earners in this country are subject to withholding. No one is shedding tears over the fact that some of them will receive refunds. There are refunds of \$500,000,000 a year to wage earners because of excessive withholding. What kind of relief does the wage earner get under this tax bill? He gets his relief by going to his employer and saying, "Would you hold out more taxes than you are holding out now?" In other words, the relief he gets is by telling his employer, "You are taking out \$8 a week now. Will you take out \$12?" That does not seem to be very special treatment. It must be possible to reverse this trend of special treatment, to resist the pleas for special treatment, and to subject one and all to taxes which are really equal, not merely deceptively so in a rate schedule.

It is when one gets all these special treatments that the rate schedule loses its meaning. It is like buying a new car, which is advertised to sell for \$1,700. However, in order to get the car one must get a radio and a spare tire. Somehow

a cigarette lighter must be in it. It must be simonized or glazed. It must be undercoated. By the time it is taken out of the garage it costs \$2,200 instead of \$1,700. Yet the price of the car is \$1,700. It is a tie-in sale. Senators will remember that during the war we had such tie-in sales. For example, when people wanted to buy a bottle of bourbon, they also had to buy a bottle of rum. It was a tie-in sale.

Mr. DOUGLAS. Mr. President, will the Senator yield?

Mr. HUMPHREY. Yes.

Mr. DOUGLAS. The Senator is speaking from hearsay only with respect to the latter matter.

Mr. HUMPHREY. It is a matter of record. We had persons testify at our OPA hearings. We know there have been many tie-in sales. It is no more possible to judge a tax bill by the rate schedule than it is possible to judge the price of an automobile by the f. o. b. price, or to judge the price of a house by the price which is advertised in a newspaper. In other words, there may be many things considered that one would not know about.

With regard to the section to which I now make reference it is a matter of reduction rather than increase. Let us take up section 323. That section provides that where land is sold with an unharvested crop, the gain attributable to the crops is to be treated as a capital gain and expenses attributable to raising the crop are to be added to the basis.

One might suppose that if a farmer sold his crops at a profit of \$5,000, he would be taxed on the same basis as a fruit grower who sold his orchard. Not so. If the farmer sold his crop at a \$5,000 profit, he would be taxed on the basis of earned income, while the other man's profit would be taxed as a capital gain.

Let me make this point clear. Let us consider a man who has lived on his farm all his life. It is his farm. His father worked the farm before him. It is probably a half section of land, or perhaps even a quarter section of land. It is a small farm. It is a family-sized farm. He plants wheat, corn, rye, barley, a little sorghum, and perhaps even some soybeans. He sells the crop. His profit is considered earned income, and he is taxed on the basis of earned income.

Take the case of another man, the type of man whom we in Minnesota would call a sidewalk farmer. He goes into the country and buys a farm. He has the ground seeded, and he has a crop grown on the land. He stands in the window of his twelfth story office and with a pair of binoculars he can see his farm in the distance. He never gets the good earth on his feet. He never does any work on the farm. He does not go near the barn. Perhaps there is not even a barn on the land. Yet when he sells his unharvested crop to someone else and turns it into a profit, he is taxed, not at the earned income rate, but at the capital gains rate.

I submit it is not helpful to the preservation of the family farms of the country. It is not fair treatment for a farm family, which does not want to sell its

unharvested crop but wants to harvest it itself. It is not fair to the farmer who wants his son to help him farm and to harvest the crop. I submit it is the kind of tax treatment that leads sidewalk farmers in my section of the country to buy farm after farm and take buildings off the farm and farm the land on a commercial basis, not as a family sized farm, and to exploit the soil and get rich. I do not like that kind of tax treatment.

If we are to give capital gains treatment to an unharvested crop, I submit we should give capital gains treatment to every farmer who harvests his crop. The same kind of treatment should be given to every farmer. A great many of them are having a tough time these days.

Let us take section 328. That section would provide capital gains treatment for amounts received by an employee upon termination of employment in exchange for his release of a right to receive a percentage of future profits, if the taxpayer had been an employee for more than 20 years and held the rights to future profits for 12 years.

I believe this is a patently discriminatory and unjustifiable provision. The particular conditions of 20 and 12 years attached to the section obviously have no relation to any general principle, except the facts of a particular case undoubtedly in the mind of the United States Chamber of Commerce representative, who suggested it at page 1478 of the hearings, along with a number of other suggestions found in the bill. The amounts to be received are of course sums paid in lieu of compensation taxable at ordinary rates.

This is not a profit on the sale of a capital asset, because the taxpayer had no asset but merely a contractual right to future income.

The provisions of section 165 (b) of the code are far from a precedent, since that section deals with a broad group of exempt pension plans which must be nondiscriminatory and cover a high percentage of all employees. This proposal in the bill has neither restriction. How many persons can possibly benefit from this provision? How many can there be who today fit its particular limitations? I know of none, but there must be at least one, or the chamber representative would not have suggested it. I am wondering if the committee would tell us how many taxpayers would be affected by this provision.

It is primarily designed to fit a limited few. It would possibly fit the chairman of a board, or possibly a corporation executive, who has a contract with his corporation that for the next 10 years he will receive a certain percentage of the profit.

Why do we not accord the same treatment to the father and mother who leave a farm to a son or daughter-in-law? Why not let them say to their child, "All the income you get from now and for the next 10 or 12 years will not be treated as earned income, but as a capital gain"?

Then there is section 330. This provision would, for the purpose of determining whether a particular stock option met the requirements for receiving

the special capital gains treatment provided in the 1950 act, treat the option as granted when approved by the board of directors, even though a later ratification by stockholders is required.

I admit that it is a very technical aspect of the bill, but it is one that should be looked into.

Stock options are becoming of great interest to the salary stabilization board of our Government. In the Wall Street Journal it has been related as being a large increase paid to certain people without the stabilization policy controlling it.

Mr. DOUGLAS. Mr. President, will the Senator yield?

Mr. HUMPHREY. Yes.

Mr. DOUGLAS. It would affect a high-salaried executive, who would be given an option to purchase stock at less than the market price, and it would be given to him in addition to a salary.

Mr. HUMPHREY. That is correct.

Mr. DOUGLAS. The option to purchase at a low price could be converted under this bill, not into income, but a capital gain.

Mr. HUMPHREY. That is right. The Senator from Illinois will remember that we fought against this kind of provision very diligently and persistently last year.

Mr. DOUGLAS. I may say that we have a very able and conservative financial writer in Chicago, Robert B. Vanderpoel, who formerly was a financial writer for the Chicago Hearst newspaper, but who is now a financial writer for the Chicago Sun-Times. In recent weeks, he has brought forward a long series of examples of the stock options, and he has said that to convert them into capital gains, rather than to treat them as income, is a gross abuse of the tax laws.

Mr. HUMPHREY. I am very pleased the Senator from Illinois has given us that information. It is my intention before the conclusion of these debates to gather from the Library of Congress a list of the commentaries by various writers on the areas of abuse in the field of stock options, in connection with the tax laws.

I repeat that as we raise the tax rates, as we have to do in order to obtain more revenue, it is imperative that we tighten up the loophole provisions; otherwise, more and more persons will wish to use them, and more and more persons will demand that we make it possible for them to obtain preferential treatment. Once that process is started, it is almost impossible to stop it.

The provisions of the 1950 act provided a loophole whereby corporate executives might receive compensation at capital-gains rates. The amendment, while not highly important by itself, illustrates how loopholes grow by treating for tax purposes, as being legally granted, that which cannot be lawfully granted without stockholders approval. Under the present situation the bill says that if the board of directors approves the granting of a stock option, that is all there is to it. However, the law requires that the stockholders must approve it. The predictions we made last year are coming true. I refer to the predictions

I made at the time when we opposed the stock-option amendment and when the Senator from Illinois joined in that fight. Of course, the Salary Stabilization Board has also given considerable time and attention to the very field we are discussing now.

It would be possible to spend hours analyzing the language of these technical provisions and showing how each of them grants special relief in narrow instances for the benefit of a special few. However, it is necessary to pass on; but in passing I must comment on one other, which in the bill's technical language is at best confusing. Notice section 315 on page 146 of the bill. Its heading reads "Surtax on corporations not properly accumulating surplus" and the rest of the section relates to long-term capital gains. We might suppose that this provision possibly had some effect in tightening up on corporations which were trying to prevent a tax on stockholders by not paying dividends and accumulating surplus. Just the opposite is the case, as we might guess from the fact that this is another United States Chamber of Commerce, Mr. Alvord's suggestion, appearing on page 1477 of the hearings. In other words, this is another case where the penalties have been modified.

This provision of the bill would exempt capital gains from income, subject to the penalty tax on unreasonable corporate accumulations, although retention of capital gains might still be considered for the purpose of determining whether there is an unreasonable accumulation.

Section 102 is designed to penalize the failure to distribute business profits to the shareholders. The nature of a corporation's income is immaterial insofar as avoidance of surtax on its shareholders is concerned; its character is lost in its dividends taxable at ordinary rates. Moreover, capital gains of business corporations are usually from sales of property used in the business, and thus are closely akin to its regular business profits.

Thus, an accumulation of capital gains has the same effect of avoiding a shareholder's dividend tax as does any other accumulation of business profits.

These provisions and others I believe should be eliminated from the bill, and I intend to so move. What we have here is the kind of profit which comes from a capital-gains transaction, as compared with the profits which accrue from normal business activities. The present revenue act contains a penalty in the case of corporations which unduly restrain the distribution of dividends or unduly accumulate undistributed dividends. The question is whether capital-gains profits are the same as regular business profits. It is our argument that unless it can be proved to the contrary, they should be treated in relatively the same way.

Mr. President, yesterday I discussed estate and gift tax loophole provisions, so I shall not do so now. In that connection, I now ask unanimous consent to have printed at this point in the RECORD, as a part of my remarks, the prepared remarks I have on that point.

The PRESIDING OFFICER (Mr. HILL in the chair). Without objection, it is so ordered.

The matter referred to is as follows:

I. ESTATE AND GIFT TAX LOOPHOLES

The bill contains eight amendments to the estate and gift taxes. One of these, section 603, closes a loophole by taxing United States Government bonds held by nonresident aliens if situated within the United States. Three others, sections 602, 604, and 605, have apparent merit, providing a credit against the estate tax for foreign estate taxes, exempting works of art loaned to American museums by nonresident aliens and exempting from tax estates of Armed Force members dying in service.

The other four sections, 606 through 609, inclusive, seem objectionable en bloc. Without analyzing each in detail, they all deal with the problem of transfers intended to take effect at death including life insurance, which in general have been always includible in the gross estate. And each section attempts to get its particular bit of such transfers out of the gross estate, thus freeing it from the estate tax, each section apparently for a particular case. To the extent that the estate tax has any merit, these amendments are without merit.

I ask the Finance Committee: How many individuals will benefit from this provision? Will it raise revenue at a time when we need revenue? What right do we have to give special rebates to the few, while we increase the load on the bulk of the American people?

J. EXCESS-PROFITS TAX

Mr. HUMPHREY. Mr. President, let me make a general statement at this point. It is not my intention to offer any amendments dealing with the basic, over-all problem of excess-profits taxes. I make that statement, not because I do not favor excess-profits taxes, but because I understand that the Senator from Wyoming [Mr. O'MAHONEY] will more or less lead the fight on the floor of the Senate to strengthen the excess-profits-tax section of the bill.

I think we should note again that the distinguished senior Senator from Texas [Mr. CONNALLY] and the distinguished senior Senator from Wyoming [Mr. O'MAHONEY] a year ago valiantly, persistently, and successfully fought for the inclusion of excess-profits-tax provisions in the 1950 Revenue Act. It is my hope that these two splendid, experienced, and able Senators will be with us again to give us the direction and the leadership we need in that highly complex and controversial field of taxation. Believe me, Mr. President, I have had enough trouble trying to learn what I have learned thus far in the tax field, without going into all the intricacies and complexities of excess-profits taxes. So I prefer to leave that field to those who have become expert in it.

The bill contains 20 some provisions amending the excess-profits tax, enacted less than a year ago. It was generally agreed at that time that amendments would have to be made after sufficient actual experience had shown the problems.

Let me say that the material which I have presented thus far, I have had to assemble rather quickly, because the bill reached us, as I said, only on Wednesday. Much of the material I have presented was prepared very late on

Wednesday night or on Thursday morning; in fact, some of it was prepared even as late as 10 o'clock on Thursday morning, just before the Senate session opened. Therefore, much of the material is rather sketchy. I do not apologize for its purposes and objectives, but possibly I should apologize for the system of logic and the point-by-point consideration.

I have estimated that the cost of the provisions in regard to excess-profits-tax amendments is approximately \$120,000,000. It has been generally agreed, and was agreed last year, that amendments would have to be made after we had sufficient actual experience with the matter, and after that experience had shown the problems involved.

I am sure the Presiding Officer remembers that a year ago, as we debated the excess-profits-tax provisions, it was clearly pointed out that after 1 year's experience with the excess-profits tax, undoubtedly new amendments would have to be submitted. The distinguished chairman of the Finance Committee appropriately stated that any tax such as the excess-profits tax is bound to run into problems and complexities. After using an excess-profits tax which involves the base period that is involved in the present tax, obviously it is necessary to make some revisions along the way.

It is not the purport of my remarks to say that we should not revise or modify or alter. I say that we need to be very flexible in our attitudes regarding these matters; and if there is an inequity, we should try to adjust it; or if there is a difficulty, we should try to remove it. However, I do not think we should try to remove the impact of the excess-profits tax.

Here, 9 months after enactment of the basic law, before most of the regulations have become final, before most of the returns have been filed and this was said yesterday by the Senator from Illinois—and before any sizable collections under the tax have been made, amendments are to go into effect which in the main are designed to relieve payments under the tax and to benefit particular taxpayers.

Mr. President, I wish to make myself very clear on this matter. If a particular taxpayer has suffered from an inequitable application of the tax or if there has been discrimination or if, for example, the base period has proved to be an unfair one for a certain taxpayer, and if it has not been possible for that taxpayer to make a fair valuation on the basis of the present provisions, I wish to make clear that I desire to support efforts to provide for relief in such cases.

Here again we find such techniques for arranging to relieve particular taxpayers from the excess-profits tax. Since that tax is applied only to earnings which are in excess of a credit based on average earnings or on a certain return on invested capital, it is possible to lower excess-profits taxes simply by increasing credit in one way or another, since that will give him less profits on excess of his credit. Or, you can lower his excess profits by exempting certain income

from excess-profits income or by granting special deductions. Both general techniques are found in this bill. Glancing through the amendments we find special relief provisions tailored to particular cases—such as sections 518 and 519, which grant discriminatory benefits to the television, radio, and publishing industries. Let me say on this point that the television industry particularly did not have very much experience to work from for an excess-profits-tax base, and I do not think we ought to make any general over-all condemnation in this area, because the industry did not really get started until within the past 3 or 4 years. So, in that area I would surely recognize that one would have to adjust the base, would have to work it out for that industry as a particular industry, because of its limited experience with the economic market. I say again, of course, that we find an area where fair play and equity of purpose must be the governing factor.

This special group of taxpayers is given two favorable alternatives for computing its average earnings credit. The first alternative is arrived at by applying to the total radio and television assets the total of radio assets alone, ignoring entirely the fact that there was a loss in the television business. The second alternative gives to the members of this industry alone an industry rate of return on the total of all assets, even though they do not otherwise fit the general categories of taxpayers now entitled to use an industry rate of return when it is more favorable than their own actual over-all earnings credit.

Where the average taxpayer has several operations, one or two of which operate at a loss, his credit is based on the average earnings of all operations together. These two sections, for this particular segment of taxpayers allows them in effect to ignore the loss part of their business in averaging earnings and apply the industry rate of return to the loss area and their own earnings credit to the profit area. This is the most discriminatory type of approach to building up a credit, a patchwork quilt of earnings and relief, using in any particular segment the credit which is most advantageous. If this were applied generally, the excess-profits tax would become a tax in name only.

But again I stop to note that we are not making a charge that in particular industries, in view of their short history and their lack of experience in the economic market, there should not be some modification or alteration.

Section 503 is a similar example of discrimination on a broader and more expensive scale. Certain fiscal-year corporations contended they were discriminated against because computation of their earnings credit required use of low quarters in 1945 and 1946. However this may be, the cure proposed in the bill causes greater discrimination than it set out to cure, since it will now allow these taxpayers to be among the favored few to use the highly profitable early months of 1950 in computing the credit, while the great mass of taxpayers must ignore 1950.

Another section, 519, is apparently designed to give special relief to the Monsanto Chemical Co., by reason of the situation described on page 1652 of the hearings. The present law provides a method of relief for taxpayers in general who suffer during the base period from abnormalities, such as fires and strikes. Such taxpayers, in lieu of the actual earnings credits for the periods covered by the abnormality may use the industry rate of return as applied to the average total assets of the taxpayers during such years. The Monsanto Chemical Co. suffered an explosion in 1947, which affected its production. It clearly comes within the abnormality provision, but it is not satisfied with the relief generally available to other taxpayers, since that would only give them \$28,500,000 tax-free excess profits tax credit, when it should have, so the company states, what it would have made if the explosion had not occurred. The bill is a sort of compromise, which is still higher than the relief available to other taxpayers who are the victims of abnormalities. It gives Monsanto, for each month of the abnormality, the average monthly earnings for the preceding years, and no other.

I am only citing this, Mr. President, for the purpose of the record, so as to afford an opportunity to scrutinize more carefully what I consider to be some of these specific types of alterations. I am not prepared to say that each and every one of these should be dropped. I feel, however, that every Member of the Senate ought to know what these alterations are, what these special relief provisions include, and that they ought to be examined upon their merits, and that Senators should not come to any conclusive judgment on this point, because surely the committee, as it will explain to them, will have other evidence to cite the reasons for including such provisions in the bill.

Now, Mr. President, before I conclude I ask that the remainder of my comments on the excess-profits-tax amendments which are included in this bill, which are primarily relief amendments, as they are termed, amendments which affect the credit base or the period of time, be incorporated in the RECORD.

The PRESIDING OFFICER. Is there objection?

There being no objection, the matter referred to was ordered to be printed in the RECORD, as follows:

Discussion of one more section appears warranted before leaving the excess-profits tax sections. The committee bill decides that purchasers in taxable exchanges should be allowed to carry over the earnings experience of predecessors. Perhaps this is a correct decision, at least where the permission is generally available, where it is limited to cases involving the sale of all the assets, where the old corporation is liquidated and goes out of business, where new money of the purchaser (i. e., assets not previously in the business) is used to make the purchase, and where only purchases prior to the excess-profits law come within the privilege.

Section 520, on page 526, would grant to a purchasing corporation the earnings base of its predecessor even though an important source of earnings of the predecessor cor-

poration, a franchise, had to be obtained from another source. This provision violates two of the above concepts: First, it is tailored to a particular case, and, second, it grants a full credit even though all the earning assets were not purchased. The particular case the provision is apparently drafted for appears on page 1615 of volume 3 of the hearings—a Cadillac dealer who wants a credit of \$247,000 when his credit under present law is \$30,000. His problem is that he could not buy the most important earning asset of the preceding company—its sale franchise—but wants its full earnings credit despite that. Without that franchise the other assets are a shell, usable only for a garage. If the prior company had been able to sell its franchise (which was not transferable) the purchase price of its assets would have been much higher.

The purpose of the excess-profits credit in such cases is to allow a fair return on the investment of the taxpayer. Under this section the taxpayer will receive many times more than a fair return on his investment prior to being subject to excess profits and it is likely that he will receive each year without paying anything in excess-profits tax a 100-percent return on his investment. (Gross sales, \$3,000,000; 10-percent profits, \$300,000; credit, \$247,000.)

It is my belief that the foregoing discussion illustrates that we are moving too rapidly to amend the technical workings of the excess-profits law. If there are difficulties in the relief provisions, if computations of the credit produce anomalous results, if taxpayers as a group find particular provisions burdensome, then let us approach the problem with a view to finding satisfactory changes which will grant the relief to all taxpayers—not by tailoring a special provision to a particular taxpayer which leaves others out in the cold. It seems unreasonable to suppose that in these brief months since enactment of the law we could know enough of its operations to make changes which cut equitably across the board. As the distinguished chairman of the Finance Committee said, in guiding the act through this Chamber in December of 1950:

"We have taken the extraordinary step of providing for the rewriting of this bill by the end of December 1952, in order that we may meet the problems which, through experience (and I emphasize these two words, through experience) are then presented to us in a clearer light." (CONGRESSIONAL RECORD, December 20, 1950, p. 16944.)

Mr. HUMPHREY. Mr. President, for each excess-profits tax relief provision, I should like to request the distinguished chairman of the Finance Committee to supply us with the following information, in general: How many taxpayers are involved? What will be the cost of each provision, and why is it necessary to enact the provision, before we have the results of the study of the 1950 excess-profits tax returns?

I may say to the chairman of the Finance Committee that I personally am only seeking information about the subject. I feel, as I said regarding the television area, that the relief may very well be needed and desired. I simply think we ought to have a little more explanation than I see in the RECORD, and if a member of the committee or the chairman could give us the information at a later time, we would be very grateful. I am sure the Senator from Wyoming is going to go into this subject in greater detail.

Mr. President, I have taken the time to analyze this tax bill, not out of any

particular love or talent that I have for this subject, but because the bill determines who will pay the cost of running the Government, and how much. This bill affects every man, woman, and child in the United States. Workers may find their cost-of-living increases overshadowed by the impact of higher income and excise taxes. Those who have not received wage increases will be hit both by inflation and higher taxes. This is what the Senator from Rhode Island [Mr. PASTORE] was referring to earlier today. For many families this tax bill cuts into the bacon and the eggs and the milk of the breakfast table. I should like to bear down on that point, Mr. President. One thing I have found by being in Congress and living in Washington is that one sometimes forgets the kind of people who really make up the bulk of this country.

I see more fine cars in Washington, D. C., more Cadillacs and more lovely homes than I have ever seen in my own home State. This does not say that Washington does not have its poor, but any nation's capital is a little different from the areas individual Senators represent. As we look back over the areas we represent, I think it is important that we keep in mind what the impact of this tax bill will be. Let us likewise make it clear that no man in his right mind, no one who believes in the profit system, no person who really believes in the preservation of a competitive economic system, privately owned, would want to tax people out of business. But I remind this body that when we were discussing the price control mechanisms of the law, we found that the vast majority, for example, of retail business in this country, the overwhelming majority of retail business was done by firms who do business of less than \$50,000 a year. The overwhelming majority of retail merchandising in America, I think somewhere around 75 percent, is done by firms that do less than \$100,000 a year business. No one wants to tax those people out of business. The little man on Main Street is the bulwark of our free economy, the stabilizing source, the owner of private property, the investor in small securities, the investor in the local bank. He is the one who is a kind of brake upon some of the desires of those who wish to go too far and too fast. He is a secure point of strength and of resolution in every area and should be remembered.

The bill does not raise sufficient money for a sound fiscal program. It imposes higher taxes without due regard for the principle of ability to pay. I submit that the bill increases the inequities by widening existing loopholes and adding new loopholes.

Mr. President, the bill does not meet these simple tests which have been set up.

First. The raising of sufficient revenue to meet our commitments.

Second. Taxation on the basis of ability to pay, and sharing equitably and fairly the burdens of taxation.

It is my considered judgment that this bill should not pass without important and, may I say, drastic revision.

As I conclude, Mr. President, I want

my words to go down in the RECORD, because it will be found that I am right, possibly not this year, but next year or the next year. I say that if the present defense program continues, before this Congress ever lets anyone come to it and talk about sales taxes, before it ever thinks about a general manufacturers' tax, before we listen to that kind of talk, we had better be able to go to the American people, to every wage earner, farmer, and businessman, and be able to say that we have plugged every loophole in the tax law.

I know why the hue and cry is going up for a manufacturers' excise tax, better known as a manufacturers' sales tax. It is because we have tapped our sources of revenue pretty hard.

But, Mr. President, the people who are talking to the Congress about an excess profits tax when they say we should be thinking about a manufacturers' excise tax or a sales tax, are saying, "Shift the whole burden onto the backs of the great bulk of the American people. Shift it all down to the little man with an income of \$5,000 or less." But, Mr. President, before that is done, there will be an exposé of loopholes in the tax law such as this Congress has never seen.

I submit there should be fewer excise taxes, and that we should plug up the capital gains loopholes and half a dozen others which we have listed. When will our people learn what goes on in connection with tax bills?

I yield the floor, Mr. President.

Mr. LEHMAN. Mr. President, we have before us the task of enacting legislation to raise more revenue. It is a basic truth that no tax pleases or satisfies individuals or groups of individuals upon whom the tax is imposed. Because the services of Government are largely impersonal, and because taxes are imposed by law, many taxpayers have the feeling that they are paying without acquiring—that taxes are a form of tribute, rather than a price for something they are getting in return.

Taxes may have been a form of tribute in the distant past, but today taxes are a necessary price for peace, security, prosperity, and the welfare of the nation and its people.

Today each citizen—every man, woman, and child—is threatened in his enjoyment of freedom, in his enjoyment of life, in his ownership of whatever he possesses, in his very standard of living, by forces seeking to rob us of our freedom, to deprive us of life, to destroy our possessions, and to undermine our standard of living. That threat is immediate. That threat is here. We cannot escape from it. We cannot put it aside. We cannot hide from it. We cannot deny it. We cannot by our own choice or decision make peace with it, or allay it.

More than three million of our sons and daughters are under arms. Even more soon will be. These millions are upholding the cause of security and freedom today on far-flung fronts, of which Korea is only the most dramatic. These young Americans are stationed in Turkey, Greece, Germany, the Philippines, Indochina, Japan, Okinawa, Alaska, Britain, Greenland, Iceland, the Azores—the list is almost endless. American ships

of war patrol the seas from the Mediterranean to the Arctic. American planes span the globe.

These are the men under arms. Other hundreds and thousands, not in uniform, press through the jungles of Africa and Asia, and the pest-ridden backwoods of a score of distant lands, to help conquer disease, to grow more food, to develop undeveloped resources.

Our shops and factories at home work around the clock producing supplies, equipment, machines, and tools for our own forces, and for our friends and allies overseas—to give them strength, and to give us security.

We can easily lose sight of the vast scope of our Government expenditures. We can easily forget, in complaining about taxes, what those taxes pay for. They pay for our security and prosperity.

The question is not, as some would put it, Can we afford to pay these taxes? The question is, Can we afford not to pay these taxes?

During all the long and arduous months of this session of the Senate, the appropriation and authorization bills we have passed have undergone, for the most part, pitiless review and examination. We have made a cut here and a cut there, wherever we could. Some of the cuts we have made have not been wise. Some cuts which we should have made, we did not make. But no reasonable proposal for cuts in appropriations—no proposal which would not have struck a fatal blow at our security—would have relieved us of the necessity of providing higher taxes.

Of course, we hear the voices of some who say that we have already reached the limit in what we can raise by taxation—that any further taxation will kill the goose that lays the golden egg—will kill initiative and cripple our national economy.

Mr. President, we have been hearing that same cry, that same complaint, that same call of "wolf," ever since 1933. Free enterprise has died a thousand deaths here in the Halls of Congress. But instead of dying, free enterprise and the free American economy have grown stronger, bigger, more vigorous, and more profitable than ever.

There are some individuals in America today who are less well off than they were 10 years or 20 years ago, but they are few indeed. Many of our wage workers and small farmers are still far from well off. But the most acute sufferers are certainly not the businessmen and the manufacturers and the merchants—far from it. The real victims are little people on fixed incomes—the pensioners, the widows, and the aged. They have suffered from inflation, and they suffer from taxation. I would like to do something to help them. They are the ones who deserve our compassionate attention. I will discuss their plight in a moment.

The plain, stark, and simple fact is that we need to raise taxes. We need to raise more revenues. We need to balance the budget, now, while national income is high and growing higher. We need to pay our Government bills now, while we can afford it, and at the same

time dampen the inflationary fires which, unless they are checked by every available means, will get completely out of control.

The current tax program was originally designed as a pay-as-you-go program. There was general agreement in the country that we should, at this time, raise by taxation what we spend for defense. Everybody seemed to agree to the desirability of that principle.

But step by step, little by little, as this tax bill has gone through the House and through the Senate Finance Committee, there has been a chipping away at that principle.

The Treasury Department originally proposed a \$10,000,000,000 tax program to balance the budget and place us within striking distance of a budgetary balance for next year when the defense program moves toward its scheduled peak. We face a \$10,000,000,000 deficit this fiscal year. Yet what has Congress done thus far?

The House cut the tax bill down to where it would raise only about \$7,000,000,000 for the full year and less than five billions this current fiscal year. And the Senate committee has cut it down still further, to where it will raise only five and a half billion in a full year, and only two and a half billion in the current fiscal year. That will leave us with a deficit in this fiscal year of about \$7,000,000,000.

I realize, Mr. President, that raising taxes is as difficult an assignment as any committee can possibly have. I know and esteem the members of the Finance Committee. We all have high regard and deep affection for the able and distinguished chairman of that committee. He and his colleagues have performed arduous duty in reporting this bill. There are many features of the bill before us which I recognize as superior to the features of the House bill.

I know the pressures that have been brought on the members of the Finance Committee, and the hundreds and thousands of representations that have been made to the members of that committee by businessmen, by business, farm, and labor organizations, and by individual taxpayers. The Finance Committee has listened patiently to them all.

As a Senator from New York, where a large percentage of American business and finance has its headquarters, and where all elements of the national economy are heavily represented, I, too, have heard numberless representations on the subject of taxes. My mail has been heavy with protests against this or that proposed tax. Friends from the business, farm, and labor community have come to me with their problems, as they have come, in even larger numbers, to the Finance Committee. Most of the representations made to me reflect the feeling of those concerned that the taxes proposed were excessively onerous to the person or group in question. In some cases I have agreed.

The committee has tried, successfully in many cases, to meet many of the objections which have been raised. I think the committee has gone too far in this direction. In one or two cases, the com-

mittee has not gone far enough, and I shall propose or join in proposing amendments to meet some of these situations.

But, in general, Mr. President, I feel that the committee has permitted its necessary concern for the welfare of business groups, corporations, and financiers to outweigh what must be the first and primary concern—the raising of the necessary revenue to meet the current costs of defense and government. The committee has permitted to be obscured the necessity of fighting inflation with taxation. And finally, the committee has, in my judgment, failed to take into adequate consideration the vital importance of imposing full and actual equality of sacrifice in distributing this heavy, this tremendous, burden of expense we must unfortunately bear, as we value our freedom and our very lives.

I do not like to see such heavy taxes, Mr. President. I pay my share of them, and do not like it any more than the next man. I hope we may one day return—and soon—to a reasonable level of Government expenditures, and a reasonable level of taxes.

The income-tax rate is already high. The corporation-tax rate is already high. I dislike most excise taxes, which place an unequal burden on all, regardless of ability to pay.

But the need for additional revenues is indisputably urgent and compelling. We dare not close our eyes to this fact.

The pending bill reported by the Finance Committee would add only a part of the revenue needed to balance the budget. In my judgement that is a tragic error at this time. In this critical period when the economy is just beginning to feel the real effects of our defense expenditures, an inadequate and half-hearted tax measure may be little better than no measure at all. We must remember that the inflationary burst we felt last year and early this year was the result of hoarding, scare-buying, and inventory building. Soon we will feel the real force of basic inflationary forces. Will we be ready for them?

This tax bill is not much of a contribution to our preparedness against these inflationary forces. The people will have the impression that they are paying the cost of the defense effort, but we will be indulging in deficit financing, for which there is no excuse and no justification at this time.

This year a \$7,000,000,000 deficit. Next year a ten or fifteen billion dollar deficit. All this without any greater national emergency than we now have. How can we tell ourselves and tell the world that we are ready to make any necessary sacrifice if we are not willing even to raise the necessary taxes to balance the budget in a year when our national income stands at record levels, when corporation profits are running at record levels, and when business generally is better than it ever has been?

The question that occurs to me is not whether our economy can stand heavier taxes than are here proposed, but whether our economy can stand deficit financing.

Every dollar of defense expenditures which we fail to meet through taxation will be paid not once but several times over through inflation.

It will be paid by the millions of citizens who will suffer losses in the purchasing power of their income and savings. And even worse for the security of our Nation, these deficit dollars may be paid for in the dangerous disruption of economic stability and productive efficiency.

The additional taxes needed to make this bill adequate for the job will be a small premium to pay for insurance against the incalculable cost of inflation.

Mr. HUMPHREY. Mr. President, will the Senator yield at that point?

Mr. LEHMAN. I yield.

Mr. HUMPHREY. I am very much impressed with the Senator's observations on the inflationary problem. Is it not the view of the Senator that inflation will not only extract its toll from the taxpayer as he buys the consumer products which he needs, but that it will also extract its toll from the taxpayer because of the increase in military equipment and defense products which the Government buys? Secretary Marshall gave us some facts on the first year of inflation which the Senator brought to our attention at another time.

Mr. LEHMAN. I thank the Senator. He is absolutely correct. Of course, higher prices affect every citizen, as the Senator from Minnesota has pointed out. Certainly they increase the costs of preparedness, in which we are now engaged. General Marshall pointed out some time ago—possibly 4 or 5 months ago; and prices have risen somewhat since then—that even at that time the added costs since Korea had increased the cost of our military preparedness, through purchase and construction of military equipment, by about 20 percent. In other words, the \$35,000,000,000 for which we had contracted, or for which we were preparing to contract, would buy only \$28,000,000,000 of equipment, based on pre-Korean prices.

Mr. HUMPHREY. I thank the Senator.

Mr. LEHMAN. Let me also point out to the Senator that this bill is going to bring in only two and one-half billion, or possibly \$3,000,000,000, although I doubt the larger figure. There is not much doubt that that will result in a deficit of at least \$7,000,000,000 this year. The evil feature is that next year we shall face a much more difficult situation than we are now facing. There can be no question about that. The appropriations which we have already made, a large part of which will be spent next year, will increase the deficit to a figure larger than \$7,000,000,000, but the \$7,000,000,000 deficit which we are now incurring will have to be added to the deficit next year.

Mr. HUMPHREY. Mr. President, will the Senator further yield?

Mr. LEHMAN. I yield.

Mr. HUMPHREY. I think the Senator has been most helpful, and, I may say, shockingly informative to this body in citing the facts as to the deficit which

would undoubtedly face us this year and the potential deficit next year. I think the Senator was present when the Senator from Illinois [Mr. DOUGLAS] and I were discussing the figures. I was much more conservative in my figures than either the Senator from Illinois or the Senator from New York. I did that primarily, as I said, to show that any projected deficit would not be met by this bill. This bill would not raise sufficient revenue, in terms of our needs, even basically to touch the large problem of deficit financing which we face as a possibility.

Mr. LEHMAN. I fully agree with the Senator. According to the best estimates we can obtain we are faced with a deficit of at least \$10,000,000,000. As the Senator from Illinois stated yesterday, our expenditures may not be \$70,000,000,000, as estimated, but \$75,000,000,000. If that should prove to be the case, the apparent deficit will be close to \$15,000,000,000, and against that the best we can hope for under this bill, to be collected during the current fiscal year, is two and a half or three billion dollars.

Mr. HUMPHREY. Mr. President, will the Senator further yield?

Mr. LEHMAN. I yield.

Mr. HUMPHREY. I think it might be well to buttress the observation the Senator has made by a sort of recapitulation of the figures on tax revenue.

For this year, under the present tax law, approximately \$61,000,000,000 in revenue will be raised. If expenditures for this year are \$75,000,000,000, it means that there will be a \$14,000,000,000 gap, about which the Senator has been talking.

We have a tax bill which, for the fiscal year, will raise only \$2,700,000,000 for the remainder of this fiscal year. That is the committee's own estimate. It is perfectly obvious that we are going to end with a deficit of \$11,300,000,000, and not \$10,000,000,000.

Let us give everyone the benefit of the doubt, and say that expenditures will not be \$75,000,000,000. Let us assume they will be only \$70,000,000,000. It still means that we must raise between eight and a half and nine billion dollars for the fiscal year 1952 if we are going on a pay-as-you-go basis. Assume that the expenditures are only \$68,000,000,000. They will be more, but assume that we do not spend as fast as may be anticipated. Let us give the chairman of the Finance Committee and his associates the benefit of the doubt. They stated yesterday that we may not spend as fast as anticipated. We would still have to raise \$7,000,000,000 in revenue. Assume that the expenditures are \$65,000,000,000. We would still have to raise \$4,000,000,000 in revenue. I submit that the bill is not calculated on the basis of producing sufficient revenue to meet expenditures which are anywhere near projected by our Government. This is only a revenue-raising bill, and it has no relationship to the expenditures of our Government for the fiscal year 1952.

Mr. LEHMAN. There can be no doubt about that at all.

I also wish to point out to the Senator from Minnesota that he used the figure

of \$61,000,000,000 as estimated revenues. In my opinion—and I think it is confirmed by experts—there is nothing to indicate that the revenues this year will be \$61,000,000,000.

One of the major deficiencies of the Finance Committee proposals is the decrease in the yield of corporate taxes by about \$8,000,000,000 below the House bill. That revenue is desperately needed. Corporate profits, under the impact of defense spending, have risen to a record annual rate of about \$50,000,000,000 for the first half of 1951. American corporate business has never been in better condition, with continued prospects for sustained markets. The postponement of the effective date of the corporate tax increase from January 1 to April 1 as proposed by the Finance Committee, for example, would remit taxes which corporations were on notice and prepared to pay. Other revenue-losing adjustments of corporate taxes in the Finance Committee bill should also be reexamined with a view to restoring unnecessary losses.

Mr. HUMPHREY. Mr. President, will the Senator further yield?

Mr. LEHMAN. I yield.

Mr. HUMPHREY. I hope the Senator will forgive these interruptions, but he is making points which I think we need to drive home. We have both been sweating out the tax bill, and working together.

I think it would be well to get the Finance Committee to tell us why they reduced the over-all revenue take from corporate income. What is the record which reveals that this tax load needed to be eased at this particular time? What is the record of profits? What is the record of gross sales, gross profit, and net profit of the corporations, which indicates that the House figure ought not to have been maintained? How the House arrived at that figure may be debatable, but the House figure of \$600,000,000 extra ought to be maintained.

I think it would be well to have the Finance Committee come forward with the documentation to show us how they arrived at this amount of money to come from the corporations, in view of what the Senator has just said as to the over-all record of profits on the part of corporate enterprises.

Mr. LEHMAN. I fully agree with the Senator. I very much hope and expect that the distinguished chairman of the Finance Committee will give us that information during the course of the debate. I know that an amendment has been submitted, or will be submitted, to effectuate the purposes which the Senator mentions.

Mr. HUMPHREY. Mr. President, will the Senator further yield?

Mr. LEHMAN. I am very glad to yield.

Mr. HUMPHREY. The Senator was on the floor yesterday when the distinguished Senator from Colorado [Mr. MILLIKIN], the ranking minority member of the Finance Committee, was engaged in colloquy with the Senator from Illinois [Mr. DOUGLAS] and myself. We were probing for this very point which I mentioned a moment ago. Why did the Finance Committee reduce the over-

all revenue take from corporate incomes by a substantial figure below the House figure—\$600,000,000 or \$800,000,000?

Mr. LEHMAN. Eight hundred million dollars.

Mr. HUMPHREY. We were told repeatedly what has become what I call the new party line, that corporations do not pay taxes; that they are all passed on to the individual.

I believe it was argued very decisively and persuasively by the Senator from Illinois [Mr. DOUGLAS] that while an excise tax or sales tax is automatically passed on, and is a direct part of the cost, a corporate tax is taken from the over-all profits of the corporation. While the tax liability may be a factor in determining the price, it is not a conclusive determining factor when competitive conditions exist. If it is a factor in the price, all of it ought to be taken into consideration, not only a part of it.

What is being said now is that a corporation passes along all its tax increases, and apparently that is how they accrue their profits—on the basis of the tax liability being included in the price. That represents a better argument for stepping up a tax rather than diminishing it.

Of course the facts are, as the Senator from Illinois has pointed out very well, from both the standpoint of economic theory, in which he is a master, and of practical economics in the business world, that a corporate profit tax is not a tax, if there is any area of competition available whatever, if that tax is passed along wholly or substantially to the consumer.

Mr. LEHMAN. Of course I have no knowledge of the way each one of the individual large corporations operates with regard to the pricing of its production. I suppose that some of them include the tax in their prices, and that others do not. I imagine that the controlling factor in that decision is the question of competition. But regardless of that fact, there is no doubt whatever—and I am referring to Dun's review for August—that profits of corporations have been larger in the first half of 1951 by a considerable margin than in the first half of 1950, not only in the aggregate 6 months, but in each one of the two quarters of that period.

Mr. HUMPHREY. I am glad the Senator used the word "quarters," because a year ago we did not tax corporate-wise the quarter from July 1 to October 1, which was the best quarter American business had last year. Apparently the committee does not want to tax for the quarter from January 1 to April 1 of this year, which is the highest profit period in the history of American corporate enterprise. What is the justification for omitting that?

Mr. BUTLER of Maryland. Mr. President, will the Senator from New York yield so that I may answer the question of the Senator from Minnesota?

Mr. LEHMAN. I am sorry. I did not catch the request of the Senator from Maryland.

Mr. BUTLER of Maryland. Will the Senator from New York yield so that I may tell the Senator from Minnesota why the committee did what it did?

Mr. LEHMAN. I am glad to yield.

Mr. BUTLER of Maryland. If the Senator from Minnesota will refer to page 18 of the report he will find that the committee starts off by saying that it is opposed to a retroactive rate increase.

Mr. HUMPHREY. Oh.

Mr. BUTLER of Maryland. I am not a member of the Committee on Finance. However, I can see the justice of the action taken by the committee. Many small businesses may have paid out dividends in good faith, not knowing that a new tax bill would be passed. All of a sudden they are confronted with a tax which they did not know they would have to pay. Perhaps they would not have paid in dividends the amount of money they did pay if they had known about the new tax. It seems to me only reasonable to follow the course recommended by the committee, particularly with respect to a small business. A small business could be hurt very severely. I agree with the committee that retroactive tax increases are not sound and should not be indulged in where it is at all possible to avoid doing so. That is not the only reason which the committee points out. If the Senator will refer to the committee's report—

Mr. HUMPHREY. I have read the report.

Mr. BUTLER of Maryland. There are other reasons given. The reason I have stated seems to me to be a very valid one. I do not believe we should let a business go ahead and do what it would ordinarily do, and then turn around and say, "You have played the game according to certain rules, but now we are going to change all the rules, and you will have to play the game under new rules."

Mr. HUMPHREY. Mr. President, will the Senator from New York yield so that I may reply to the Senator from Maryland?

Mr. LEHMAN. Yes; I shall be glad to yield for that purpose.

Mr. HUMPHREY. I appreciate the remarks of the Senator from Maryland. I realize that we do not have all the time we should have to study these matters. If the Senator from Maryland will study the record, he will find that we have had the situation since 1913. Corporate taxes have been made retroactive. This is not something new. It is just about as new as Ben Franklin's almanac. This is not a new trip to some area of undiscovered wonders. I may also point out to the Senator from Maryland that if it is bad to have retroactivity, it is bad to go back to April 1. If we are to go back at all, we may as well go back all the way and thus get the income that we could get beginning in January. I am perfectly willing to accept the principle of no retroactivity, as a basis of argument, although not as a basis of final action. How does the Senator from Maryland justify retroactivity to April 1?

Mr. BUTLER of Maryland. Because on and after that period, as the Senator from New York has so well said, business had notice that an increase in taxes would be made. Many people expected it to be effective as of midyear. The committee has gone back 3 months beyond midyear. To me that is reasonable.

Mr. HUMPHREY. Mr. President, will the Senator from New York yield once more?

Mr. LEHMAN. Yes.

Mr. HUMPHREY. The Senator from Maryland is aware of the fact that the date of the President's message to Congress on the subject, Taxes, which was a warning to business, and a rather loud warning at that—because business interests started to make noises, certainly—was in the month of January. I should like to point out to the Senator from Maryland that there was all the warning that anyone needed to have, except perhaps by a fire siren, that the country was about to have a tax increase. The Senator's argument that it ought to be retroactive only to the 1st of April is disputed by the fact of the warning signal which was given in the month of January. The Senator's argument that the Committee on Finance has done the right thing by going back to April 1 is disputed by the fact that from January 1 to April 1 was the highest profit period in the history of American business.

Mr. BUTLER of Maryland. The Senator from Minnesota falls into the same error that he has been falling into ever since he began his speech yesterday, and that is that it is possible to take a table which shows that the large corporations made a great deal of money and automatically deduce from it that all businesses made a great deal of money. Many small businesses did not make a great deal of money. It is not accurate and it is not fair to say so. The courts have condemned retroactivity. The report of the committee shows that it is not fair and it should not be indulged in.

Mr. HUMPHREY. Will the Senator from New York yield once more?

Mr. LEHMAN. Yes.

Mr. HUMPHREY. I ask the Senator from Maryland to show me how the pending bill would hurt corporations which have not made money. I ask the Senator to show me what the corporate tax rate is on small corporations. I ask him to tell me what the corporate tax exemption is. I ask him to show me what corporations which have not been making money would in any way be injured or have their taxes increased by this bill. The Senator from Minnesota says the Senator from Maryland cannot produce the evidence.

Mr. BUTLER of Maryland. If the Senator from Maryland could produce such evidence he would not be in this body; he would be in heaven or some other place.

Mr. HUMPHREY. I do not believe that I have a ticket to heaven, but I can produce evidence on my side. The Senator from Maryland, when he starts to ask questions about retroactivity on the tax bill or about corporations taking losses, should produce evidence. He is not producing such evidence—and I am not talking about going to heaven.

Mr. BUTLER of Maryland. I have not said that corporations are losing money. I said that small corporations have not made an excess of profits, and it is unfair to tax them retroactively after they have patterned their business

on the basis of not having to pay increased taxes.

Mr. LEHMAN. Mr. President, another defect of the Finance Committee proposals is the reduction of the individual income tax yield by about one-half billion dollars below the level adopted by the House. Individuals are receiving record incomes, and they will receive still larger incomes in coming months as the defense program moves into high gear. Our citizens are prepared to make additional financial sacrifices to pay for defense and to maintain a stable economy.

I believe that the surtax plan devised by the House in place of the flat increase proposed by the Treasury Department, is more equitable than the Treasury plan, even if it does lose some revenue. The Senate committee has wisely followed this design. However, the Senate committee has cut the House percentage, and has added an alternative device with which I strongly disagree from the point of view of justice and equality of sacrifice, as well as from the viewpoint of revenue-raising. I think we should at least restore the individual surtax to 12½ percent. We should eliminate the 8-percent alternative, which is pure and simple relief for individuals of high income. As high as are the taxes for these individuals, I do not think we can fairly tell the vast majority of the people of low and modest income that we are piling new taxes, new hardships, on them, but we are granting relief to those of high income. We need the revenue from these individuals. But just as much, we need to adhere to the standard of equality of sacrifice.

On this basis, as much as on any other, I appeal to the Senate to pay particular attention to the question of the so-called loopholes. Amendments will be proposed to close these loopholes. As one with some experience in the business and financial world I recognize the motive behind some of these loophole provisions. They were designed originally to encourage initiative and enterprise and the risk of capital in the fields where risk capital has been needed, such as oil and mining exploration speculation and investment generally.

But these are not ordinary times. This is not an ordinary tax bill. Moreover, these loopholes are being increasingly used by businessmen and persons of considerable income to shift the tax burden, to escape from some of the taxes which might otherwise be imposed on ordinary income.

In the bill before us there is a proposal to increase the depletion allowance on coal. There is a proposal to extend the number of materials for which depletion allowance may be claimed. Sand, gravel, slate, and oyster shells are some of these.

Mr. President, there may be some justification for some or perhaps for all of these; but I think we are getting away from the original idea of what depletion allowances were designed for. Now they are getting to be just another form of tax relief.

Mr. President, we need to raise more and more revenue. These loopholes

must be sealed off, or at least so tightly circumscribed that they will not grow and destroy our entire tax structure. Those of low and moderate income who are called on to pay their added share of taxes must be assured that this tax bill is not a bill of burden for the many and relief for the few.

I would say the same thing about the expanded use of so-called capital gains treatment of what is frequently ordinary income. I think the authorization by law for the tax treatment of special categories of bonuses, dividends, rents, and royalties as capital gains is unconscionable in the light of the present realities. I hope the Senate will act courageously and impartially to set aside all these special privileges, and to get on to the business of raising more revenues by the most equitable form of taxation possible.

Mr. President, these are difficult words to say, just as proposals for higher taxes are necessarily difficult to consider. But are we to shirk the difficult, while difficulties confront our people on every side, while our country faces the greatest difficulties it has perhaps faced in all its history?

Let us have full confidence in the good sense, in the realism, and in the patriotism of our citizens. I have that confidence. They will accept, yea, they will welcome this tax bill if they are sure that it is necessary, if they are sure that it is adequate, if they are sure that the burden is distributed as equitably as it is humanly possible to distribute it.

This is all of a general nature I have to say, Mr. President. There will be more to say in connection with the specific amendments that will be offered, in some of which I am a cosponsor.

MESSAGES FROM THE PRESIDENT

Messages in writing from the President of the United States submitting nominations were communicated to the Senate by Mr. Hawks, one of his secretaries.

MESSAGE FROM THE HOUSE

A message from the House of Representatives, by Mr. Maurer, one of its reading clerks, announced that the House had passed the bill (S. 355) to adjust the salaries of postmasters, supervisors, and employees in the field service of the Post Office Department, with amendments, in which it requested the concurrence of the Senate.

The message also announced that the House had passed the bill (S. 622) to increase the basic rates of compensation of certain officers and employees of the Federal Government, and for other purposes, with an amendment, in which it requested the concurrence of the Senate.

The message further announced that the House had passed a bill (H. R. 4255) to reclassify the salaries of postmasters, assistant postmaster, and supervisory officers and employees in the field service of the Post Office Department, and for other purposes, in which it requested the concurrence of the Senate.

TRANSACTION OF ROUTINE BUSINESS

By unanimous consent, the following routine business was transacted:

RESOLUTIONS OF CITY COUNCIL OF MINNEAPOLIS, MINN.

Mr. HUMPHREY. Mr. President, I present for appropriate reference, and ask unanimous consent to have printed in the RECORD, two resolutions adopted by the City Council of the City of Minneapolis, Minn., relating to amendment of the Natural Gas Act, and favoring the early enactment of House bill 1729, which authorizes the Federal Communications Commission to lend its experts on rates, valuation, and other subjects to States and their political subdivisions.

There being no objection, the resolutions were referred to the Committee on Interstate and Foreign Commerce, and ordered to be printed in the RECORD, as follows:

RESOLUTION REGARDING S. 1084, IN THE COMMITTEE ON INTERSTATE AND FOREIGN COMMERCE OF THE UNITED STATES SENATE

Whereas the City Council of the City of Minneapolis has considered the provisions of S. 1084, Eighty-second Congress, first session, which presently is in the Committee of Interstate and Foreign Commerce of the United States Senate; and

Whereas the City Council of the City of Minneapolis has further considered the report of the Federal Power Commission on said S. 1084; and

Whereas the City Council of the City of Minneapolis believes that the primary purpose of this legislation, which is to remove from the jurisdiction of the Federal Power Commission companies which are engaged in the local distribution of gas wholly within a single State, is a worth-while objective; and

Whereas the said report of the Federal Power Commission proposes a bill in lieu of said S. 1084 which the city council believes would more concisely and effectively accomplish the primary objective; and

Whereas the bill proposed by the report of the Federal Power Commission, to which this resolution has reference, reads as follows:

"A bill to amend section 1 of the Natural Gas Act, as amended

"Be it enacted, etc., That section 1 of the Natural Gas Act (15 U. S. C. 717a), as amended, is amended by adding thereto a subsection (c) as follows:

"(c) That the provisions of this act shall not apply to a person engaged in or legally authorized to engage in the local distribution of natural gas or to the facilities used or to be used by such person for the purpose of transporting natural gas in interstate commerce, if all of the facilities of such person, including those used or to be used for transporting natural gas in interstate commerce, are located wholly within a single State and none of the facilities of such person is used for or in connection with the sale of natural gas in interstate commerce for resale or for or in connection with the transportation of natural gas in interstate commerce for hire": Now, therefore, be it

Resolved by the City Council of the City of Minneapolis, That it approves the draft of the bill proposed in the report of the Federal Power Commission, as herein set out; be it further

Resolved, That a copy of this resolution be sent to the Honorable Harry S. Truman, President of the United States, the Honorable Alben S. Barkley, Vice President, the Speaker of the House of Representatives,

the chairman of the Senate Committee on Interstate and Foreign Commerce, and to each Member of Congress from the State of Minnesota.

RESOLUTION APPROVING H. R. 1729

Whereas under H. R. 1729 the Federal Communications Commission is authorized to lend its experts on rates, valuation, and other subjects to States and cities as witnesses or consultants, subject to reimbursement to the Commission of compensation, traveling and subsistence expenses of such witnesses or consultants; and

Whereas the staff of the Federal Communications Commission, particularly in telephone matters, possesses information and knowledge not readily available to the States and cities; and

Whereas testimony by members of the staff of the Federal Communications Commission would be immensely valuable to the State of Minnesota and its cities, particularly in connection with telephone rates; and

Whereas there is now pending before the Minnesota Railroad and Warehouse Commission an application by the Northwestern Bell Telephone Co. to increase its rates; and

Whereas the city council believes that testimony from the staff of the Federal Communications Commission would be valuable in this case: Now, therefore, be it

Resolved by the City Council of the City of Minneapolis, That it approves and urges the early passage of H. R. 1729; be it further

Provided, That a copy of this resolution be sent to the Honorable Harry S. Truman, President of the United States, the Honorable Alben S. Barkley, Vice President, the Speaker of the House of Representatives, and to each Member of Congress from the State of Minnesota.

REPORTS OF COMMITTEES

The following reports of committees were submitted:

By Mr. STENNIS, from the Committee on Public Works:

S. 97. A bill to authorize the construction, operation, and maintenance of facilities for generating hydroelectric power at the Cheatham Dam on the Cumberland River in Tennessee; with an amendment (Rept. No. 791).

By Mr. HOLLAND, from the Committee on Public Works:

S. 1956. A bill to amend section 12 of the Federal-Aid Highway Act of 1950 and sections 6 and 14 of the Defense Highway Act of 1941, and for other purposes; with amendments (Rept. No. 792); and

S. 2025. A bill to amend section 9 of the Federal-Aid Highway Act of 1950 (64 Stat. 785), to increase the amount available as an emergency relief fund for the repair or reconstruction of highways and bridges damaged by floods or other catastrophes; without amendment (Rept. No. 793).

By Mr. MURRAY, from the Committee on Labor and Public Welfare:

H. R. 3932. A bill to provide vocational rehabilitation training for veterans with compensable service-connected disabilities who served on or after June 27, 1950; without amendment (Rept. No. 794).

By Mr. CONNALLY, from the Committee on Foreign Relations:

H. J. Res. 290. Joint resolution providing for the recognition and endorsement of the World Metallurgical Congress; without amendment (Rept. No. 795).

BILLS AND JOINT RESOLUTIONS INTRODUCED

Bills and joint resolutions were introduced, read the first time, and, by

in the objector; that the United States acquired the C. H. Meeker Canal by condemnation proceedings on or about February 25, 1948, for the sole purpose of supplying water to the lands of objector and other lands, and under the contract involved herein it is proposed and provided that said C. H. Meeker Canal shall be turned over to the Frenchman-Cambridge irrigation district; that the said condemnation proceedings and the proposed operation of said canal by the Frenchman-Cambridge irrigation district were and are subject to all water rights acquired for and appurtenant to the lands of objector under the appropriation with a priority date of December 22, 1890, and that said contract is subject to all water rights appurtenant to other lands and acquired by owners before said C. H. Meeker Canal was acquired by condemnation proceedings.

"The court further finds that article 11, section c, of said contract relating to all the waste, seepage, or return flow derived from water furnished under the contract involved herein is contrary to Nebraska law and the laws of the United States in that such water is dedicated to public use, and by reason thereof said provision is invalid and unenforceable, and subsection b of paragraph 10 of the objections of objector should be sustained.

"The court further finds that article 32, article 33, section (e), and article 35 is contrary to sections 46-122, 46-160, and 46-1137, Revised Statutes of Nebraska, 1943, and by reason thereof said provisions are invalid and unenforceable; and subsection c of paragraph 10 of the objections of objector should be sustained.

"The court further having found that the water rights appurtenant to the lands of the objector became vested prior to the formation of the contracting district and prior to the condemnation of the C. H. Meeker canal, the provisions of articles 32, 33, section (e), section (g), 34 and 35 are unenforceable as to the objector or his lands under the C. H. Meeker canal, or as to other landowners and their respective land whose water rights appurtenant to said lands had become vested prior to the organization of the contracting district and prior to the acquisition of the C. H. Meeker canal by the United States.

"The court further finds that the words 'furnish water' as used in said contract is used in the sense of 'deliver water' and does not imply that the United States is the owner of the water to be delivered for irrigation in said district pursuant to said contract, and therefore not objectionable or invalid, and by reason thereof subsection (a) of paragraph 10 of the objections of objector should be overruled.

"It is therefore considered and adjudged by the court, as follows:

"(a) That the organization of the Frenchman-Cambridge Irrigation District is hereby approved and confirmed, and that the proceedings of the board of directors of said district leading up to and including the making of the contract involved herein with the United States is hereby approved and confirmed.

"(b) That subsection (a) of paragraph 10 of objector's objections should be and hereby is overruled.

"(c) That the objector's objection relative to article 11, section (c) as set forth in subsection (b) of paragraph 10 in said objections should be and hereby is sustained, and said article 11, section (c) is hereby declared unenforceable and invalid.

"(d) That the objector's objection relative to article 34, section (b), as set forth in subsection (c), paragraph 10, of said objection should be, and hereby is, sustained so far as said article 34, section (b), might be applied to the lands of the objector and to other lands in the district which have valid and

existing appropriations under the 'C. H. Meeker canal' appropriation with priority date of December 22, 1890, as adjudicated by the Nebraska State Board of Irrigation in its opinion and order dated December 31, 1895, in the proceeding before it known as dockets Nos. 4, 7, 8, and 9. As to such lands so having such appropriations, said provisions in said contract hereby are declared inapplicable and unenforceable, but said provisions are hereby approved, confirmed, and ratified so far as they relate to and might be made applicable to lands within said district not having appropriations under said 'C. H. Meeker canal.'

"(e) That the objector's objection relative to article 32, article 33, section (e), and article 35 as set forth in subsection (c), paragraph 10, of said objection should be, and hereby is, sustained, and said provisions in said contract are declared invalid and unenforceable.

"(f) That insofar as article 33, section (g), might apply to the lands of the objector and other lands having appropriation rights from the 'C. H. Meeker canal' prior to the formation of the district involved herein, said article 33, section (g), is inapplicable and unenforceable and as to such lands said article 33, section (g), is hereby approved, confirmed, and ratified so far as it relates to and might be made applicable to lands within said district not having appropriations under said 'C. H. Meeker canal.'

"(g) That in all other respects said contract involved herein should be, and hereby is, approved, confirmed, and ratified; provided, however, whenever any terms of said contract are contrary to and in conflict with any vested water rights acquired by objector and other lands in said district prior to the organization of said district, said terms and contract are inapplicable thereto and unenforceable. Costs taxed to the district.

"By the court:

"VICTOR WESTERMARK,
"District Judge."

I also insert the following article from the Western Water News, San Francisco, Calif., for August 1951, entitled "O. K. Nebraska Contract":

"O. K. NEBRASKA CONTRACT—REVISIONS APPROVED BY ALL PARTIES

"The revised contract of the Frenchman-Cambridge irrigation district has been approved by the district court of Red Willow County and other contract negotiations in Nebraska will proceed according to a recent announcement from the Secretary of the Interior.

"The press release by the Bureau of Reclamation, announcing the court decision, stated: 'The authority of the Secretary of the Interior to negotiate a contract to furnish a water supply for irrigation purposes pursuant to the provision of Federal reclamation law, which had been challenged by a water user, was upheld without change by the court as not in conflict with Nebraska State law.'

"RELEASE CARRIED FALSE STATEMENT

"According to Attorney Paul F. Good, of Omaha, 'The statement made in the press release is completely and entirely false.' In explaining the comment, Good said: 'We never raised any question at any point in the proceedings as to the right or authority of the Secretary of the Interior to negotiate a contract under Federal reclamation laws. On the contrary, we at all times asserted that the Secretary was bound both by Federal and State laws and that the provisions to which we objected were contrary to the Federal Reclamation Acts and not authorized under them. Moreover those objections which we made related only to specific provisions of the contract and we never raised

any question as to the basic authority of the United States to contract to furnish water.'

"Good further stated that—

"The Nebraska court held that certain provisions of the 1947 contract were illegal and void. Following a dismissal by the Nebraska Supreme Court of an appeal, a new contract was negotiated which was confirmed by the court without objection."

"ILLEGAL PROVISIONS

"The provisions which were held illegal and which were eliminated in the revised contract were (1) an unlimited reservation to the Government of waste and seepage water; (2) the imposition on 50-year-old water rights appurtenant to some of the lands of the district of the 160-acre limitation; (3) a requirement that, if a landowner within 5 years after the commencement of the operations of the project should sell his land, one-half of the profit over and above the appraised value (appraised at its value as dry land) would be impounded and paid to the district; and (4) power given to the Secretary of the Interior to prescribe what crops could be grown on every acre of land within the district."

STATEHOOD FOR ALASKA

Mr. MAGNUSON. Mr. President, will the Senator from Wyoming yield to me for a moment?

Mr. O'MAHONEY. I yield.

Mr. MAGNUSON. Mr. President, I wonder if I may take advantage of the opportunity, seeing the majority leader and the distinguished chairman of the Committee on Territories and Insular Affairs present, to ask a question of the majority leader. I have recently been home, and one of the questions quite frequently asked by many of my people was when we intended to take up the so-called statehood bill for Alaska.

Mr. McFARLAND. I think I answered that question just before the Senator left for home. I cannot give any better answer now than I gave at that time.

Mr. MAGNUSON. In other words, the situation is the same as it was 2 weeks ago. Is that correct?

Mr. McFARLAND. That is correct.

Mr. MAGNUSON. And we are now nearing the end of the session.

REVENUE ACT OF 1951

The Senate resumed the consideration of the bill (H. R. 4473) to provide revenue, and for other purposes.

Mr. O'MAHONEY. Mr. President, I do not intend to detain the Senate overlong if I can help it, but I should like to have the opportunity of presenting a few observations with respect to this bill.

Mr. McFARLAND. Mr. President, will the Senator yield for the purpose of suggesting the absence of a quorum, without prejudice to his rights to the floor?

Mr. O'MAHONEY. Mr. President, I hope the majority leader will withhold the suggestion of the absence of a quorum. It is obvious that Members are busy in various committees. The Committee on Appropriations is meeting, and I should be at the meeting. But the pending bill is of such great complexity that few of us dare even to look at it. It should be pointed out that the

bill contains exactly 349 pages. It deals with the most complicated and complex legislative problem upon which Congress has to act. But that problem is not nearly so complex as is the problem which confronts the people of the United States and the people of the world.

I feel that the members of the Finance Committee and the distinguished and able chairman of that committee have done a patient and painstaking job upon the bill. I do not agree with all of its provisions, for reasons which I shall later point out, but I know that before that committee have come the statements of citizens of the United States from every State with respect to the great burden of taxation which rests upon them.

PRESIDENT HARDING'S CALL FOR SACRIFICES IN TIME OF WAR

Mr. President, I am glad to note that there are so many Republican Members upon the floor this afternoon, because I desire to read to them the statement of a President who was the nominee of the Republican Party and who was inaugurated on the 4th of March 1921. Yesterday, there was read upon the floor a letter from the present President of the United States urging that the public interest required a larger tax revenue than that provided by the bill which is before the Senate. I desire to read into the RECORD the point of view of President Warren G. Harding, who became President of the United States just after the close of World War I, and who made it one of the chief objectives of his administration to try to bring peace to the world by universal disarmament. As a matter of fact, he caused the negotiation of a treaty, the purpose of which was to disarm the world so that the world would not again be locked in an international combat. I am sure Senators will be very much interested in what I read from a former President of the United States.

I should like to have this quotation from Warren G. Harding on the desk of every Member of the Senate. I wish it could be published at the masthead of every editorial page in the United States.

I wish it could be placed under the glass-topped table of every corporation executive in America. I wish we could all take it to our hearts.

Mr. Harding realized that we had just emerged from a terrible World War in which there was great slaughter of human life and great destruction of property, and, like other Americans, he had in his heart the desire that war should be banished. His party was not willing in the years that preceded his election to have an attempt made to banish war along the lines which were laid down by President Woodrow Wilson, but the objective was the same, and Mr. Harding sought to do this by promoting a treaty which outlawed war. The Secretary of State, Mr. Kellogg, a member of his Cabinet, was helpful in this matter. But these are the words of Warren G. Harding:

Our supreme task is the resumption of our onward, normal way. Reconstruction, readjustment, restoration—all these must follow. I would like to hasten them. If it will

lighten the spirit and add to the resolution with which we take up the task, let me repeat for our Nation we shall give no people just cause to make war upon us, we hold no national prejudices, we entertain no spirit of revenge, we do not hate, we do not covet, we dream of no conquest, nor boast of armed prowess.

If, despite this attitude, war is again forced upon us, I earnestly hope a way may be found which will unify our individual and collective strength and consecrate all America, materially and spiritually, body and soul, to national defense. I can vision the ideal republic, where every man and woman is called under the flag, for assignment to duty, for whatever service, military or civil, the individual is best fitted; where we may call to universal service every plant, agency, or facility, all in the sublime sacrifice for country, and not 1 penny of war profit shall inure to the benefit of private individual, corporation, or combination, but all above the normal shall flow into the defense chest of the Nation. There is something inherently wrong, something out of accord with the ideals of representative democracy, when one portion of our citizenship turns its activities to private gain and defensive war, while another is fighting, sacrificing, or dying for national preservation.

I desire to repeat two or three sentences from this Republican President of the United States who was speaking in the public interest when he delivered his address on March 4, 1921:

I can vision the ideal republic, where every man and woman is called under the flag, for assignment to duty, for whatever service, military or civil, the individual is best fitted; where we may call to universal service every plant, agency, or facility, all in the sublime sacrifice for country, and not 1 penny of war profit shall inure to the benefit of private individual, corporation, or combination, but all above the normal shall flow into the defense chest of the Nation.

I heard that inaugural speech delivered. The President was looking forward to a time when this country might again be involved in a great world conflict. We are involved in such a conflict now, Mr. President.

HOME FRONT IS THE FIGHTING FRONT

It is idle to talk about this bill as a peacetime bill. "Gentlemen may cry peace—but there is no peace." Those words have echoed and reechoed in our history in the past. We are in the midst of one of the most mortal struggles that freedom for individuals has ever had to sustain. Nobody can deny it. Everybody knows it. Yet, Mr. President, we talk as though we were at peace. We talk as though just around the corner we could resume our normal habits of life and of activity. We talk as though we could drop a curtain and thus shield from our eyes and from our minds and our intelligence every rumor and report of what is happening on the international scene. We legislate as though we had never heard of Karl Marx or of Lenin or of Stalin. We talk as though we did not know that they had written books and outlined their program and that they declared specifically their purpose to carry on a world revolution against capitalism.

Mr. KEM. Mr. President, will the Senator yield for a question?

The PRESIDING OFFICER (Mr. LEHMAN in the chair). Does the Senator

from Wyoming yield to the Senator from Missouri?

Mr. O'MAHONEY. I yield.

Mr. KEM. Is it not reported that Lenin said shortly before his death, "We must cause the Americans to spend themselves to destruction"?

Mr. O'MAHONEY. That is the case. There is not any doubt that the purpose of the totalitarian dictators in the Kremlin is to do just that thing if they can. They want to wreck us economically, because they know if that can be done to the United States of America then there will be no barrier at all to the conquest of the world by totalitarian Communist dictatorship.

So, Mr. President, I say to you, I say to my colleagues upon the floor, I say to those who may be listening in the galleries, and I say to those to whom my words may come from reading the CONGRESSIONAL RECORD, unless we open our eyes to the fact that the home front is the fighting front, great dangers confront us and confront freedom for mankind.

We cannot pass this burden on to some young men upon whom we lay the heavy hand of Uncle Sam and put in uniform and send away to fight. They cannot be successful unless we stand behind them here economically, unless we are content to play our part upon the home front by concentrating the great economic power of the people of America to preserve individual liberty throughout the world and at the same time thrusting aside from our minds all thought that anybody is going to make any profit out of this preparedness program.

Oh, there may be a little brief profit. I know that the reports of the great corporations of the United States are replete with evidence of the profits which are being earned. I know that the people are saving more money than many dreamed it would be possible to save. The Federal Reserve Board is just about to publish a report showing that in the 3 months' period which ended on the 1st of July individual citizens of the United States were saving at an annual rate of \$21,000,000,000. That is proof conclusive that at least until the 1st of July last there were great earnings in this country, high wages, and good salaries. Of course, I know that the cost of living has risen tremendously, but the cold fact is that the people saved at a yearly rate of \$21,000,000,000 in a 3-month period.

It is true that the Federal Reserve Board made the prediction that the present high level of savings will not continue. If they are correct in that prediction, then it becomes more apparent than ever that we should have taxation which will take from the spending power in order to fight inflation upon the one hand, and upon the other hand, will tend to balance the budget. I say "tend" to balance the budget.

WE CANNOT SHIFT THE BURDEN

Mr. President, there is not a Member of this body, there is not a member of the Finance Committee, there is not a member of any committee of the Senate or of the House who does not know that what I have stated is the fact. However, there is an ever-present desire to postpone the evil day. There is an ever-

present desire to let somebody else bear the burden. There is an ever-present hope that "if I can save to myself what I have earned, perhaps I can keep it through the great challenge that has come."

Members rise upon the floor and denounce Government spending, properly so when the spending is wasteful and extravagant. There can be no doubt that all wasteful, extravagant, and unnecessary spending should be eliminated. But do we not know that we honor that injunction in the breach rather than in the observance? Do we not know that we create new responsibilities of Government, small and large; that bills are passed upon the calendar which authorize new expenditures because they seem to be needed, and that great appropriation bills are passed for the national defense?

I sat through some 12 weeks of hearings, even more, on the military appropriation bill. Last Thursday the Senate passed that bill. The actual vote upon the floor of the Senate was 79 to 0. Seventeen Members of the Senate were not recorded as having voted; but of the 17, 9 indicated through announcements by other Senators that if they had been present and voting they also would have voted "yea"; and with respect to the other 8, no negative announcement was made. So this great military appropriation bill, providing appropriations of \$59,508,000,000, was passed with the support of 88 Members of the United States Senate out of 96.

Mr. KEM. Mr. President, will the Senator yield?

Mr. O'MAHONEY. I yield to the Senator from Missouri.

Mr. KEM. Is it not fair to say that many of us who voted for the bill on final passage had previously indicated that we were not satisfied with the amounts appropriated by the bill and had made futile efforts to reduce them?

Mr. O'MAHONEY. Oh, yes, of course; and the chairman of the subcommittee, in charge of the bill, made exactly the same statement. But there was not a single Member of the Senate who did not realize that the condition in which the country finds itself made it imperative to arm for defense.

CURRENT SPENDING FOR DEVELOPMENT OF ATOMIC ENERGY

This morning I was in the Appropriations Committee again. We were listening to the Atomic Energy Commission. The Chairman of that Commission was before the committee. It may be proper and interesting to insert in the RECORD at this point a picture of what we are spending for the development of atomic energy.

The regular appropriation bill for 1952, the independent offices bill, carried \$1,163,932,750 for the Atomic Energy Commission. Just the other day the House of Representatives passed a new supplemental bill carrying \$260,000,000, as compared with an estimate of \$273,000,000. The House cut the estimate by \$13,000,000. The Commission is now before us asking for the restoration of that cut and presenting a justification for the restoration, upon the ground that it is

necessary to promote national security through atomic energy.

There is already coming to the House of Representatives a new supplemental bill in which \$484,000,000 is requested for the Atomic Energy Commission. That is about \$744,000,000, to be piled on top of the \$1,168,932,750 already expended. Members of the Senate a few days ago heard the eloquent speech of the senior Senator from Connecticut [Mr. McMAHON], in which he urged the all-out production of atomic weapons as the best defense of America, the best guaranty that the United States may prevent the advent of a third world war.

I agree with much that the Senator from Connecticut has said. One of the reasons why the Appropriations Committee recommended to the Senate, and the Senate approved, a \$5,000,000,000 national emergency fund for the development of air power was in order to make it certain to all the world that we have the capacity to deliver the atomic weapon against any aggressor.

If we carry on this program of military defense as authorized by the unanimous vote of the Senate only last week we shall be able, in my solemn judgment, to prevent a third world war. Russia has not set a foot soldier marching into Western Europe yet, solely because Russia knows that we are prepared, and knows that we can deliver.

Mr. KEM. Mr. President, will the Senator yield?

Mr. O'MAHONEY. I am happy to yield.

Mr. KEM. Does the Senator agree with Mr. Winston Churchill that it is the atomic bomb which has prevented Russia from sending foot soldiers into Western Europe?

Mr. O'MAHONEY. That is my opinion. I think Winston Churchill was completely correct. But one of the reasons we have to make all these great expenditures is that we must convince the minds of individuals all over the world that we have the weapon, that we can deliver it, and that they will not be stripped and naked to the attack of Russia. I have not a shadow of a doubt in my mind that if it had not been for the atomic bomb Communist hordes would be on the Atlantic coast of Europe at this very hour. By every moment that we grow stronger, by every moment that our allies become stronger, our insurance against a third world war becomes greater.

INFLATION IS OUR GREATEST DANGER

But, Mr. President, of what advantage will it be to have such insurance in the form of atomic bombs, atomic weapons, the greatest Navy which ever floated upon the seas, and a well-equipped, well-clothed, well-fed Army, if we permit the economy of the United States to be wrecked at home? Inflation is our greatest danger. There are plain facts which everyone should understand. The Joint Committee on the Economic Report, at my suggestion, prepared a chart showing the national income, the Federal receipts, and the Federal debt. This chart shows—and, of course, this information is well known to all the Communist leaders—that for the first

time in the history of the United States the Federal debt exceeded the national income in a single year in 1942. Until 1942, when we were in the middle of World War II, the national income of all the people of the United States far exceeded the national debt. It will be seen from this chart that through all the wars of this country, through all its crises, even through the great depression of 1929, our national income was far greater than the national debt.

When the national income plummeted after the collapse of 1929, from about \$80,000,000,000 to a figure scarcely more than \$45,000,000,000, the national debt was only about half that sum; and that national debt included a part of the debt of World War I, which had not been paid when the depression started. The depression debt was added to it.

Then came the period of recovery and rehabilitation, after the election of 1932, when the Federal Government undertook its great program to create work by the construction of public works through PWA, the construction of other public works through WPA, by the Civilian Conservation Corps, and all the other so-called alphabetical agencies of that era. With all those expenditures, and with all the expenditures involved in arming Europe before the war began, the national debt in 1941 had not yet reached \$50,000,000,000. But now, Mr. President, that national debt is about \$256,000,000,000. There is the record.

The national income during the first half of 1951 was running at the rate of \$273,600,000,000. In the first half of 1951, for the first time since 1941, if the estimates are correct, the national income once more exceeded the national debt. Yet, Mr. President, statesmen, editors, and corporation executives tell us that the country is about to go broke. Now at last the national income once more is running at a rate greater than the national debt.

I cite these figures to indicate and to emphasize that again at the home front we have the fighting front, and if we permit another deficit to arise we shall in truth and in fact be inviting disaster.

PROPOSED TAXES WILL STILL LEAVE A DEFICIT

The pending tax bill is a deficit tax bill. It is a tax bill which is guaranteed to produce a deficit by the end of 1952, provided we proceed with the expenditures for national expense.

Many of us cherish the fond hope that by cutting agricultural appropriations, or appropriations for this and for that, or for other normal civilian functions of Government we can at the same time expend billions of dollars for national defense and not incur a deficit, thereby postponing the sad necessity of paying taxes.

Mr. President, the fact is that in the face of public sentiment, which is against the payment of taxes—and I dislike to pay taxes, as everyone dislikes the payment of taxes, and there is no one who would not willingly and gladly have his tax burden reduced—the House of Representatives passed a new tax bill this year, after having passed one last year. The Senate Committee on Finance has reported a tax bill, imposing

a new and heavy burden upon the people.

Is that not proof positive that what I have said is true? We know we must spend for defense, and we vote billions of dollars for that purpose. We know we must pay the bill in taxes or invite a deficit, and we go hesitatingly half-way.

Has not the time come, of which President Warren G. Harding was speaking in his inaugural message of 1921, for all the people of the United States—whether they are little individuals or great corporation executives—to rally together and contribute out of their substance to save America and the ideal of freedom? That is the issue.

Russia depends upon us to wreck ourselves for lack of courage to face the facts. All that is being requested is that those who earn an income shall contribute very substantially of that income to the salvation of freedom in the world.

Yet we have a deficit tax bill before us. The Treasury Department has estimated that the expenditures of the Government in 1952 would amount to \$68,400,000,000 for all purposes, including the military, and that under the House tax bill the receipts would amount to \$62,300,000,000. That would leave a deficit of \$6,100,000,000. The Treasury estimate also shows that the Senate bill would reduce the receipts from \$62,300,000,000 to \$60,800,000,000, and thus increase the deficit to \$7,600,000,000.

Of course, these are only estimates. They may not be accurate. The Finance Committee does not believe that the Treasury's estimates are correct. The Finance Committee in its report estimates that the expenditures will be \$68,400,000,000, just as the Treasury does, but the committee believes that the receipts will be \$65,800,000,000, thus leaving a deficit of \$2,600,000,000. It makes no difference which estimate is correct—the figures of the Finance Committee on the House bill or the figures of the Treasury Department—but when we consider the bill which is before us, we find that again both the Treasury Department and the Finance Committee estimate the expenditures to be \$68,400,000,000. The Treasury estimates the receipts under the Senate committee version of the bill to be only \$60,800,000,000, thus producing a deficit of \$7,600,000,000. The Finance Committee believes the receipts will be \$63,600,000,000, and that therefore the deficit will be \$4,800,000,000.

However, Mr. President, an examination of these figures demonstrates the fact that by its report the Finance Committee is telling the Senate and the country that the bill it has brought to the floor of the Senate will increase by \$2,200,000,000 the deficit which it expected from the House version of the bill. Is that the way to balance the budget? Is that the way to meet our great problem? Is that the way to meet the propaganda of Russia? Do we dare pile a deficit on top of the unpaid debt of World War I and the unpaid debt of World War II? Shall we add the additional deficit predicted by the Finance Committee of \$4,800,000,000?

Every Member of the Senate must answer that question for himself. I make no criticism of the members of the Finance Committee, because I know the great burden they have had to carry. I know the representations which have been made. I know the great problem those who earn money must meet, whether they are workers at small salaries and wages, in the lowest income group, or whether they are the managers of great corporations, with huge bonuses and great salaries.

WE CAN AND MUST DO MORE

I am bound to say, Mr. President, that this country is capable of contributing by way of taxation more than is proposed by this bill, in this great crisis of our country; yea, this great crisis of civilization, for let no one doubt that the totalitarian dictators are doing precisely what Joe Stalin said; they are holding back the Red army. As he wrote in his book, they are using the manpower of satellite peoples, probing here and probing there, so that the world may be kept in a continuous turmoil and, at the end, our economy may crack.

Mr. President, let us see what the figures show. I hold in my hand a table showing the profits, as compared with other components of the national income, including the total national income, salaries and wages, profits before taxes, and profits after taxes.

PROFITS INCREASED MORE THAN WAGES AND SALARIES

The national income for the first half of 1951 is 237 percent greater than it was in 1940; it is 26 percent greater than it was in 1949. Wages and salaries have risen, too, Mr. President. Oh, yes; the rank and file of the people of the United States are much better off now than they were 10 years ago, and much better off than they were in 1949. Wages and salaries have increased exactly in the same percentage that the national income has increased, as compared with the situation in 1940, namely, 237 percent. As I said a moment ago, the national income for the first half of 1951 was at the rate of \$273,600,000,000, and salaries and wages were at the rate of \$174,600,000,000. Both of those figures represent an increase of 237 percent.

Now we come to profits before taxes. In 1940, the profits of business before taxes amounted to \$9,300,000,000. In 1949, they jumped to \$28,300,000,000. In the first half of 1951 they skyrocketed again to an annual rate of \$50,200,000,000, thus constituting a percentage increase, in the case of profits before taxes, of 440 percent, for the first half of 1951, as compared with the year 1940.

Salaries and wages before taxes had increased 237 percent, but profits had increased 440 percent. If we make a comparison with the figures for the year 1949, we find that profits before taxes had risen 77 percent during the first half of 1951, as compared with 1949, while wages and salaries rose 25 percent.

Now let us consider profits after taxes, after the heavy burden of taxation had fallen upon the shoulders of business. I remember when I stood before the Senate a year ago arguing for the excess-profits tax, and at that time it was

prophesied in dire tones that if the Congress enacted an excess-profits tax, the inevitable result would be the destruction of business. Here is the story, Mr. President: Profits after taxes, in the first half of 1951, as compared with 1949, were 31 percent higher. As compared with 1940, profits after taxes increased 253 percent. The dire prophecies were in complete error, and those of us who advanced the theory of the excess-profits tax have been justified by the outcome. Business was not destroyed, but the revenue of the Government was increased.

In actual figures the corporations and businesses of the United States, which in 1940 showed profits after taxes amounting to \$6,400,000,000, in 1949 had almost, but not quite, three times that amount, namely, \$17,300,000,000; and in the first half of 1951, profits after taxes were running at the rate of \$22,600,000,000, or almost, but not quite, four times as much as in 1940.

In the face of these figures how can anyone even dream that it would be unjust to ask of those who are making these greatly increased profits after taxes to contribute just a little more, in order that we may carry out the policy which has been laid down by this Congress with respect to national defense? The vote in the Senate on the national-defense bill was 88 to 0.

Mr. GEORGE. Mr. President, will the Senator yield to me at this point?

The PRESIDING OFFICER (Mr. MARTIN in the chair). Does the Senator from Wyoming yield to the Senator from Georgia?

Mr. O'MAHONEY. I shall be very happy to yield.

Mr. GEORGE. I should like to have the RECORD show that while I voted for the general military appropriation bill on the final vote, of course, having no objection, yet I also voted to recommit the bill with instructions to write off \$5,000,000,000. I am using round figures.

Mr. O'MAHONEY. Yes, the Senator is quite right, and many felt as he did; there is no doubt about it. Many voted to recommit with instructions to cut the bill. One proposal was to cut it \$6,000,000,000, one proposal was to cut it \$5,000,000,000. Personally, I should have liked to do so. As a matter of fact, I can say for my committee that throughout the hearings upon that bill and throughout its consideration, the committee was seeking opportunities to cut the expenditures.

According to the September issue of the Economic Indicators, published by the Joint Committee on the Economic Report, corporate profits show that even with the deduction of inventory profits, corporate profits amounted during the second quarter of 1951 to \$46,200,000,000. Inventory profits in that period amounted to \$2,300,000,000. These figures come from corporate reports, so that if we include the corporate profits, arising from increase in inventory values, which means the increase due to price increases, we find that during the second quarter these profits were running at the rate of \$48,500,000,000.

Does it seem strange, Mr. President, that I quote from former President Warren G. Harding? Surely every person

in the United States knows very well that we are locked in a great international conflict, a conflict of ideologies between the people of this country and the people of Western Europe who believe in the freedom, on the one hand, and the totalitarian Soviet dictatorship, which is trying to hurl the world back into an era of slavery, on the other. So I quote the inspired vision of former President Warren G. Harding:

I can vision the ideal republic, where every man and woman is called under the flag for assignment to duty for whatever service, military or civic, the individual is best fitted; where we may call to universal service every plant, agency, or facility, all in the sublime sacrifice for country, and not 1 penny of war profit shall inure to the benefit of private individual, corporation, or combination, but all above the normal shall flow into the defense chest of the Nation.

Mr. President, if those words had fallen from the lips of any other person than Warren G. Harding, that person would have been called a Socialist, one who desired to destroy our form of government. That was not the purpose of Warren G. Harding. His purpose was to summon the thoughts and the spirits of all Americans to a realization of the importance of preserving freedom in the world.

PROFITS MUST BEAR THEIR SHARE

I say, Mr. President, the capitalistic system, with the record of increasing profits which I have shown, and which no one can deny, must rally in its own defense; and all that we ask of it is that it shall contribute of its profits, and all above the normal. I think it is not an extraordinary thing, Mr. President, therefore, to ask that we maintain an excess-profits tax.

RETROACTIVE RELIEF OR RETROACTIVE TAXATION?

During the course of this debate we have heard Senators back and forth talk about the great evil of retroactive taxation. The House passed a bill applying retroactive rates to corporation, to January 1, a method which is not new, but which has been followed many times in the past, a method of which every person and every corporation in the country had full knowledge, because the President had indicated what he felt should be done; and then the Senate Finance Committee, thinking that it would be too burdensome upon the corporations making these great profits to ask them to pay their taxes from the 1st of January 1951, provided in this bill that the taxes should be retroactive, of course, but only to the 1st of April.

Taxation must not be retroactive except to a reasonable degree. But what about relief from taxation? I read from page 70 of the committee report, in its discussion under chapter 7 of structural changes in the excess-profits tax. These are the words of the committee:

In general, the following excess-profits-tax amendments made by your committee are effective retroactively to the time the excess-profits tax became effective.

Not to April 1, not to January 1, but to that date last year when the excess-profits tax was enacted, after it had been suspended as a result of the war. I read the next sentence:

It is estimated that the excess-profits-tax amendments discussed below will decrease revenues by \$120,000,000 in a full year of operation.

I ask the question, Does that meet the need of our time? Is that a policy which will enable us to balance the budget? Shall we say to those who are subject to the excess-profits-tax law enacted last year that they shall now have retroactive relief to the date when Congress enacted the law in the first place, and that as a result we shall lose, in the words of the committee itself, \$120,000,000 of revenue, while the record shows that corporate profits before taxes, in the second quarter of 1951, were running at the rate of \$48,500,000,000?

But this is not the whole story, Mr. President. As the pending bill passed the House of Representatives it included an average earning credit of 75 percent. There was a reduction from 85 to 75 percent. The House report, on page 63, estimated that this would produce a revenue of \$590,000,000. The Senate has abandoned that change made by the House. Therefore it becomes clear that by the abandonment there is sacrificed \$590,000,000 of revenue, added to the \$120,000,000 of loss of revenue which will accumulate and result from the relief provisions affecting excess-profits taxes. The bill before the Senate, in the excess-profits-tax provision alone, cuts the revenue of the Government of the United States by \$710,000,000. A few days ago we appropriated for the Atomic Energy Commission alone \$1,168,000,000. The \$710,000,000 which we sacrifice in revenue of the Government of the United States by the reduction accomplished by the changes in the excess-profits-tax provisions reported by the Finance Committee would pay considerably more than half the entire cost of the Atomic Energy Commission expenditures as appropriated for in the regular bill for 1952.

MANAGEMENT RESPONSIBILITY UNDER EXCESS-PROFITS TAX

Mr. President, it does not seem to me that what is proposed is meeting the crisis. I know taxes are heavy, but I also know that, heavy as they are, there is escape from them. Only a short while ago a very well-known publishing house, which specializes in publishing tax laws, with analyses and recommendations for operations thereunder, issued a statement under the heading "Are you taking advantage of the new excess-profits tax?" It should have been labeled, "Are you doing what you can to make Uncle Sam pay your bills?"

I wish to read one or two extracts from this article. Of course, Mr. President, I want it understood that when Congress leaves loopholes in the law we must expect those upon whom the tax falls to take advantage of the loopholes, and we cannot complain about that. When we create opportunities by which great corporations can avoid taxation to their own benefit, we cannot reasonably complain if we have not been wise enough to prevent it. But, Mr. President, as I think every Senator must agree, in a crisis such as that which we now face, corporate executives who try to transfer the burden of taxation to Uncle Sam are not backing

up the men who are fighting in Korea, and those who are trying to build an army, a navy, and an air force which can protect America.

Let me read from the article:

Most executives whose firms are subject to the excess-profits tax have already put their tax advisers to work figuring out which of the many optional ways available for figuring a corporation's excess-profits-tax credit will give the highest possible exemption. However, less attention is generally being given to formulating plans for worth-while current and future spending which present high taxes (with still higher rates still to come this year)—plus some special features in the new excess-profits-tax law—make particularly attractive.

For example, purchasing mortgaged property instead of renting it will often result in a net tax saving because of the 9-percent excess-profits credit permitted on borrowed capital.

So, Mr. President, this tax expert tells his class, "Whether you need the money or not, borrow it, and you may thereby get a reduction on your excess-profits tax." I read further:

Similarly, borrowing funds at less than 11 percent interest will also usually result in a net gain for firms in the top excess profits brackets.

However, other outlays can also be made at so small a net cost after taxes that they are highly desirable as steps to improve your competitive position, to help you get and hold an efficient labor force, or to increase future corporate and personal income. Review the following suggestions for their applicability to your situation.

Recommended: Extended spending for research, particularly on long-term projects that will pay off at a much later date, is advantageous under high corporate taxation. For firms subject to excess-profits taxes, the Government will be footing from 62 to 77 percent of the cost.

Shift your burden to Uncle Sam. Those are my words, but they are an interpretation of what the tax expert said.

Mr. GEORGE. Mr. President, will the Senator from Wyoming yield?

Mr. O'MAHONEY. I yield.

Mr. GEORGE. Does the Senator recall what I said in the debate last year?

Mr. O'MAHONEY. I do, indeed; and does the Senator from Georgia recall what I said in the debate last year?

Mr. GEORGE. Yes; I think I do. I pointed out that the excess-profits tax would certainly make for extravagance on the part of those who were hit by it, and that is precisely what has happened. There is no way to stop that.

Mr. O'MAHONEY. I recommended to the finance committee that it seek ways and means of plugging these loopholes.

Mr. GEORGE. There is no way to plug the loophole the Senator has been discussing, I will say to him.

Mr. O'MAHONEY. It may be the way I am trying to follow may have some success with a few people, I do not know, but I know that many corporate executives in the United States have come to Washington at great loss of profit to themselves, much loss of position in great corporations, in order to cooperate with the Government of the United States in the present crisis; and I am only hoping, Mr. President, by these words to bring home to the hearts and minds of all

corporate managers and of all business managers a realization that we are locked in this conflict between the totalitarian Soviet Republic and the Republic of the United States, by which the Soviet Republic desires and hopes to destroy, and is convinced it will destroy, the capitalistic system.

To me the capitalistic system is the system of private property. I do not want private monopoly. I do not want Government monopoly. But I say, Mr. President, to all managers of corporate funds, that to follow the advice given in this document is to defeat the capitalistic system. What happened in Europe happened because the Governments of Great Britain, of France, of Italy, and of Germany never had the American idea of preserving free competitive enterprise, and they permitted monopoly.

Mr. GEORGE. I hope the Senator will not misunderstand me. I agree with him in what he is saying about corporate managers. I think he is entirely right on that point.

Mr. O'MAHONEY. I know that the Senator from Georgia feels as I do.

Mr. President, Great Britain and France and Germany permitted monopoly to lay hold of the economic life of those countries, and because of that fact the masses of the people in Europe were unable to support themselves. Because they were unable to support themselves they then turned to the dictator. And that is the cause of socialism, it is the cause of facism, it is the cause of communism.

Our people in America, in high place and in low place, believe in the system of private property. I believe that most corporate managers are highly in favor of the system of private property. I have talked to many groups and I know that they are really opposed to monopoly. I feel that there has been a great change in recent years, a growing realization of the importance of maintaining an open door of opportunity for little people to enter business and to prosper in business.

In this connection, Mr. President, I may say to the distinguished chairman of the Finance Committee that I very much approved the change made in the bill by which the burden of this tax, through the ceiling, has been made less onerous upon the smaller corporations. Under the law that is now on the statute books a corporation with a \$100,000 taxable income or even less, has practically the same ceiling as one with an income of almost as much as \$100,000,000, if I remember the figures correctly.

Mr. GEORGE. That is correct.

Mr. O'MAHONEY. The committee has made that change, and I compliment and laud the committee for the change, and I shall support it. But what I am talking about is the excess profits tax and what we propose to do with that.

Here is another recommendation, and after reading this I shall ask unanimous consent to place the whole document in the RECORD:

Recommended: Explore more intensively the possibility of acquiring small businesses that your firm could utilize to long-term advantage. Not only are such purchases usually entitled to an excess profits tax credit, but they also open up the possibility of capital gain. Neither short-term nor long-term capital gains are subject to the excess profits tax.

Mr. President, I ask unanimous consent that the whole of the document which appears on page 72 of the report of the Joint Committee on the Economic Report, first session of the Eighty-second Congress, Report No. 210, may be printed at length in the RECORD at this point.

The PRESIDING OFFICER (Mr. MARTIN in the chair). Without objection, it is so ordered.

The matter referred to is as follows:

ARE YOU TAKING ADVANTAGE OF THE NEW EXCESS PROFITS TAX?

Most executives whose firms are subject to the excess profits tax have already put their tax advisers to work figuring out which of the many optional ways available for figuring a corporation's excess profits tax credit will give the highest possible exemption. However, less attention is generally being given to formulating plans for worth-while current and future spending which present high taxes (with still higher rates still to come this year)—plus some special features in the new excess profits tax law—make particularly attractive.

Some worth-while expenditures will actually reduce a firm's excess tax liability. For example, purchasing mortgaged property instead of renting it will often result in a net tax saving because of the 9-percent excess profits tax credit permitted on borrowed capital. Similarly, borrowing funds at less than 6 percent interest will also usually result in a net gain for firms in the top excess profits brackets.

However, other outlays can also be made at so small a net cost after taxes that they are highly desirable as steps to improve your competitive position, to help you get and hold an efficient labor force, or to increase future corporate and personal income. Review the following suggestions for their applicability to your situation.

Recommended: Expanded spending for research, particularly on long-term projects that will pay off at a much later date, is advantageous under high corporate taxation. For firms subject to excess profits taxes, the Government will be footing from 62 to 77 percent of the cost. Small quantities of materials that may be needed for such research projects should not be too hard to obtain, and will generally not be restricted by NPA limitation orders.

Recommended: Explore more intensively the possibility of acquiring small businesses that your firm could utilize to long-term advantage. Not only are such purchases usually entitled to an excess profits tax credit but they also open up the possibility of capital gain. Neither short-term nor long-term capital gains are subject to the excess profits tax.

Recommended: Maximum spending for maintenance and repairs is generally indicated. New construction for unessential uses will become increasingly more difficult, price trends are firm and rising, so the prospect of having the Government foot the bill for most of your repair cost should certainly be inviting.

Recommended: Much the same case can be made for all needed plant expansion and improvement permitted under NPA construction limitations. Money invested for such

purposes can get a 12-percent excess-profits tax credit. Accelerated amortization of defense-connected plant and equipment expenditures now become doubly attractive.¹

Recommended: Spending for bigger and better programs of worker on-the-job training will often be worth while. For example, many metal-working firms have the problem of what to do with salespeople no longer needed because of civilian business cut-backs. In many cases, retraining to convert salespersons into material expeditors is feasible. Similarly, production shifts from civilian goods to military equipment calls for wide worker reeducation.

Recommended: Pension and profit-sharing plans can be initiated or expanded at comparatively low cost. Dollars deposited in approved pension or profit-sharing plans are entirely exempt from corporate income and excess-profits taxes. Thus, the Government pays from 62 to 77 percent of the cost for firms liable to excess-profits taxes. Also earnings of an approved pension or profit-sharing trust are tax exempt, and thus pile up more rapidly. And the tax of employees (including stockholder-employees) on the extra compensation represented by the trust fund is deferred until their shares are distributed to them—at which time the tax is usually much smaller, or their returns from the trust may be treated as a long-term capital gain. Any additional tax increase will further enhance the value of pension and profit-sharing plans.

Recommended: While carefully considering all worth-while tax-saving or income-producing projects, try to avoid falling into a reckless "excess-profits-tax psychology" in which all kinds of expenditures are approved because "the Government is footing most of the bill anyhow." Such a psychology can create sloppy, wasteful business habits which can turn out disastrously in less lush times.

Mr. O'MAHONEY. Mr. President, I also ask unanimous consent to have printed in the RECORD an article from the Wall Street Journal of August 14, 1951, under the heading "United States firms held not making full use of legal tax loophole—Ruml-Geiger study points up opportunities of education, welfare deduction."

There being no objection, the article was ordered to be printed in the RECORD, as follows:

UNITED STATES FIRMS HELD NOT MAKING FULL USE OF LEGAL TAX LOOPHOLE—RUMML-GEIGER STUDY POINTS UP OPPORTUNITIES OF EDUCATION, WELFARE DEDUCTION

WASHINGTON.—American corporations are not taking full advantage of a perfectly legal and intentional loophole in the tax laws that can help stimulate their own businesses and benefit the general public.

¹ It is interesting to note that in the few months since the outbreak of the war in Korea up to February 23, 1951, 3,319 applications for accelerated amortization totaling \$10,500,000,000 have been filed and 447 certificates totaling about \$3,000,000,000 issued, which is more than half of the total amount allowed during the whole 5-year period of World War II. Not only is there a sizable tax saving but a supply of tax-free dollars is made available for various corporate capital purposes. With the 47-percent corporate-tax rate, depreciation dollars are equivalent to \$1.89 as compared with the dollar made available from retained earnings; with the 77-percent excess-profits tax rate, depreciation dollars are equivalent to \$4.34.

That's the gist of a report made yesterday by Beardsley Ruml, an economist, and Theodore Geiger, an economist for the National Planning Association.

The report refers to the deduction of up to 5 percent from earnings before taxes which corporations are permitted to take for expenditures on education, scientific, and welfare purposes. The opportunities for using this 5-percent privilege have skyrocketed in 1951 in sharp contrast to previous years, say the authors of the study.

DISTRIBUTION OF COST

Back in 1939, when the corporate tax rate was 19 percent, every \$100 spent under the 5-percent tax privilege would cost stockholders \$81, and the Government \$19. But under the 1951 tax laws, at the minimum effective tax rate of 47 percent, stockholders put up \$53 for such contributions, against \$47 by the Federal Government. At the top excess profits rate of 77 percent, the Government is paying \$77 on such educational and charitable contributions, compared with but \$23 paid by shareholders.

ONE QUADRILLION DOLLARS

Mr. Ruml and Mr. Geiger think businessmen for the most part have been slow to realize the opportunities arising from this 5-percent privilege. In recent years, they say, such expenditures have been running at only about seven-tenths to eight-tenths of 1 percent of net corporate income. In 1948, for instance, the last year for which complete official figures are available, corporate income before taxes was \$33,900,000,000. Tax-exempt corporate expenditures for charitable and educational purposes were \$239,000,000.

ESTIMATE OF FULL USE

In 1951, the authors estimate, if a full 5 percent of total net corporate income were actually spent for educational, scientific, and similar purposes, the total would reach \$2,200,000,000.

They also believe that up to now corporate executives haven't used much imagination in deciding how to spend such tax-deductible funds in a way that will mean an increase in good will, and in ultimate sales and profits for the companies concerned.

The Ruml-Geiger study, made for the National Planning Association business committee, has the backing of 28 committee members, including such executives as S. C. Allyn, president of the National Cash Register Co.; Harold Boeschstein, president of Owens-Corning Fiberglass; Henry Bullis, chairman of General Mills, Inc.; August Maffry, vice president of Irving Trust Co., and Alexander Calder, chairman and president of Union Bag & Paper Corp. The National Planning Association is a nonprofit organization established in 1934 for planning in the fields of agriculture, business, Government and labor.

An NPA business committee resolution accompanying the report says, "The substantial increases in net corporate earnings and in tax rates are making it desirable for American business to reappraise its policy with respect to tax-exempt expenditures for educational, scientific, and welfare purposes. Hitherto, these expenditures have been a great deal smaller than the potential total of 5 percent of net corporate income before taxes which is exempted for these purposes under existing revenue laws. But, in the new situation, business management will recognize increasingly the direct and indirect benefits which it can obtain through well-organized and soundly conceived expenditures of this type on a broader scale."

Use of corporate 5-percent funds for aiding colleges and universities might also reduce the pressure for Federal hand-outs for aiding education, it was noted.

WHAT SOME FIRMS ARE DOING

The report cites several case histories of what leading United States companies are

doing with the permissible tax deduction.

Among other uses of its 5-percent funds, Sears, Roebuck & Co. finances nearly 100 undergraduate college scholarships annually for students who intend to make farming their life's work. This program is aimed at the rural population, which, the report stresses, is "the consumer group through whose patronage the company originally grew prosperous and in whose continued support and good will its future very largely depends.

Ford Motor Co. has a scholarship program to finance full 4-year college courses for children of Ford employees. The Bulova Watch Co. established and supports a school to train disabled veterans in watch repairing. Macy's made a contribution to the Central Park Association in New York City, part of which has been used to plant a cherry orchard around a lake in Central Park. This, Mr. Ruml explained, "creates a friendly attitude toward Macy's on the part of the city's residents and visitors."

NOT LIMITED TO BIG COMPANIES

Advantages of the tax-deduction scheme are by no means limited to big companies, Mr. Ruml contends. "Suppose you take a company whose earnings are only \$30,000 a year," he says. "Five percent of that, or \$1,500, is plenty to bring in three good speakers a year to the community where the plant is located." That would benefit the community as a whole, and also aid in company public relations, he suggests.

Messrs. Ruml and Geiger believe many companies up to now haven't bothered much with a tax-free contributions program, partly because it wasn't feasible to assign an executive full time to plan worth-while projects, and partly because there have been some legal doubts as to whether a company's management could distribute stockholders' money in this fashion. The study contends such legal doubts cannot exist if the projects really benefit the company.

Mr. O'MAHONEY. My point, Mr. President, is that proper as these deductions may be in ordinary times, valuable indeed as they might be, this is not the time, because if we play into the hands of those who believe that the capitalistic system is too greedy to defend itself, and that it will inevitably collapse, then we shall have only ourselves to blame.

So, Mr. President, I am seeking to urge upon the Senate that the excess-profits tax-relief provision reported by the Finance Committee be rejected.

I say, Mr. President, that the economic facts before us indicate that it would be highly desirable not to amend the law until after we have given the Treasury the opportunity of reporting finally upon its operation through a single year.

BUSINESS INVESTMENT AT ALL-TIME HIGH

A moment ago I said that the excess-profits tax was opposed by many who said it would destroy business. Business News Reports, for release Friday a. m., September 21, 1951, from the office of Business Economics, by the United States Department of Commerce, contains this paragraph:

Plant and equipment expenditures for the full year 1951 are expected to amount to \$24,800,000,000 as compared with \$18,600,000,000 last year and \$19,200,000,000 in 1948, the previous peak year.

Is business suffering so terribly when it is now able to make these huge expansions and put these huge sums into the expansions? The report goes on:

Though costs of capital expansion have risen since 1948, it appears that the physical amount of plant and equipment purchased this year will be about one-sixth more than in 1948 and one-fourth more than last year.

And so we go from peak to peak to peak in the expenditures of business corporations. They have not suffered under the excess-profits tax.

DOES THE TELEVISION INDUSTRY NEED TAX RELIEF?

One of the relief provisions in this bill is a provision intended to offer relief to the television industry. It is a growing industry. No one can deny that. But does it need relief? Has not the time come for it to pay a larger share of the burden of defending a Nation which maintains the opportunity for it?

On the 8th of September, Television Digest magazine contained an interesting article, from which I desire to read. The heading is "Fabulous upswing in TV billings." I read from the article:

FABULOUS UPSWING IN TV BILLINGS

Sell-outs of time on telecasting stations and networks are currently at such an amazing rate that one New York station alone will achieve 1951 billings of close to \$8,000,000 after frequency discounts. That would mean gross sales of somewhere around \$10,000,000, as ordinarily calculated in the trade.

That's far more than any 50-kilowatt radio station has ever grossed—most likely is highest for any TV station, albeit many other telecasters have gone into seven-figure grosses and we know several who admit "pushing \$5,000,000."

Do they need relief, Mr. President?

I continue reading:

The station is NBC-TV's New York key WNBC, with base hour rate of \$3,750 as of August 15, 1-minute rate of \$775. It's possible WCBS-TV, rival key, will do just as well, for its rates are the same and it's also reported to be a sell-out.

In other words, the television industry, in this one station, is collecting from business corporations a 1-minute rate of \$775 and yet the Finance Committee asks us to give them relief.

I resume reading the article from Television Digest:

WNBC's astonishing achievement points up wave of prosperity that is being enjoyed by just about all the 107 TV stations. Most are operating in the black now, and the few that may show losses for year will do so because of deep red-ink starts and because they must yet pay off the huge costs of pioneering.

The WNBC and WCBS-TV rates are highest in country, former's comparing with \$1200 on companion WNBC, latter's with \$1350 on companion WCBS (latter highest rate in radio). Other New York TV station base hour and 1-minute rates are: WJZ-TV, \$3100 and \$650 (WJZ rate is \$1200); WABD, \$2200 and \$500 (no AM); WOR-TV, \$1,500 and \$300 (WOR 1200); WPIX, \$1500 and \$281.25 (no AM); WATV, Newark, \$800 and \$165 (WAAT \$264).

TV networks as such are still far from the black—but all owned-and-managed stations are now profitable. Indeed, NBC-TV's 5 outlets will gross some \$17,000,000 this year (after discounts). From independent operators of TV with AM stations, most of them reluctant to disclose actual figures, this comment is typical: "Radio is up, but our TV revenue is now more than double our radio."

We estimated \$250,000,000 in time sales this year for networks and stations combined, just few weeks ago (vol. 7: 32). That figure now looks conservative.

Shall the Senate grant them relief, or shall the Senate ask them, if they make excess profits, to pay the regular excess-profits rate?

I continue reading from the article from *Television Digest*:

For network time sales are really zooming. August NBC-TV network sales (not including its own stations) will overtake dollar-volume of AM network's time sales. For September, we're informed, with season in full swing and new rates in effect, NBC-TV network volume will very nearly double NBC-radio network volume.

The other TV networks are going up, too—but it's the stations they own that offset network losses. ABC-TV's 5 outlets give it fiscal edge over Dumont with 3 and CBS with 2 plus 45 percent of third. But the hard runner for second place in network TV buildings is CBS-TV (see PIB figures, vol. 7: 34). CBS now seeks more stations, proposing to buy Paramount's WBKB, Chicago, for \$6,000,000, and proposing also to get them by way of new-station applications and grants at freeze's end.

This is the testimony of *Television Digest*, an industry publication. It is not the testimony of any person or group who desire to overburden industry. I think it shows a record of profit which demonstrates beyond any reasonable doubt that the relief provisions of this bill should not be approved.

TREASURY VIEWS

I requested the general counsel of the Treasury to send me a letter giving his views on some of these matters. Under date of September 20, 1951, he wrote to me. I ask unanimous consent that his letter, together with the material which he sent me with the letter, be printed in the *RECORD* at this point as a part of my remarks.

There being no objection, the letter and accompanying material were ordered to be printed in the *RECORD*, as follows:

GENERAL COUNSEL,
TREASURY DEPARTMENT,

Washington, September 20, 1951.

HON. JOSEPH C. O'MAHONEY,

Washington, D. C.

MY DEAR SENATOR: In the Secretary's absence, you have requested me to summarize the Treasury Department's position with respect to the corporation-tax features of the 1951 revenue legislation.

You will recall that in his special message on increased taxation to the Congress on February 2, 1951, the President recommended that corporation taxes be increased to yield an additional \$3,000,000,000. With the high level of corporation profits, this would leave corporations generally able to maintain the dividend and reinvestment policies they have followed in recent years.

In his appearance before the Ways and Means Committee on February 5, the Secretary explained that the \$3,000,000,000 in additional corporation taxes recommended by the President would require an increase of 8 percentage points in the corporation normal tax. He expressed the view that the proposed level of corporation tax is dictated by the need for an equitable distribution of the burden of defense consistent with the continued growth of industry.

In discussing this matter with the Finance Committee on June 28, the Secretary reiterated the President's recommendation for \$3,000,000,000 of revenue from corporation profits. As a result of defense preparations, business profits have experienced the sharpest rise of any kind of income. With respect to the provision of the House bill reducing the earnings credit of the excess

profits tax from 85 percent to 75 percent of the base period average, the Secretary indicated that this change conforms to the Treasury proposal made last year.

As you know, the bill before the Senate contains a large number of amendments designed to provide relief from the excess profits tax. In his February message, the President indicated that changes in the excess profits tax law should be deferred until the first year's returns under this tax become available. Although originally scheduled to be filed March 15 of this year, relatively few excess profits tax returns have been received to date, particularly from large corporations, because the filing date has been successively extended until November 15. Without benefit of information which will be obtained from an examination of the excess profits tax returns, it is not possible to determine to what extent the present law works hardship and requires adjustment.

In brief, the President's program calls for a \$3,000,000,000 increase in corporate taxes and the deferral of relief provisions under the excess profits tax for consideration at a later date.

Very truly yours,

THOMAS J. LYNCH,
General Counsel.

SECTION 519. TELEVISION BROADCASTING COMPANIES

Section 519 authorizes corporations which derive their income from both television and radio broadcasting during the base period to use an alternative method of computing their average earnings base period net income.

Such corporations are given the choice of two alternative rates of return on their total assets at the end of the base period. The first alternative is the rate of return realized in radio broadcasting on its radio assets, after eliminating telecasting losses and telecasting assets. The second optional method is the use of the industry rate of return for the period 1946 to 1949. In addition, where companies engaged in radio and television broadcasting also derive part of their income from some other business such as newspaper publishing, the corporation is permitted to substitute a rate of return on its broadcasting assets equivalent to that realized in the other business during the base period, or the industry average rate of return, whichever is larger.

SECTION 516. TRANSITION FROM WAR PRODUCTION AND INCREASE IN PEACETIME CAPACITY

Section 516 of the committee bill extends to a corporation meeting certain requirements the benefits of a special growth formula for the computation of its excess-profits credit. These requirements are as follows:

1. The adjusted basis of the corporation's real and depreciable property must not be in excess of \$10,000,000 on the first day of its base period.

2. Seventy percent of corporation's income for the years 1942 through 1945 must be from contracts or subcontracts with the United States Government but less than 20 percent of the corporation's income during the base period and in the calendar year 1950 must be attributable to such contracts.

3. The unadjusted basis of the corporation's real property and the depreciable property at the end of the base period must be 250 percent more of the basis of such facility on the first day of its base period, and

4. Corporation profits in 1945 and the average of its 1948 and 1949 profits must be at least 300 percent of its average profits for 1946 and 1947.

SECTION 509. ALTERNATIVE AVERAGE BASE-PERIOD INCOME

This section provides that where the earnings of the taxpayer's third best base-period

year were less than 35 percent of the average of the two best base-period years, the corporation will automatically be entitled to use its industry rate of return for the third best year. This provision is limited so that the substitute earnings may not exceed the average of the taxpayer's two best years.

Such a corporation which already has the benefit of the elimination of the poorest year would now be permitted to eliminate its second poorest year if earnings were very low.

Section 442 of the Excess Profits Tax Act already provides that where the earnings of any year are depressed by reason of abnormalities the corporation is entitled to substitute earnings based on its industry average rate of return. Under this amendment, however, the corporation is not required to establish abnormality by reason of an interruption to its business due to a strike or other unusual circumstances. It seems clear, therefore, that this provision is designed to adjust the corporation's base-period earnings which may be depressed in some particular year by reason of ordinary fluctuations in business profits.

SECTION 503. AVERAGE BASE PERIOD NET INCOME IN CASE OF CERTAIN FISCAL-YEAR TAXPAYERS

The present law, in general, limits the computation of the average-earnings credit to the base-period years 1946 through 1949. Taxpayers with fiscal years ending after April 1 are required to use their 48-month period ending with December 1949, while corporations with fiscal years ending before April 1 are permitted to use the 48 months ending before April 1, 1950. These base-period provisions allow the determination of the average-earnings credit by reference to pre-Korean experience.

Section 503 of the committee bill now extends this period to March 31, 1950, in the case of corporations with fiscal years later than March.

DEALERS IN MUNICIPAL BONDS

Section 508 permits tax-exempt bonds held by dealers to be included in invested capital for the purpose of computing the excess-profits credit.

SECTION 517. BASE-PERIOD CATASTROPHE

Section 517 would permit a corporation suffering from a catastrophe in the last 36 months of the base period to substitute its average excess profits net income, for the years prior to the year in which the catastrophe occurred, for its actual earnings during the year in which the catastrophe occurred.

SECTION 511. CHANGE IN PRODUCTS

Section 511 of the Senate bill would amend the excess-profits tax to make available a relief provision of the present law to certain companies whose changes in products or services did not take place prior to the end of the base period, as required under present law.

SECTION 520. FRANCHISES

Section 520 among other changes to the excess-profits tax relating to taxable acquisitions, provides that the earnings record of a selling corporation may be used in the hands of the purchasing corporation even though a franchise under which the selling corporation was operated could not be transferred to the purchasing corporation, if the purchasing corporation later is granted a substantially identical franchise by the original grantor.

Mr. O'MAHONEY. Suffice it to say, Mr. President, that it is the opinion of the Treasury Department—because Mr. Lynch is speaking for the Secretary—that the excess profits tax provisions of this bill would not be in the public interest, that they ought to be rejected, and that we should take at least the provisions of the House bill.

When the proper time comes to act upon the excess profits tax provision of this bill, title V, I shall again express the hope—but not at this length—that the Senate will reject the amendment.

Mr. WILLIAMS obtained the floor.

Mr. GEORGE. Mr. President, will the Senator permit me to make a brief statement?

Mr. WILLIAMS. I yield to the Senator from Georgia for that purpose.

Mr. GEORGE. Mr. President, I desire to note in the RECORD now that Mr. Lynch does not make the policies of the Treasury Department. He is only their counsel. He certainly does not control questions of policy which must be decided by the Senate Finance Committee. I wish that statement to stand in the RECORD. I may add that I am a bit disappointed that anyone not formulating the policy of the Treasury Department should offer to speak for the Treasury Department. I do not know in what capacity he is purporting to speak.

Mr. O'MAHONEY. Mr. President, will the Senator from Delaware yield?

Mr. WILLIAMS. I yield to the Senator from Wyoming to reply to the Senator from Georgia.

The PRESIDING OFFICER. Without objection, the Senator from Wyoming may proceed.

Mr. O'MAHONEY. I appreciate the feelings of the Senator from Georgia. Perhaps I did not make the matter sufficiently clear. I talked with Secretary Snyder and asked him to give me his views with respect to the provisions of the bill which have been under discussion, and he told me that unfortunately he was unable to do so because he had to leave for the conference in Canada. He asked me if I would be good enough to get in touch with Mr. Lynch, to whom he would speak about it. Mr. Lynch did not present this matter on his own behalf as a volunteer; it was presented primarily because I requested the Secretary of the Treasury to present it to me, and he in turn asked Mr. Lynch to respond to my inquiry. When I inquired of Mr. Lynch about it he wanted to make it quite clear that he was speaking only in the absence of the Secretary of the Treasury and in response to my request.

Mr. GEORGE. If the letter is intended to reflect the attitude of the Secretary of the Treasury, the policy maker in that branch of the Government, then I wish to say now that Mr. Lynch's statement, following the fact that he appeared before the Senate Finance Committee and failed to induce the committee to accept all of his judgments, presents a situation which, as the chairman of the committee, I strongly resent. I do not care whether the Secretary of the Treasury has authorized the statement. I cannot believe that the Secretary of the Treasury has authorized a statement of this kind.

Mr. O'MAHONEY. May I ask the Senator whether he means to imply—

Mr. WILLIAMS. Mr. President, I wish to ask unanimous consent that I may yield for a brief colloquy without losing the floor.

The PRESIDING OFFICER. Is there objection? The Chair hears none, and it is so ordered.

Mr. O'MAHONEY. Does the Senator from Georgia mean to imply that a Member of this body should be barred from asking the opinion of a member of the executive staff with respect to legislation pending upon the floor of the Senate?

Mr. GEORGE. No, I do not.

Mr. O'MAHONEY. That is all that was done.

Mr. GEORGE. That is not all that was done.

Mr. O'MAHONEY. I assure the Senator that that was all that was done.

Mr. GEORGE. That is not all that was done. The committee labored hard on the bill. The committee had Mr. Lynch before it, and it had other representatives of the Department of the Treasury before it. They presented their views. The committee listened patiently to them. I reject any effort to take the opinion of a non-policy-making group in the Treasury, whose own personal views have been repudiated by the committee, and to bring it to the Senate. If the Secretary of the Treasury desires to assume responsibility for Mr. Lynch's statement, I welcome that assumption of responsibility. As chairman of the committee which has labored to do its full duty, I resent strongly any statement by any other member of the Treasury Department.

Mr. DIRKSEN. Mr. President, will the Senator from Delaware yield?

Mr. WILLIAMS. Yes.

Mr. DIRKSEN. I make the point of no quorum.

The PRESIDING OFFICER. Does the Senator from Delaware yield for that purpose?

Mr. WILLIAMS. I yield, with the understanding that I do not lose the floor.

The PRESIDING OFFICER. Is there objection? The Chair hears none. The clerk will call the roll.

The Chief Clerk called the roll, and the following Senators answered to their names:

Aiken	Hayden	McKellar
Benton	Hendrickson	McMahon
Brewster	Hennings	Millikin
Bricker	Hickenlooper	Monroney
Bridges	Hill	Moody
Butler, Md.	Hoe	Morse
Butler, Nebr.	Holland	Mundt
Byrd	Humphrey	Murray
Cain	Hunt	Neely
Capehart	Ives	Nixon
Carlson	Jenner	O'Connor
Case	Johnson, Colo.	O'Mahoney
Chavez	Johnson, Tex.	Pastore
Clements	Johnston, S. C.	Robertson
Connally	Kefauver	Russell
Cordon	Kem	Saltonstall
Dirksen	Kerr	Schoeppel
Douglas	Kilgore	Smathers
Duff	Knowland	Smith, Maine
Dworshak	Langer	Smith, N. J.
Eastland	Lehman	Smith, N. C.
Eaton	Lodge	Sparkman
Ellender	Long	Stennis
Ferguson	Magnuson	Thye
Flanders	Malone	Underwood
Frear	Martin	Watkins
Fulbright	Maybank	Welker
George	McCarran	Wiley
Gillette	McCarthy	Williams
Green	McFarland	

Mr. JOHNSON of Texas. I announce that the Senator from New Mexico [Mr.

ANDERSON] and the Senator from Arkansas [Mr. McCLELLAN] are absent by leave of the Senate.

Mr. SALTONSTALL. I announce that the Senator from Utah [Mr. BENNETT] and the Senator from North Dakota [Mr. YOUNG] are absent by leave of the Senate.

The Senator from Ohio [Mr. TAFT] and the Senator from Nebraska [Mr. WHERRY] are necessarily absent.

The Senator from New Hampshire [Mr. TOBEY] is absent because of illness.

The PRESIDING OFFICER (Mr. HUNT in the chair). A quorum is present.

REPRESENTATION OF PRIVATE CLIENTS BEFORE GOVERNMENT AGENCIES BY OFFICIALS OF POLITICAL PARTY ORGANIZATIONS

Mr. WILLIAMS. Mr. President, on previous occasions during the past few weeks I have called to the attention of the Senate what I consider to be certain improper activities on the part of William Boyle, chairman of the Democratic National Committee.

I pointed out to the Senate how Mr. Boyle had been appointed on February 8, 1949, to the position of executive vice chairman of the Democratic National Committee; although he was not confirmed until April 20, 1949. During the period, when Mr. Boyle was serving in the capacity of executive vice chairman of the Democratic National Committee, he was employed by the American Lithofold Corp., of St. Louis, Mo., a corporation which was seeking to obtain a loan from the RFC. As counsel for that company, Mr. Boyle, during the time in which he was holding the position of executive vice chairman of the Democratic National Committee, interceded in behalf of the corporation with the directors of the Reconstruction Finance Corporation, urging the approval by the Reconstruction Finance Corporation of a loan to the American Lithofold Corp. I pointed out how subsequent to Mr. Boyle's employment the loan was approved.

I criticized that transaction on the basis that I did not believe any member of the Democratic National Committee has a right while holding such a position, whether on salary or whether merely serving in an honorary capacity, to represent any corporation or any individual for a fee before any Government agency. I still feel the same way. What I have said about Mr. Boyle, as a member of the Democratic National Committee, was not said because Mr. Boyle was a member of the Democratic National Committee or a member of the Democratic Party, but it would have been said about anyone, regardless of the political party with which he might be affiliated.

It is for that purpose that I rise this afternoon to call the attention of the Senate to another situation involving another member of the national committee which has been called to my attention. I have reason to believe that the report I am about to make is reasonably accurate. If it is found that the report which I have received is accurate, then it relates to activities which I consider to be highly improper, and what I have said

in criticism of Mr. Boyle's financial deals can be said of this transaction.

I speak now regarding certain activities on the part of the chairman of the Republican National Committee, Mr. Guy Gabrielson. Part of this is a matter of record, and has been pointed out before—but at this time I should like to review the record which has been made previously. During the hearings held by the Fulbright committee, the attention of the American people was called to the fact that the Hydrocarbon Research Co. incorporated on November 12, 1943, was represented by Mr. Gabrielson as counsel. At that time Mr. Gabrielson was not connected in any way with the Republican National Committee; and, therefore, there was nothing wrong with Mr. Gabrielson's service in the capacity of counsel for the firm.

On September 12, 1945, the Carthage Hydrocol Co. was formed, and again Mr. Gabrielson served officially as its counsel.

On April 8, 1946, the company received a \$9,000,000 loan from the RFC.

On February 6, 1948, the company received a loan of \$3,500,000 from the RFC; and on March 14, 1949, the company received a third loan, in the amount of \$6,000,000, from the RFC. All those loans were applied for and the company was represented by the law firm of which Mr. Gabrielson was a member.

Mr. President, as of that point Mr. Gabrielson was not in any manner connected with the Republican National Committee. Therefore, it is my opinion that there was nothing wrong with the fact that he represented the company at that time, because had he not been employed as counsel for the company, certainly it would have employed someone else; and that fact that later Mr. Gabrielson was selected as chairman of the Republican National Committee, after having represented a company which received such loans, does not constitute a matter which I regard as improper or wrong. In the original loan itself I know of nothing improper.

However, my attention has been called to the fact that two of the loans made to that company will fall due; or, that is under the loan agreements with the RFC, the company is supposed to begin payments on principal on October 1, 1951. I am further informed that an application by the company has been filed with the RFC, appealing to the RFC for more lenient terms, in order that scheduled payments on the loans may be deferred for 1 or 2 years. Mr. Gabrielson has represented the company as counsel in filing those applications, according to the information I have received. He has been representing this company as counsel interceding in their behalf while at the same time holding the position of chairman of the Republican National Committee.

I understand that this application was filed in the city of New York, but was taken to Washington for approval; and I am informed that on numerous occasions in the past Mr. Gabrielson has con-

tacted Mr. Symington and at least one other member of the Board of Directors of the RFC, on behalf of this company.

I am calling attention to this because, as I have said before in reference to Mr. Boyle, I do not think anyone who holds an official position in either major political party, whether as chairman or executive vice chairman, has any right to represent any firm or individual for a fee before a Government agency.

I am further advised that during the period of time to which I have referred, Mr. Gabrielson has been drawing a salary of \$15,000 a year as counsel for the company which he was representing before the Reconstruction Finance Corporation, in order that the company he represented might obtain more lenient terms on its loans.

Mr. President, I repeat what I said before about Mr. Boyle or about any other Government official, regardless of what his political affiliations may be: I do not believe any such official, whether he be a Member of the Senate or a member of the Democratic National Committee or a member of the Republican National Committee or an official of any of the executive agencies of the Government, has any right to represent a client for a fee before a Government agency at a time when he holds such a position of responsibility. I do not want that to get to the point where any Member of the Congress, or even for that matter any member of either of the major political parties, would be afraid to carry out his normal duties, which would be to refer, in the normal manner, any complaint or request which comes to his office. I feel that if any of our constituents ask us regarding the procedure to be followed in getting a loan, it is our obligation to outline it for them, but it is not our responsibility to intercede on behalf of that client and try to influence that loan, and particularly it is not proper for us to accept any fee for the services, either as individuals or as members of a law firm back home. I hope that the bill which has been introduced by the senior Senator from Virginia, a copy of which I ask to have inserted in the RECORD at this point, will be passed. It will put a stop to all practices of this type.

The PRESIDING OFFICER. Is there objection?

There being no objection, the bill was ordered to be printed in the RECORD, as follows:

A bill to prohibit members and employees of any national political committee from practicing before or attempting to influence the decision of any department or agency of the United States

Be it enacted, etc., That the analysis of chapter 29 of title 18, United States Code, is amended by inserting immediately after and underneath item 612 the following new item:

"613. Practicing before or influencing decision of any department or agency of the United States by a member or employee of any national political committee."

SEC. 2. Title 18, United States Code, is further amended by inserting immediately fol-

lowing section 612 two new sections as follows:

"§ 613. Practicing before or influencing decision of any department or agency of the United States by a member or employee of any national political committee.

"Whoever, being an officer, member, or employee of a national committee of any political party, shall practice for compensation before any department or agency of the United States, or attempt to influence directly or indirectly the decision of any such department or agency, shall be fined not more than \$5,000 or imprisoned not more than 3 years, or both."

Mr. DIRKSEN. Mr. President, will the Senator from Delaware yield?

Mr. WILLIAMS. I yield to the Senator from Illinois.

Mr. DIRKSEN. First of all I desire to congratulate the Senator from Delaware for the candor and forthrightness with which he has approached this problem and the logical process which he has adopted in following through. If charges are going to be made on one side, I think it is the responsibility of our own party, where the breath of suspicion may be raised, for us to look into it and be vigilant. I am glad he has assumed the responsibility of making the facts public, and I think there is ground to be a party responsibility to look into the case very carefully. This is certainly no time to prejudge a situation. I do not know what the facts of the case may be, but I do know that we cannot point a finger of scorn and accusation at someone else without at the same time recognizing our own responsibility in that field. So I congratulate the Senator from Delaware.

Mr. WILLIAMS. I thank the Senator from Illinois. I may say that I, too, want what has been said to go in the RECORD without being considered as an indictment. But this information came to me from reliable sources, sources which I consider highly reliable, and I felt that it was my responsibility to call it to the attention of the Senate, and particularly to the attention of the committee which is examining these types of transactions. I hope, as I said before about Mr. Boyle, that both these gentlemen will be given an opportunity to present their side of the case. Let us not forget that in this country every man is entitled to that opportunity before we form a definite opinion.

Mr. MILLIKIN. Mr. President, will the Senator from Delaware yield?

Mr. WILLIAMS. I yield to the Senator from Colorado.

Mr. MILLIKIN. I wish to thank the distinguished senior Senator from Delaware for bringing what he believes to be the facts to the attention of the Senate and to the attention of the country. Speaking as chairman of the Republican conference of Senators, I wish to say to him that the matter will be thoroughly examined, and every Senator here will be made fully aware of all the facts; and if there is any proper condemnation, it will not be spared because the gentleman happens to be a Republican or is chair-

actment of this act, except that such retroactive compensation or salary shall be paid a retired postmaster, officer, or employee for services rendered during the period beginning July 1, 1951, and ending with the date of his retirement.

And to amend the title so as to read: "A bill to reduce the number of grades for positions in the postal field service and to provide salary increases for personnel in such service."

Mr. JOHNSTON of South Carolina. Mr. President, I move that the Senate disagree to the amendments of the House, ask a conference with the House on the disagreeing votes of the two Houses thereon, and that the Chair appoint the conferees on the part of the Senate.

The motion was agreed to, and the Vice President appointed Mr. JOHNSTON of

South Carolina, Mr. PASTORE, Mr. UNDERWOOD, Mr. LANGER, and Mr. CARLSON conferees on the part of the Senate.

INCREASED COMPENSATION FOR CERTAIN FEDERAL EMPLOYEES

The VICE PRESIDENT laid before the Senate the amendment of the House of Representatives to the bill (S. 622) to increase the basic rates of compensation of certain officers and employees of the Federal Government, and for other purposes, which was to strike out all after the enacting clause and insert:

That (a) section 603 (b) and section 603 (c) of the Classification Act of 1949, as amended, are amended to read as follows:

"(b) The compensation schedule for the general schedule shall be as follows:

"Grade"	Per annum rates						
GS-1.....	\$2,600	\$2,680	\$2,760	\$2,840	\$2,920	\$3,000	\$3,080
GS-2.....	2,850	2,930	3,010	3,090	3,170	3,250	3,330
GS-3.....	3,050	3,130	3,210	3,290	3,370	3,450	3,530
GS-4.....	3,275	3,355	3,435	3,515	3,595	3,675	3,755
GS-5.....	3,500	3,625	3,750	3,875	4,000	4,125	4,250
GS-6.....	3,850	3,975	4,100	4,225	4,350	4,475	4,600
GS-7.....	4,225	4,350	4,475	4,600	4,725	4,850	4,975
GS-8.....	4,600	4,725	4,850	4,975	5,100	5,225	5,350
GS-9.....	5,000	5,125	5,250	5,375	5,500	5,625	5,750
GS-10.....	5,400	5,525	5,650	5,775	5,900	6,025	6,150
GS-11.....	5,800	6,000	6,200	6,400	6,600	6,800	
GS-12.....	6,800	7,000	7,200	7,400	7,600	7,800	
GS-13.....	8,000	8,200	8,400	8,600	8,800	9,000	
GS-14.....	9,200	9,400	9,600	9,800	10,000	10,200	
GS-15.....	10,400	10,650	10,900	11,150	11,400		
GS-16.....	11,600	11,800	12,000	12,200	12,400		
GS-17.....	12,600	12,800	13,000	13,200	13,400		
GS-18.....	14,400						

"(c) (1) The compensation schedule for the crafts, protective, and custodial schedule shall be as follows:

"Grade"	Per annum rates						
CPC-1.....	\$1,910	\$1,970	\$2,030	\$2,090	\$2,150	\$2,210	\$2,270
CPC-2.....	2,520	2,590	2,660	2,730	2,800	2,870	2,940
CPC-3.....	2,652	2,732	2,812	2,892	2,972	3,052	3,132
CPC-4.....	2,850	2,930	3,010	3,090	3,170	3,250	3,330
CPC-5.....	3,074	3,154	3,234	3,314	3,394	3,474	3,554
CPC-6.....	3,300	3,380	3,460	3,540	3,620	3,700	3,780
CPC-7.....	3,525	3,625	3,725	3,825	3,925	4,025	4,125
CPC-8.....	3,800	3,925	4,050	4,175	4,300	4,425	4,550
CPC-9.....	4,175	4,300	4,425	4,550	4,675	4,800	4,925
CPC-10.....	4,550	4,675	4,800	4,925	5,050	5,175	5,300

"(2) Charwomen working part time shall be paid at the rate of \$2,800 per annum, and head charwomen working part time at the rate of \$2,940 per annum."

(b) In adjusting initially the rates of pay of employees affected by the provisions of this section—

(1) an employee receiving basic compensation immediately prior to the effective date of this act at one of the scheduled or longevity rates provided by the Classification Act of 1949, as amended, shall receive basic compensation on and after the effective date of this act at the corresponding scheduled or longevity rate as increased by this act; and

(2) an employee receiving basic compensation immediately prior to the effective date of this act at a rate other than a scheduled or longevity rate provided by the Classification Act of 1949, as amended, shall receive basic compensation on and after the effective date of this act as follows:

(A) If his rate immediately prior to the effective date of this act was less than the maximum longevity rate of the grade, he shall be paid at the scheduled or longevity rate which he would receive under paragraph (1) had he been receiving basic compensation immediately prior to such effective date at the scheduled or longevity rate next higher than his rate of basic compensation immediately prior to such effective date.

(B) If his rate immediately prior to the effective date of this act was in excess of the maximum longevity rate of the grade, he shall be paid at a rate equal to the rate at which he was paid immediately prior to such date, increased by an amount equal to the amount of the increase made by this act in such maximum longevity rate.

(C) If he is a part-time char employee and his rate immediately prior to the effective date of this act was in excess of the rate provided for his position under section 603 (c) (2) of the Classification Act of 1949, as amended, he shall be paid at a rate equal to the rate at which he was paid immediately prior to such effective date, increased by an amount equal to the amount of the increase made by this act in the rate for like positions under such section.

(c) The limitations of \$9,600 and \$13,050 with respect to the aggregate salaries payable to secretaries and law clerks of circuit and district judges, contained in the sixteenth paragraph under the head "Miscellaneous salaries" in the Judiciary Appropriation Act, 1951 (Public Law 759, 81st Cong.), or in any subsequent appropriation act shall be increased by the amounts necessary to pay the additional basic compensation provided by this act.

(d) Section 701 of the Classification Act of 1949, as amended, is amended by inserting

"(a)" after "Sec. 701" and by adding at the end thereof the following new subsection:

"(b) Any increase in compensation granted by law after June 30, 1951, shall not be construed to be an equivalent increase in compensation within the meaning of subsection (a)."

SEC. 2. (a) Each officer and employee in or under the legislative branch of the Government whose rate of compensation is increased by section 5 of the Federal Employees Pay Act of 1946 shall be paid additional compensation at the rate of not less than \$400 per annum or 10 percent whichever is higher; *Provided*, That no increase for any individual shall exceed \$800 per annum; *Provided further*, That employees paid on an hourly or part-time basis shall be paid additional compensation at the rate of 20 cents per hour.

(b) Section 603 (b) of the Federal Employees Pay Act of 1945, as amended, section 7 (b) of the Federal Employees Pay Act of 1946, as amended, section 303 (c) of the Postal Rate Revision and Federal Employees Salary Act of 1948, and the second paragraph under the heading "Increased pay for legislative employees" in the Second Supplemental Appropriation Act, 1950, shall not apply to any officer or employee subject to subsection (a), but no such officer or employee shall, by reason of any provision of such acts or of this section, be paid with respect to any pay period basic compensation, or basic compensation plus additional compensation, at a rate in excess of \$11,246 per annum.

(c) The rate of basic compensation of each of the elected officers of the Senate and the House of Representatives (not including the presiding officers of the two Houses), the Parliamentarian of the House of Representatives, the legislative counsel of the Senate, the legislative counsel of the House of Representatives, and the Coordinator of Information of the House of Representatives is hereby increased by \$400 per annum.

SEC. 3. The rates of annual basic compensation specifically provided by law for the following officers and employees in or under the executive branch of the Government are hereby increased by \$400.

(1) physicians, dentists, nurses, and other employees in the Department of Medicine and Surgery in the Veterans' Administration whose rates of basic compensation are provided by Public Law 293, Seventy-ninth Congress, approved January 3, 1946, as amended;

(2) officers and employees whose rates of basic compensation are provided by sections 412 and 415 of the Foreign Service Act of 1946, as amended.

SEC. 4. (a) This act shall become effective as of the first day of the first pay period which began after June 30, 1951.

(b) No retroactive compensation or salary shall be payable by reason of the enactment of this act in the case of any individual not in the service of the United States (including service in the Armed Forces of the United States) or of the municipal government of the District of Columbia on the date of enactment of this act, except that such retroactive compensation or salary shall be paid a retired officer or employee for services rendered during the period beginning with the first day of the first pay period which began after June 30, 1951, and ending with the date of his retirement.

Mr. JOHNSTON of South Carolina. Mr. President, I move that the Senate disagree to the amendment of the House, request a conference with the House on the disagreeing votes of the two Houses thereon, and that the Chair appoint the conferees on the part of the Senate.

The motion was agreed to; and the Vice President appointed Mr. JOHNSTON

of South Carolina, Mr. PASTORE, Mr. MONRONEY, Mr. LANGER, and Mr. BUTLER of Maryland conferees on the part of the Senate.

REVENUE ACT OF 1951

The Senate resumed the consideration of the bill (H. R. 4473) to provide revenue, and for other purposes.

Mr. FLANDERS. Mr. President, I speak to the pending business before the Senate, House bill 4473, and I offer to it amendment designated as "9-20-51-D." First I wish to ask that the current RECORD show and that any subsequent printing show that the Senator from New Hampshire [Mr. BRIDGES] also joins the Senator from New York [Mr. LEHMAN], the Senator from New Jersey [Mr. HENDRICKSON], the Senator from Massachusetts [Mr. SALTONSTALL], the Senator from New York [Mr. IVES], and me in sponsoring the amendment. It is through an oversight that the name of the Senator from New Hampshire was not included. The same is true of the Senator from Maryland [Mr. BUTLER].

The amendment is to strike from the bill section 313 which deals with mutual savings banks and building and loan associations. It proposes on page 142, beginning with line 11, to strike out all of section 313 down to and including line 6 on page 145; and on page 145, beginning with line 7, to strike out the numerals "314" and insert the numerals "313," and renumber all following sections accordingly.

Mr. President, the point I wish to make in connection with this amendment to strike out is that this section will result in an active exhibition of the power to destroy which for many years has been recognized—I think the first recognition went back to John Marshall—as being inherent in the power to tax.

I shall address myself particularly to the mutual savings banks. Other Senators who support the amendment will address themselves particularly to the building and loan associations, in which also I have as deep a personal interest as I have in the savings banks; since I was a charter member of the building and loan association of my home town of Springfield, Vt., which must have been organized 30 or 40 years ago, and have been a member of it ever since, having taken out shares from time to time as the old shares have matured. But, as I said, I shall address myself first to the problems of the mutual savings banks.

Since those are more commonly found in the northeastern section of the country than in other sections, I shall take a few moments to describe them. The building and loan associations and mutual savings banks are pretty well scattered over the country, and I think most of the Senators on the floor are aware of the way in which they operate, and the part they fill in our national economy. But I feel that in view of the action taken by the Finance Committee there must have been some misconceptions with regard to the mutual savings banks which were not fully explained away during the sessions of the committee, which were, as can be imagined,

long, hard sessions of two and sometimes three meetings a day, and it was difficult at times, perhaps, for the committee to appreciate the facts.

There are 529 mutual-savings banks in the United States, most of them concentrated on the North Atlantic seaboard. At the end of 1950 total deposits in them aggregated about \$20,000,000,000, belonging to approximately 19,250,000 depositors, of whom approximately 2,000,000 were school children. The average account is about \$1,000. The average school child's account is about \$23. They are very old institutions.

The first mutual savings banks were formed back in 1816. From the beginning their purpose has not been to make money, for they have no stockholders. There is no one to whom profits can inure except to the depositors. They have been managed by public supported trustees who can have no financial interest in any transaction of the bank. They are, to put it briefly and plainly, purely fiduciary institutions. They accept deposits under terms prescribed by the laws of the State in which they operate. They apply the best business judgment available, under the terms of the laws under which they operate, to the investments of these sums, and the depositor gets the result of the wise and skillful administration, or the administration of whatever character it may turn out to be, in the form of interest on the deposits. There is no other return to anyone, outside of the expenses involved.

Mr. KERR. Mr. President, will the Senator yield for a question?

Mr. FLANDERS. I yield to the Senator from Oklahoma.

Mr. KERR. I understand the Senator has said that the mutual-savings bank is a purely fiduciary operation, and that no one gets any benefit from it other than the depositor.

Mr. FLANDERS. Other than those who receive money in the form of expenses, salaries, purchases, the janitor, the cashier, and the clerks—no one else.

Mr. KERR. I should like to ask the Senator what the savings banks do with the profits.

Mr. FLANDERS. The savings banks make profits on the money entrusted to them. They pay expenses from those profits. They make contributions to the reserves which are set up by State laws from those profits.

Mr. KERR. Is that a contribution or an allocation?

Mr. FLANDERS. I do not know just what the difference in the mind of the Senator is between those two words. It is not a contribution in the sense of a contribution to an outside worthy cause. I wish the Senator would explain a little more clearly what he has in mind.

Mr. KERR. I was not trying to argue with the Senator. I thought I understood that he was describing the operation of the savings bank whereby it took a certain amount of money, percentage-wise or otherwise, from its profits, and placed it into the account in the bank which is identified as a reserve account, and I take it that that is an allocation or deposit of that account, and

not a contribution in the ordinary understanding of the word "contribution."

Mr. FLANDERS. Let me say to the Senator from Oklahoma at once that I may have misused terms in an accounting sense. There is no profit until expenses have been paid.

Mr. KERR. What does the mutual savings bank do with the money it makes out of its operations?

Mr. FLANDERS. The Senator says, "the money it takes." Does he mean clear profits?

Mr. KERR. The Senator can place any interpretation upon the language he wishes to give it.

Mr. FLANDERS. I cannot answer the Senator's question without knowing what his question is.

Mr. KERR. As I understand the situation, a mutual savings bank takes the money deposited with it and loans it out; and on the money that it loans out, or on the money it invests, it receives certain returns in the form of profits.

Mr. FLANDERS. Those are not yet profits to the savings bank, until the savings bank has paid its expenses.

Mr. KERR. Aside from the technical interpretation or application of the terms "profits" and "expenses," would the Senator mind answering the question as to what the savings bank does with the money it receives on the money which it invests, as it comes into the bank, in whatever form it comes, first, in the payment of the expenses of the bank; second, in allocating whatever are the necessary or recognized reserves to the reserve account; third, to the payment of the depositors of the interest which is due them on their deposits, and fourth, if there is yet money remaining out of its income, will the Senator tell the Senate what the bank does with it?

Mr. FLANDERS. I will say to the Senator from Oklahoma that I know of no other uses of the funds received from investment, aside from those of paying expenses, of setting up reserves, and of paying an interest rate to the depositors.

Mr. LEHMAN. Mr. President, will the Senator yield?

Mr. KERR. If I may finish—

Mr. LEHMAN. I simply wished to explain something to the Senator.

Mr. KERR. Is the Senator aware of the fact that over and above those amounts, the savings banks of the country, with deposits in excess of \$20,000,000,000, are earning in excess of \$100,000,000 a year?

Mr. FLANDERS. I do know that they have a little more than 11 percent of their earnings in reserves.

Mr. KERR. Is not the way to state it that they have a reserve built up from earnings, which at this time approximates 11 percent of their total deposits?

Mr. FLANDERS. They do have such reserves built up. As to whether or not they are excessive, I should like to read from the testimony given by Mr. Howe—

Mr. KERR. Would the Senator care to answer the question of the Senator from Oklahoma?

Mr. FLANDERS. I wish to read something which indicates that in Mr. Howe's

judgment a 10 percent reserve is about the minimum which the bank should carry.

Mr. KERR. That is certainly in order, and certainly the Senator has the right to do that. He also has the right to decline to answer the question. I should like to call his attention to page 24 of the report of the committee, wherein it is stated that the net profits of the savings banks, after interest and dividends, for the year 1950, amounted to \$91,175,000, and then ask him if that goes to the depositors, or if that is not money which is made on the operation of the banks, over and above what they pay to the depositors, and upon which no taxes are paid.

Mr. FLANDERS. I must still go back, I will say to the Senator from Oklahoma, to the statement that reserves are necessary. One question which he might appropriately ask is whether the reserves are excessive. When profits are put into reserves they cease to be profits in the sense of money which could be drawn upon freely for depositors or for anyone else. Since most of the reserves are legally required, I think the Senator would do well to banish from his mind the word "profits" in that particular connection.

Mr. KERR. If the Senator will yield for one further observation—

Mr. FLANDERS. I yield if the Senator puts it in the form of a question.

Mr. KERR. The Senator made the statement that the mutual-savings banks were a purely fiduciary operation.

Mr. FLANDERS. That is true.

Mr. KERR. And that the income was for the sole benefit of the depositors. I then called his attention to the statement in the report that last year these banks added to their reserves, in the form of net profit after all interest and dividends, a sum in excess of \$91,000,000. I should like to have the Senator explain to the Senate how that can be, in view of his statement that they are purely fiduciary, and are operated exclusively for the benefit of the dividends they can pay to their depositors.

Mr. FLANDERS. I will say to the Senator from Oklahoma that I shall have to criticize the loose use of words in the report.

Mr. LEHMAN. Mr. President, will the Senator yield?

Mr. FLANDERS. I yield.

Mr. LEHMAN. Let me read something to the Senator. The report shows that last year there were deposits of approximately \$21,000,000,000 in the mutual savings banks. The net current operating earnings were \$363,000,000, which is just about 1¾ percent on the assets. They paid in dividends and interest to their depositors exclusively \$257,000,000, which is only slightly more than 1¼ percent, on the average, paid in interest to their depositors. There remained \$91,000,000, and that \$91,000,000 was added to the reserve. In case of liquidation it belongs to the current depositors in the banks, but it is used to safeguard the interests of the depositors. In the State of New York—and I am a little better qualified to speak with regard to the State of

New York than with respect to other States—there are 7,500,000 depositors in the mutual savings banks. That is about one-half the total population of the State.

The State requires a reserve in a minimum of 10 percent and a maximum of 25 percent. The reserve today in the State of New York is just about 10 percent. To me that reserve is inadequate, in the event of any serious situation arising. I should like to see that reserve, which belongs to the depositors, built up to a reasonably high figure. Aside from the depositors, there is not a soul save the people who receive salaries who could possibly gain any benefit from the operation of the mutual savings banks. There is no stock ownership. There is no hidden interest by anyone save the depositors in the banks.

Mr. FLANDERS. I thank the Senator from New York.

Mr. BRIDGES. Mr. President, will the Senator yield for a question?

Mr. FLANDERS. I yield.

Mr. BRIDGES. I should like to predicate my question along the line suggested by the distinguished Senator from Oklahoma [Mr. KERR].

A mutual savings bank is a mutual institution which is perhaps peculiar to our section of the country. As the distinguished Senator from New York has said, there are no stockholders. The only interest held by anyone is that held by the depositors. The depositor is generally a person of small means who seeks a method of personal thrift and savings.

The Senator from Oklahoma has addressed a question to the distinguished Senator from Vermont. He asks what happens to the \$91,000,000 which is in excess of what is paid for dividends and interest. A part of it goes, of course, to some of the banks that were in default back in 1930, for paying back RFC loans.

Mr. KERR. Mr. President, will the Senator yield for a question? This bill would specifically exempt anything that a bank had paid in that regard.

Mr. FLANDERS. I shall be glad to yield to the Senator from Oklahoma after the Senator from New Hampshire has concluded his questioning.

Mr. BRIDGES. As the Senator from Oklahoma knows, it is possible to make a bad loan on real estate. A reserve is created which can be used against contingencies which may arise from a bad loan. Bonds may have been purchased in good faith, or a loan may have been made on a home. In my particular section of the country a great flood occurred in 1935, when I was Governor of New Hampshire. A great hurricane occurred in 1938, which caused tremendous damage to homes and property. Mortgages were held by the mutual savings banks on many of the homes and much of the property. If the banks had not had some reserve to make it up they would never have been able to carry through and be solvent. I ask the Senator from Vermont if my explanation is not in part an answer to the question raised by the Senator from Oklahoma?

Mr. FLANDERS. It seems to be so. If the Senator from Oklahoma wishes

to amplify or diversify his question I shall be very glad to yield to him for that purpose.

Mr. KERR. I appreciate the courtesy of the Senator from Vermont. I still have the same question in mind. The Senator has described the institutions as purely fiduciary and as operating on the basis that the depositors get, in the form of dividends, all the benefits which accumulate. Nevertheless, last year they added to their reserves \$91,000,000, in the form of profits, over and above all the dividends they paid out.

The Senator from Vermont is perfectly aware of the fact that those accumulations are never payable until the liquidation of the bank. The Senator is perfectly aware of the fact that no matter how long a depositor keeps his money in a bank and makes a contribution to its over-all effort to make and accumulate earnings, once he takes his deposit out of the bank, he no longer has any interest in or any call upon the accumulated reserves. Therefore, in actuality it cannot be a fiduciary operation. It is an operation for profit, and it cannot be identified as being exclusively for the benefit of the depositors. The vast sums of money which are put in reserve will not be paid out to the depositor, and are not an obligation to the depositor. Once he leaves the status of depositor, he has no further claim on the reserves, regardless of the extent to which they may have been earned on his money.

In the light of those facts I believe the Senator is mistaken, or else he has failed to give me the information to show how it is possible for them to be identified as fiduciary institutions for the exclusive and sole benefit of depositors.

Mr. FLANDERS. I should like to ask the Senator from Oklahoma whether he feels that the fiduciary responsibility to the depositor would be maintained if a bank so reduced its reserves or so refused to fulfill its legal obligations with regard to reserves, that the depositor's deposit was imperiled.

Mr. KERR. The Senator from Oklahoma certainly would be very strongly opposed to any action which would reduce the safety of the bank. But the Senator from Oklahoma is aware of these facts: In the first place, the mutual savings banks at this time have total deposits in excess of \$20,000,000,000.

Mr. FLANDERS. Glory be.

Mr. KERR. Glory be. These banks at this time have an accumulated reserve of more than \$2,250,000,000.

Mr. FLANDERS. Another glory be.

Mr. KERR. Glory be. If we leave them tax-exempt the day will come when they and the other tax-exempt organizations will have all the money in the country. Glory be.

Mr. SALTONSTALL. Mr. President, will the Senator yield?

Mr. KERR. Of the \$20,000,000,000 in deposits 52½ percent is in Government bonds, and an additional 10 or 15 percent is in insured loans. If the Senator will look at their portfolios he will find that these banks have today not a 11-percent reserve but a reserve, in the form of cash, Government bonds, and Government-

insured loans, of approximately 80 percent of their total deposits.

In view of that fact I should like to ask the Senator from Vermont to tell us how he believes it is possible that their operations could in any wise be jeopardized with respect to the safety of deposits by a provision in the law which would provide that in the future—not after 1950, but after 1951—such banks should pay to their Government the ordinary tax on their earnings or profits over and above their dividend requirements to their depositors, their entire expense of operation, an adequate allowance for the building of an adequate loss reserve, and a further exemption of their annual payments to the RFC or other Government agency which loaned them money to help insure their solvency back yonder when they got into jeopardy? After all those contingencies and eventualities had been provided for, with reference to their profits over and above those items. Why should they not pay a tax?

Mr. FLANDERS. I should like, in passing, to invite the attention of the Senator from Oklahoma to what, in my strong memory, is the fact that he voted against exempting payments for borrowings to repair impaired capital to anyone except the RFC.

My recollection is that the Senator from Oklahoma voted against any repayment to the pooled funds of savings banks in Massachusetts, New York, and, I think, Connecticut. In other words, he seems to me to uphold the principle that if any institution such as a savings bank runs to the Federal Government for help, we will protect it. However, if it furnishes its own means of protection, its own provision for repairing impaired capital, then, beware, we will not allow such funds to be exempted from the tax.

That was one of the many things that was completely incomprehensible to me. I am a member of the committee, and I am proud to be a member of it. However, when we came to section 313, some opinion—and it was not a sinister opinion, but merely an opinion of misapprehension—seemed to sweep over the whole body, and it became necessary therefore to bring apprehension back to the floor.

Mr. SALTONSTALL. Mr. President, will the Senator yield?

Mr. FLANDERS. Yes.

Mr. SALTONSTALL. I should like to answer the Senator from Oklahoma so far as Massachusetts is concerned. He asked the question: Why should we not tax what is left after expenses, reserves, and dividends? He refers to this as profits. My answer to his question is, there are no profits. So far as Massachusetts is concerned, if the Federal Government puts on this tax, after a payment of less than $2\frac{1}{4}$ percent in average dividends to depositors, and after setting up the reserves required by Massachusetts law, there is a far greater chance of a deficit than a surplus. I have actual figures of a small bank, a medium-sized, and a large bank. They all show a deficit. The only way that deficit can be cured and the reserves maintained is to reduce the 2-percent dividend received by 3,300,000 depositors

out of the 4,700,000 citizens of Massachusetts.

Mr. BUTLER of Maryland. Mr. President, will the Senator yield?

Mr. FLANDERS. I yield.

Mr. BUTLER of Maryland. I wish to address myself to the situation referred to by the Senator from Massachusetts.

The VICE PRESIDENT. The Senator from Vermont may yield for a question.

Mr. FLANDERS. Mr. President, I yield to the Senator from Maryland for the purpose he has requested, if I may obtain unanimous consent to yield for that purpose and still retain the floor.

Mr. BUTLER of Maryland. Mr. President, I ask unanimous consent that I may make a brief statement at this time.

The VICE PRESIDENT. Is there objection to having the Senator from Vermont yield for other than a question? The Chair hears none, and the Senator may proceed.

Mr. BUTLER of Maryland. Mr. President, in Maryland there has developed among our mutual savings banks a practice of putting aside a reasonable amount for their reserve accounts. Those banks use any small amount of money which may be left over to make a small extra payment of interest to the depositors every 3 to 5 years.

If this bill as it now stands becomes law, the effect on those banks will be most serious, for they are now down to the minimum; and for every dollar of money which is added to their deposits by way of interest or dividends they will not have funds with which to cover the legal reserve required on such interest or dividends. If they have new deposits, under this measure they would not have any funds with which to establish the reserve against those deposits; and under such an arrangement in the course of 5 or 10 years those banks would not be able to survive.

They must have reasonable reserves. In one of our large mutual institutions, the reserve would be less than 3 percent in the case of an increase of deposits amounting to as little as \$3,000,000, when added to dividends in the same year of like amount.

So the situation is a very dangerous one. We cannot put the savings of 600,000 people in Maryland to that risk.

Mr. DIRKSEN. Mr. President, will the Senator from Vermont yield?

Mr. FLANDERS. I yield.

Mr. DIRKSEN. I should like to obtain unanimous consent to ask a question of the Senator from Oklahoma. I ask that consent, Mr. President.

The VICE PRESIDENT. Is there objection to the request of the Senator from Illinois? Without objection, the Senator may proceed.

Mr. DIRKSEN. Here is a difficulty which arises, and I apply it not so much to mutual savings banks as I do to savings and loan associations. For instance, I hold in my hand a letter from the auditor of the State of Illinois, who under State law is charged with monitoring the savings and loan and thrift institutions, so that they will be in a solvent condition. In his letter he refers, I believe, to 473 State-chartered institutions, quite aside from the ones that

are federalized. In his letter he makes a case, of course, against taxation of those institutions, upon the ground that to do so would impair their reserves and would slenderize their earnings to the point where one of two things would happen: Either there would be sharp withdrawals which would jeopardize the solvency of the institutions, or otherwise the interest rate would have to rise to meet the problem.

In addition to that statement, I have before me a statement by Mr. Divers, of the Federal Home Loan Bank Board, a Federal agency, which has the housing and loan operation going on in every State of the Union. He makes the same point.

Mr. KERR. I shall be delighted to answer the questions provided I may do so one at a time.

Mr. DIRKSEN. This is all one question. I simply wish to round out the question by saying that these officials are State officials, charged under State law, and I have also referred to a Federal official; and what they do affects the economy of the banks of the Commonwealth of Massachusetts and of a great many other banks. Those officials now make the point that if this tax is imposed, the result will be possibly to impair the solvency of those institutions, in view of the fact that the savings and loan associations deal with loans upon homes, many of them upon the homes of veterans, and that a reserve must be maintained, in addition to the reserve provided in the pending bill.

Mr. FLANDERS. Mr. President, I wish to obtain consent to have the Senator from Oklahoma answer the question. I ask such consent.

The VICE PRESIDENT. Is there objection to the request of the Senator from Vermont? The Chair hears none, and the Senator may proceed.

Mr. KERR. With reference to the savings and loan associations, I may say to the Senator from Illinois that their net income for the year 1950, as he will see set forth on page 26 of the report, was \$411,000,000. That was after all of their expenses except their dividends. Their dividends were \$262,000,000, leaving them undivided profits and reserves of \$148,000,000.

Already, Mr. President, the savings and loan associations in our country had in excess of \$17,000,000,000 in deposits, and already the savings and loan associations had surpluses and undivided profits exceeding 10 percent of that amount.

So, after all expenses, after all losses, after all dividends to members, in 1 year they added to their undivided profits approximately \$150,000,000 of tax-free money.

I remind the Senator from Illinois and the Senator from Vermont that as of today the mutual savings banks and the building and loan associations have approximately \$40,000,000,000 in deposits. Together their net earnings, after all expenses, after all disbursements, after all dividends, after all interest on deposits, amount to approximately a quarter of a billion dollars.

Their position relative to the commercial banks is changing so rapidly that as of today I would say they have half as much earnings as do all the commercial banks in the United States. If we permit the mutual savings banks and the building and loan associations to continue to be tax-free, the day is not far distant when their profits after disbursements will exceed those of the commercial banks. When that happens, the profits after disbursements of the mutual savings banks and the building and loan associations, instead of being a mere 3 or 4 percent of what those of the commercial banks were a few years ago, will be, instead, I would say, approximately 20 percent or 25 percent of those of the commercial banks; and they will replace the commercial banks, because the commercial banks cannot pay a 52-percent tax on their profits and have their competitors pay nothing, and continue to survive.

Mr. FLANDERS. Mr. President—

Mr. KERR. And therefore—

Mr. FLANDERS. Mr. President—

Mr. KERR. Mr. President, I have been answering—

Mr. FLANDERS. Mr. President, I rise to a parliamentary inquiry, namely, whether a Senator who has the floor and who yields to another Senator, may interrupt that Senator?

Mr. KERR. I yield to the Senator from Vermont, regardless of whether he has that right. If he does not like this medicine, I will give it in my own time.

The VICE PRESIDENT. A Senator who yields may terminate the yielding; any Senator who has the floor controls his own time while he has the floor.

Mr. DIRKSEN. Mr. President, will the Senator yield?

Mr. FLANDERS. I yield for a brief observation, and then I shall come back to the Senator from Oklahoma.

Mr. DIRKSEN. I say to the Senator from Oklahoma that I recognize the figures he has just given, and I am not unmindful of them. However, it was only in the last session of the Legislature of the State of Illinois that the reserve requirement was raised, as regards building and loan associations. Under the law of Illinois it is the public duty of the auditor of public accounts to make sure that the reserve requirements are met and that all of these institutions are kept solvent.

When an elected official of a State, serving it as auditor, says to one of the State's elected representatives in Congress, "I have grave concern over what you propose to do, in its effect upon the solvency of those institutions," then what does one do? The Senator from Oklahoma has not answered the question.

Mr. KERR. I say that there is nothing in this measure to prevent the accumulation of adequate reserves by those institutions. The laws of the Senator's State require the same kind of reserves by the State banks as they have been accumulating them and are accumulating them; and the amount they set aside for those reserves is free from tax-

tion. The amount the savings and loan associations would be required to set aside for that reserve would be free from taxation.

Mr. FLANDERS. Mr. President, I must interrupt the Senator from Oklahoma at that point.

Mr. KERR. And the bill affects their profits only after setting aside those reserves.

Mr. FLANDERS. Mr. President, the Senator from Oklahoma is making misstatements with regard to the bill now before us. The pending bill does not permit building and loan associations or mutual savings banks to set aside the reserves required by their State laws without having them subjected to taxation by the Federal Government.

Mr. LEHMAN. Mr. President, will the Senator yield for an observation?

Mr. FLANDERS. I yield.

Mr. LEHMAN. I was rather surprised to hear the distinguished junior Senator from Illinois [Mr. DIRKSEN] say that he accepted the validity of the figures given by the Senator from Oklahoma [Mr. KERR].

Mr. DIRKSEN. I meant the gross figures he read from the report.

Mr. LEHMAN. Yes; but I do not see that those figures mesh at all.

The figures I have—and I am also reading from the report of the Senate Finance Committee—are that on deposits of nearly \$21,000,000,000, all that was set aside for all manner of reserves—reserves against deposits, reserves required by the State, reserves required by the Federal Deposit Insurance Corporation—was \$91,000,000.

Another point is that the Senator from Oklahoma is comparing the mutual savings banks with the commercial banks. He overlooks several very important things, one of which is that the field of investments and the field of operations of a commercial bank are vastly different from those of a mutual savings bank, and vastly more liberal. The mutual savings bank is confined by law to investing its funds largely either in first mortgages or in Government bonds. It cannot undertake the operations which can be undertaken by a commercial bank, and which frequently bring in large profits.

Furthermore, so far as reserves are reserves are concerned, if the reserves of a mutual savings bank or of a savings and loan association are menaced or reduced beyond the limit of good business and safety, it has absolutely no means whatever of building up those reserves; it cannot do it; it has nothing upon which to draw. A commercial bank can sell securities to its stockholders or otherwise and raise any amount of money which may be desirable for the building up of adequate reserves. The situation is completely different.

Mr. DIRKSEN. I understand that. I was merely giving validity to the figures which appear in the report; that is all.

Mr. FLANDERS. Mr. President, I should like to speak for a few minutes without interruption, after which I shall be willing to submit myself to questions which may be aroused by what I say.

Mr. KERR. Mr. President, I rise to a point of personal privilege.

The VICE PRESIDENT. Does the Senator from Vermont yield to the Senator from Oklahoma?

Mr. FLANDERS. Not at the moment. I will yield to him in a few moments. There are a few lines of thought which I first wish to pursue, one of which is that in effect the bill says that the Federal Government will pay no attention, except in its discretion—that is, in the discretion of the Bureau of Internal Revenue—to State laws. Those State laws are mandatory. There is no discretion as to whether the building and loan associations or the mutual savings banks shall follow them. They must follow them on pain of such punishment as is set forth in the laws of the individual States.

I should like to call attention to the fact that if a bank which is following the requirements of the State law is one which is still working out from its investments in western lands in a period not so many generations ago, if it is still endeavoring to relieve itself from the handicaps of that situation, it is not in a particularly strong position; it does not have ample reserves, but it is working its way out of its difficulty. If the Federal Government comes along and says, "We are not going to allow you to make the additions to reserves which your State laws require, without taxing you," the bank in that case will have to reduce its interest payments to its depositors. If it reduces the interest payments to its depositors, its depositors will go elsewhere. The weak bank not merely becomes weaker, but gives its last gasp and expires. So I say that from that standpoint the power to tax again becomes, as was indicated by John Marshall very many years ago, the power to destroy.

There is another situation in which the power to tax as set forth in the bill is the power to destroy. The bill makes provision for applying tax-free funds to repayments of indebtedness to the RFC. The committee refused, as I said a moment ago, to make the same provision for the use of tax-free funds in repayment of loans made by pooled capital set up by the insurance companies themselves in the States of Massachusetts, New York, and, I think, one other State. As I said, the bill takes the position, "If you as an institution go to Uncle Sam for help, Uncle Sam will help you; but if you as an institution rely on private initiative for self-help, then Uncle Sam will penalize you." That is a point of view which I do not think the committee understood. Had the committee understood it, it would not have written the bill as it did. It is unfortunate that we try to get comprehension on the Senate floor instead of within the confines of the committee room.

Here again the power to tax is the power to destroy, because the weak bank which is paying back its indebtedness to the fund, which will help to repair its capital, will have to pay a corporate tax on the funds which it is paying back to the pooled funds. In so doing it will of

necessity have to reduce its interest to depositors. In such a case, of necessity its depositors will look for other banks in which the interest rates are higher. As a consequence that bank will grow weaker and weaker, and will finally turn over on its back with its two legs up in the air and its eyes closed, and will expire. That is the way in which the power to tax inherently carries with it the power to destroy. Those two powers are joined together in this bill, and I do not believe that the members of the committee who voted to report the bill realized it, or, realizing it, will want to support it at this time.

There is also involved in this matter a defiance on the part of the Federal Government of the laws of States. The laws of the States have been very satisfactory in providing for the safety of these institutions, short of such a calamity as occurred in the thirties, when every class of banking institution encountered difficulties. The State laws have been enacted as the result of years of experience. They have been obeyed and they have been effective; yet this bill says, "You cannot build up reserves in accordance with State laws, without suffering the danger of paying taxes on them."

The bill provides:

In the case of a mutual savings bank not having capital stock represented by shares, a domestic building and loan association, and a cooperative bank without capital stock organized and operated for mutual purposes and without profit, the reasonable addition to a reserve for bad debts shall be determined—

That means, by the Federal authorities—
with due regard—

That is, in their own judgment—
to the amount of the taxpayer's surplus or bad debt reserves existing at the close of December 31, 1951.

Here, again, we are in the soft, soothing, blessed arms of the Federal Government, where all authority rests, and where we ought to rest with sweet dreams, easy breathing, and perfect confidence. The State laws have nothing to do with this whatsoever. The Federal Government accords no recognition to State laws. It acts as if there were no State laws.

Mr. SALTONSTALL. Mr. President, will the Senator from Vermont yield?

Mr. FLANDERS. I yield to the Senator from Massachusetts.

Mr. SALTONSTALL. And the decision is entirely in the discretion of the Commissioner of Internal Revenue.

Mr. FLANDERS. Yes. The Commissioner of Internal Revenue puts himself in a third layer of control. We have control by State bank examiners and the State banking system; we have control by the FDIC; and now comes the third layer of control, which has a power which the other layers do not have, because the third layer has the power of life and death.

Mr. GEORGE. Mr. President, will the Senator from Vermont yield?

Mr. FLANDERS. I yield.

Mr. GEORGE. I do not think the Senator would want that statement to stand. The reserve is not entirely in the discre-

tion of the Commissioner of Internal Revenue. The law provides that mutual savings banks and institutions shall have reserves, just as it does in the case of commercial banks, and the Commissioner must set them up. In the report it is stated that he must take into consideration the experience of the institution for a long period of time. Undoubtedly the Commissioner will call in Federal and State officials who are accustomed to dealing with this problem and determine what is a reasonable reserve. If I did not think so, I certainly would not favor this provision in the bill.

However, I invite attention to the fact that when we deal with farm cooperatives we let them set up a reserve which is not tax free. On that reserve they pay the tax, and the savings institutions as institutions pay absolutely no Federal tax. That is the big difference between that type of bank and a commercial bank, I may say to the distinguished Senator from New York and other Senators who raised that issue. The big difference is that as institutions they are wholly free from any Federal tax. We can set up such reserve as we want, and we do not permit the States by regulations which might be very partial to whittle down the Federal revenue with respect to other institutions. I can conceive that States might say, "We will see that Uncle Sam gets nothing out of our institution, because we will raise the reserve requirements to the point where there will not be any profit to tax." That is the situation.

I dislike to hear Senators talk as if we are trying to deny the necessity for reserves when we have provided for them expressly. The amount of course, will be fixed over a period of 20 years or more—at least 25 years, as we say in the report; and over and above that, if the State law requires the banks to set up an additional reserve, they can do it by paying the Federal tax.

Mr. SALTONSTALL. Mr. President, will the Senator from Vermont yield?

Mr. FLANDERS. I yield.

Mr. SALTONSTALL. I may say to the distinguished Senator from Georgia that if he were the collector of internal revenue I am sure my mind would be very much easier this afternoon; but I would respectfully call to his attention—

Mr. GEORGE. I do not think the Senator from Massachusetts need have such little faith in Federal officials. If the Commissioner did not set up a reasonable reserve, I am sure Congress itself would undertake to do it. If the committee had ample facts before it on which it could prescribe a reasonable reserve, we might have written such a provision into the bill; but we did not have that information at hand.

Mr. SALTONSTALL. I have been a State official, and I know the problems which exist in dealing with the Federal Government. I would respectfully say that the terms of the bill, on page 143, if I read them correctly, leave to the collector of internal revenue the power to decide the reserve. I read:

In the case of a mutual savings bank not having capital stock represented by

shares, a domestic building and loan association, and a cooperative bank without capital stock organized and operated for mutual purposes and without profit, the reasonable addition to a reserve for bad debts shall be determined with due regard to the amount of the taxpayer's surplus or bad debt reserves existing at the close of December 31, 1951.

The State of Massachusetts has a history of mutual savings banks running over a long period of years. It has a Commissioner of Banks who is responsible for the safety of those banks. It has a central banking fund which the savings banks themselves have set up, and the reserves will be taxed under this bill. We are going to turn over to the Collector of Internal Revenue the responsibility to decide what is a reasonable reserve. From his office in Washington he will determine for New York, Massachusetts, Vermont, New Hampshire, Illinois, and every other State of the 17 States which have mutual savings banks.

Mr. GEORGE. The same thing happens to the national banks and other business institutions.

Mr. FLANDERS. Mr. President, I should like to put in a word on my own for a moment.

Mr. GEORGE. Mr. President, will the Senator further yield?

The PRESIDING OFFICER (Mr. SMATHERS in the chair). Does the Senator from Vermont yield to the Senator from Georgia?

Mr. FLANDERS. I yield.

Mr. GEORGE. I am sorry, but will the Senator allow me to supplement the bill with the report?

Mr. FLANDERS. Certainly.

Mr. GEORGE. I read:

In fact, your committee believes that the loss experience of these banks should be based upon a period of at least 25 years if this, in the aggregate, would result in greater loss deductions for these banks than the 20-year period now provided in the case of commercial banks. Basing loss reserve deductions on the loss experience of the past 20 or 25 years will include a period in which the losses of the mutual savings banks were quite large, with the result that the loss reserve deductions permitted in the next several years will be relatively large.

Mr. FLANDERS. I understood the Senator from Georgia was questioning me with regard to the two points I was trying to make. One point was that the setting up of reserves required by State law was not protected against taxation in this bill.

The second point was that we have a new regulatory body. The task of regulation is now assigned not only to State regulatory bodies and to the FDIC, but, in addition, there is a new regulatory body, to wit, the Bureau of Internal Revenue.

I should like to ask the Senator from Georgia whether he disagrees with either of those two points.

Mr. GEORGE. No, Mr. President, I do not doubt at all that the State of Vermont, the State of Georgia, or the State of Massachusetts would regulate these institutions. I think they should. But that cannot become the measure of the power of the Federal Government to impose a tax upon the earnings or profits of any organization.

I again repeat that the banks in question can comply with the State law and the FDIC regulations and what-not, but they will be called upon to pay a tax if they are required to put up reserves in excess of the reserves allowed under Section 23 (k) of the Internal Revenue Code. That is all I say.

Mr. FLANDERS. Is not what the Senator has said what I said the bill involved; first, that the mutual savings banks have no assurance that they will be allowed to build up reserves required by State law without running into the jeopardy of Federal taxation. Let us consider the points one at a time. Is there anything in the bill that removes that jeopardy?

Mr. GEORGE. No, not at all, and if there were, it would put the revenue system of the Federal Government in the hands of each State, and they could choke the Federal Government to death. The State banks and the national banks are under precisely the same regulations except we have taken the pains to go beyond what is done in the case of the State banks.

Let me ask the Senator from Vermont a question. Have any of these savings banks accumulated money and built their own buildings?

Mr. FLANDERS. They have done that. Does the Senator from Georgia object to that?

Mr. GEORGE. No. I am merely asking the question.

Mr. FLANDERS. I am asking one also. I say "Yes" to the Senator's question.

Mr. GEORGE. No, I do not object to that. But when they build magnificent buildings, with their reserves back of them, they ought to be willing to pay a tax, not upon what they distribute, but upon—

Mr. FLANDERS. They pay the local tax.

Mr. GEORGE. I am talking about the Federal Government. The Federal Government stepped in. Maybe the Federal Government should not have done so, but it is obliged to do so when the need for revenue is so great, and to tax wherever the Government can find something to tax. I am sorry that we are forced to duplicate the taxes. I think it would be fine if we could avoid duplication of taxes on the same general subject matters the State itself must regulate and must tax.

I do not want the Senator to misapprehend what I say. But I know some institutions that have built magnificent buildings, very valuable buildings, in the immediate centers of our great cities, buildings which are worth immense sums of money. They get the money somewhere with which to build them, and they do not pay any Federal tax on it. We cannot interfere with that, and are not trying to interfere with it, and do not want to interfere with it; but we are saying for the future, "When your reserves go above the reserves fixed under the law, just as in the case of all the banking institutions, then you shall pay a tax on them."

Mr. FLANDERS. Mr. President, I would suggest to the Senator from

Georgia that he make a tour of the country and compare the real estate investments of the commercial banks with the real estate investments of the savings banks, the building and loan associations, and the cooperative banks. I think it would change his point of view as to the recklessness of expenditures about which he is speaking.

Mr. LEHMAN and Mr. GEORGE addressed the Chair.

The VICE PRESIDENT. Does the Senator from Vermont yield, and if so, to whom?

Mr. FLANDERS. I yield to the Senator from New York, although I am full of talk myself. However, I yield.

Mr. LEHMAN. Undoubtedly some of the mutual savings banks have buildings of their own, but they are not taken out of the reserves; they are an asset of the banks, just as any other real estate would be.

Mr. GEORGE. May I ask the Senator where they got the money to erect the buildings?

Mr. FLANDERS. Mr. President, I will yield to the Senator from Georgia for the purpose of asking that question, and also to the Senator from New York to answer it.

Mr. LEHMAN. Undoubtedly every mutual savings bank owns, among its assets which it has in its portfolio, a certain amount of real estate, and among such real estate, in a number of cases, are the buildings that house the operations, of the banks, but they are an asset of the banks just as are many other real estate holdings and buildings.

Mr. GEORGE. I understand that; but will not the Senator be kind enough to tell me where the bank got the money to buy that asset?

Mr. LEHMAN. It undoubtedly got it out of the deposits.

Mr. GEORGE. Out of the savings accounts?

Mr. LEHMAN. Not necessarily. Every mutual savings bank has a certain amount of real estate in its portfolio.

Mr. GEORGE. I understand that, but I want to know where it got the real estate, and how; that is all.

Mr. LEHMAN and Mr. THYE addressed the Chair.

The VICE PRESIDENT. The Senator from Vermont has the floor. To whom does he yield?

Mr. FLANDERS. I yield to the Senator from New York, to answer the Senator from Georgia.

Mr. LEHMAN. It is just the same as if the bank bought a corner at Eighteenth and Broadway, or bought railroad bonds.

Mr. GEORGE. That is right. I will answer the question myself by saying it got it out of its untaxed earnings and profits.

Mr. LEHMAN. It has it in its portfolio as a part of its assets.

Mr. GEORGE. It got it out of its untaxed earnings and profits.

Mr. THYE. Mr. President, will the Senator yield?

The VICE PRESIDENT. The Senator from Vermont has the floor. Does the Senator yield?

Mr. FLANDERS. I will have hard work doing so, but I yield to the Senator from Minnesota.

Mr. THYE. Mr. President, I was impressed and struck by the remarks of the able and distinguished Senator from Georgia, the chairman of the Finance Committee. It is my understanding that the home-loan associations, if they make any investments at all, make them with the depositors' money, and if they make such investments, it is actually the individuals, small and large, whose deposits have created the funds with which the investments are made.

Referring to the Minnesota home-loan associations, I will say their reserves average between 5 and 6 percent of their total savings deposits. I know that they have not reserves in sufficient amount to be in compliance with State law. I have given considerable thought and study to this entire question since it came to my attention, because of the proposals that home-loan associations be added to other institutions which are proposed to be taxed under the provisions of the bill. Having gone into the question, I find that in the State of Minnesota there are 72 such savings and loan associations with a total of \$407,483,000 deposits as of June 30 of this year. This represents investments by approximately 240,000 individual shareholders. I was struck by the fact that it was the meager savings of these 240,000 individuals invested in those associations that made possible the funds which the associations have used to make investments or to acquire real-estate mortgages.

Mr. GEORGE. Mr. President, I do not want to trespass on the Senator's time, but I should like to ask this question, if I may. Does the Senator from Minnesota mean to say that the depositors' money itself is used to erect the buildings housing these banking institutions?

Mr. THYE. No; not necessarily housing the banking institutions, but certainly it is with the funds contributed by the depositors that investments and loans are made.

Mr. GEORGE. There is no dispute about that. I was simply inquiring about the fixed assets. I presume they are in the name of the corporate structure; that is, the entity. I do not imagine they are in the name of any depositor. Therefore, the depositor did not pay the tax on them, and therefore the institution got them. For the future at least there ought to be a reasonable tax on those reserves.

Mr. FLANDERS. I should like to say a word or two further to the Senator from Georgia. The second point which I made was that under the guise of determining what is taxable in the way of reserves, this bill, in effect, sets up a new regulatory body, so that we now have State regulation of these institutions, we have FDIC regulations or others of a similar sort for the building and loan associations, and we now have the Bureau of Internal Revenue, which is not a dispassionate body, as the third.

Mr. President, I fear that I shall have to say all this over again because I no longer have the attention of the Senator from Georgia. So I will start over again.

The second question which I asked the Senator from Georgia was whether he

agreed with me that under the terms of this bill we would have, in the Bureau of Internal Revenue, under the guise of determining how much of the returns from investments should be taxed, a new regulatory body in connection with this type of savings institution.

Mr. GEORGE. Mr. President, I would not be able to answer that question. The Commissioner, of course, could set up a division, or designate an agency. I stated frankly to the Senator that if the Finance Committee had all the facts on which we could form an independent judgment, I think we could arrive at a reasonable reserve. But we have not such facts, and I think the Senator would agree that it would require some time for us to get them.

Mr. FLANDERS. Nevertheless, the bill, in its words, leaves with the Bureau of Internal Revenue the entire discretion and power to determine what is a reasonable reserve. It seems to me that that is plain from the language of the bill.

Mr. GEORGE. I was trying to say to the Senator that the power to set up the reserve, which the Commissioner is charged with the duty of doing, is restricted by the general limitations referred to in the report, in which we were seeking to say that the reserve must have a relationship to the actual history and needs of each individual institution.

Mr. FLANDERS. I ask the Senator from Georgia if that is not very flexible language.

Mr. GEORGE. I think it is not unusually flexible. It must be sufficiently flexible to make it administratively possible to apply. This is a poor world in many respects, but if we do not have some confidence in someone who is charged with responsibility, I do not see how the wheels of Government can continue to revolve.

Mr. FLANDERS. In this bill we seem to have lost our confidence in State regulation. We seem to have lost our confidence in the FDIC—

Mr. GEORGE. Oh, no, Mr. President—

Mr. FLANDERS. So we have to interpose a third regulatory body.

Mr. GEORGE. We are not interfering with State regulatory bodies, or their regulations, or the FDIC; but we are saying, I repeat regretfully, that the Federal Government is going into this field for taxes. That being true, it cannot permit the State, by any regulation or law, to strip the Federal Government of the power to impose an equitable tax.

Mr. FLANDERS. Does the Senator feel that he is not interfering with State law when he puts in jeopardy a bank which observes it?

Mr. GEORGE. No, I do not think so, because I am assuming that we can trust the officials to act within the rule of reason. I have said that if they did not do so the Congress, which is becoming very much like the gates of hell described in the Biblical passage as being continuously open, will be here to do something about it.

Mr. FLANDERS. I should like to ask one further question.

Mr. GEORGE. I hope the Senator will not ask me anything about the Bible,

even though I ventured into that field. [Laughter.]

Mr. FLANDERS. The Senator's reference to the Bible casts the question out of my mind, as things have been cast out of the minds of people in the Bible. However, I assure the Senator that I will recall the question, and come back to him again.

Mr. GEORGE. I thank the Senator. I assure the Senator that some of these savings institutions are located in my own State. If the Commissioner should act in such a way as to set up an inadequate reserve which would militate against the security and safety of those institutions, I certainly would be coming back and asking the Senator from Vermont to join me in taking some action about it.

Mr. FLANDERS. Then the Senator does not feel that there is any inequity or any evidence of grasping for Federal power in a bill which jeopardizes the status of a bank, or may conceivably jeopardize the status of a bank, owing to its meeting the requirements of a State banking law?

Mr. GEORGE. I do not think so. Perhaps I should not do so, but I wish to remind the Senator that perhaps the senator Senator from Georgia has more respect for the inherent rights of the States than has any other Member of this body—or at least as much.

Mr. FLANDERS. I think we show evidence of our faith by works.

Mr. MORSE and Mr. SALTONSTALL addressed the Chair.

The VICE PRESIDENT. Does the Senator from Vermont yield, and if so, to whom?

Mr. FLANDERS. I yield first to the Senator from Oregon [Mr. MORSE], who has stood longest.

Mr. MORSE. Mr. President, I will say to my friend from Vermont that my vote is one still to be moved, because I am listening to the pros and cons, and have not reached any decision on the Senator's amendment. I need information on two points.

Am I correct in my understanding from the colloquy which has taken place between the Senator from Vermont, the Senator from Georgia, and the Senator from Massachusetts [Mr. SALTONSTALL] that the Senator from Georgia is correct in the statement which he made, that no different procedure is proposed in connection with the handling of savings banks than exists at the present time in connection with national and commercial banks—and I think he said other business enterprises in the State?

Mr. FLANDERS. The Senator from Georgia, the committee, and this bill endeavor to put them all into the same pot. If the Senator from Oregon is willing to listen for a moment, I wish to touch on the radical differences between a fiduciary savings institution and a commercial bank. One of the differences is fundamental. All a savings bank, a building and loan association, or a cooperative savings institution can do is to wait until money comes into its assets, and then to loan it. The commercial bank is based upon a completely different type of operation, and has no relationship whatsoever to savings institutions. Putting

them into the same box indicates a complete misapprehension of what the whole damn thing is all about.

Mr. SALTONSTALL. Mr. President, will the Senator yield?

Mr. FLANDERS. Does the Senator want me to withdraw that word? I yield to the Senator from Massachusetts, although he caught me in the full tide of oratory, and it is always embarrassing to be stopped so suddenly.

Mr. SALTONSTALL. I appreciate the speech of the Senator from Vermont. I also appreciate the strength and value of his language just before he stopped.

Will the Senator from Georgia or some other Senator discuss for a moment this paragraph, which I should like to read:

The Senate proposal makes no distinction for tax purposes between the income (whether from investments or premiums) of the life-insurance departments of the savings banks and the income from the savings-bank operations as such. There are 82 banks writing this poor-man's insurance, of which 34 are in Massachusetts, 40 in New York, and 8 in Connecticut. The proposal would render these departments insolvent.

I interpose that it would render them insolvent because it would tax the premiums as income of the banks.

There are holders of 600,000 policies involved.

Mr. FLANDERS. This is another case of the power to tax being inherently the power to destroy. I have it in mind to come to that point in a moment.

I should like to complete my statement as to the difference between these fiduciary institutions and commercial banks. I stated that the savings institutions could not loan until people had deposited. That is not true of the commercial banks. The commercial banks make deposits by lending. The loan comes first, and after the loan has been made, the setting up of the deposit in the books of the bank constitutes the deposit.

The difference between the two kinds of banks is fundamental. One goes east and the other goes west. One goes up and the other goes down. One goes in and the other goes out. There is just as much difference as there can possibly be imagined. To say that one of the reasons for putting taxation on mutual savings banks is that all banks should be in the same basket completely misapprehends the nature of a fiduciary institution on the one hand and of a commercial bank on the other hand.

I wanted to finish that statement. Now I shall be glad to yield further to the Senator from Oregon.

Mr. MORSE. I have one more question to ask, again only for my information. Would the Senator from Vermont say that his amendment is in line with a proposal to tax revision bills with respect to which he has supported me since 1947—I first offered it in 1947—and which seeks to carry out one of the tax recommendations of the subcommittee on taxation of the Committee on Economic Development, which proposed that there should be created a commission of study to draw a proper tax jurisdictional division between municipalities, States, and the Federal Government? Is the amendment of the Senator from Ver-

mont an illustration of the need to try to clear up the tax jurisdiction of the States versus the Federal Government in the field of banking?

Mr. FLANDERS. It has that aspect, I will say to the Senator from Oregon. It has been a State interest until now in every State that I know of to fix taxation on the real estate holdings of these institutions. I am not aware that any State has taxed them in any other way. What is happening is that under this bill the Federal Government is moving into a new field of taxation. In so doing it jeopardizes the safeguards which the States have erected by their laws for reserve requirements, and at the same time it establishes itself by the terms of the bill as a brand-new regulatory body.

Mr. DIRKSEN. Mr. President, will the Senator yield, so I may address a question to the Senator from Georgia?

Mr. FLANDERS. Yes.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. DIRKSEN. Mr. President, I may say to the Senator from Georgia that there is some force in the observation which he made a little while ago that it is possible to lodge within a State supervisory authority so much power as to choke off Federal revenue. On that point I wish to say that when one is confronted with a letter from his own State Auditor with respect to 473 State institutions, he naturally must be thinking in terms of the people who have an interest, and who, if an institution were to become insolvent, would be the real losers.

My question is this: I have before me a letter which was addressed to the chairman of the Senate Finance Committee, dated September 4, by the Chairman of the Home Loan Bank Board, Mr. William E. Divers. In it Mr. Divers says:

We would like to emphasize that the staff of the Committee on Finance has never called upon our Board for an expression of its views on the proposed tax or related matters, and this is the first time our Board has submitted its views to your committee.

The letter comes from Chairman Divers, who speaks for the Home Loan Bank Board, which bears the same relation to thrift institutions that the Federal Reserve Board bears to the banking system. I believe it is a matter of great concern.

While I apprehend a need for revenue, would not the best way of handling the situation be to remove the provision from the bill temporarily, then call in the various supervisory agents from the States and the Federal Government, and the various groups which deal with housing and mortgage funds, and then come to a conclusion later as to whether it is the right thing to do?

Mr. GEORGE. If the Senator from Vermont will permit me to respond, I shall be happy to do so.

Mr. FLANDERS. I shall be glad to have the Senator from Georgia do so, provided I do not lose the floor.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. GEORGE. Some 2 years ago we commenced a study of the question. I

believe it was more than 2 years ago. The committee staff, together with Treasury officials, commenced a study. They pursued it. They went into this general subject as fully as they could possibly go into it. Unfortunately I was not able to remain in Washington during all the hearings this year on this bill. I do not know who appeared before the committee. I have no doubt that the home-loan bank head would be called by the Commissioner of Internal Revenue on the question of setting up a reasonable reserve.

I make this statement, which I did not make before, and I believe it is a correct statement. I should like to have the distinguished Senator from Oregon to also note it. The bill we are asking the Senate to accept provides for the setting up of a reasonable reserve. If the Commissioner of Internal Revenue should fail to give that reasonable reserve, undoubtedly the courts would have full power to say that it is an unreasonable reserve, without even coming back to Congress. However, since the courts move slowly, I am ready to come back to Congress if there should be a reserve set up which is not adequate to maintain the stability and solvency of these institutions. No one wants to destroy them.

Mr. FLANDERS. I should like to suggest to the Senator from Georgia that in spite of the amount of study that has been given by the staff and by the Bureau of Internal Revenue there is no indication that the question has yet been exhaustively or carefully studied. In evidence of that I should like to invite attention to a letter which the Senator from Georgia received on September 19 from the State superintendents of banks of New York, Massachusetts, Connecticut, and Colorado. They indicate in this letter that they feel that no sufficient attention has been given to the question.

Mr. GEORGE. The letters which are reaching me now I have not had time to go into fully. But I should like to make a statement which I have hesitated to make, but which I feel I must make, in view of the turn the debate has taken, about lack of notice, lack of courtesy, and lack of willingness to hear these people.

The Honorable Harold Knutson, when he was chairman of the Ways and Means Committee in 1948 held hearings on this subject, and representatives of the building and loan associations and mutual banks came to the hearings. The staffs have been at work since then.

Last fall—and this is the statement which I hesitated to make—these people were invited by the staff to come here. The staff was acting under our instructions and directions. They declined to make any recommendation about the tax and about how they should be taxed, for the simple reason that they were tax exempt and they wanted to hold the tax exemption. I did not want to make that statement, but I am compelled to make it in justice to the committee.

Mr. FLANDERS. What the Senator from Georgia is indicating is that the superintendents of banks and the State

commissioners refused an invitation to come to the hearings?

Mr. GEORGE. The building and loan associations and the mutuals, yes.

Mr. FLANDERS. The State officials refused to come? Were they invited?

Mr. GEORGE. I was referring to the representatives of building and loan associations and of mutual savings banks. The distinguished Senator from Vermont is a wise man, and he knows with what tenacity all human beings hold to a special privilege which they have long enjoyed. While I regretfully say that we should go into an area where States alone perhaps ought to derive revenue, because they have regulatory duties to perform, unfortunately most of us vote for appropriations, and we simply come face to face with a need for additional revenue. I know that the Senator—and I joined him—did his very best to reduce a large appropriation bill by moving to recommit it to the committee with instructions to reduce it by five or six billion dollars, but we failed. So we simply face a reality, not a theory, when it comes to the need for revenue.

Mr. FLANDERS. I would suggest to the Senator from Georgia that superintendents of the State banks do not have in those institutions a vested interest which would have made them bad witnesses in any sense of the word. They are public servants and are charged with a public responsibility.

So I do not see why they should not have been asked to appear, particularly when the form of the bill as it has finally resulted may conceivably penalize, and probably will penalize, such banks for complying with the regulations with which the State law requires them to comply.

Mr. IVES. Mr. President, will the Senator yield?

Mr. FLANDERS. I yield.

Mr. IVES. I should like to comment on the statement just made by the distinguished Senator from Vermont. It has been my understanding also that the supervisory authorities of the State banking institutions were not invited by the committee to express their opinions regarding this matter.

At any rate, I hold in my hand a communication addressed—

Mr. GEORGE. Mr. President, let me say now that the Senate Finance Committee does not invite anyone to appear. We hold public hearings, and all those who wish to come there may do so. Of course, we notify certain Federal Government officials who must appear before us, but we do not invite witnesses. That has been the rule.

The distinguished Senator from Vermont has been a member of the Finance Committee, and I have no recollection that he asked me for authority to suggest that anyone appear before the committee.

Mr. IVES. Perhaps I misunderstood the statement just made by the distinguished Senator from Georgia. I gathered from what he said that those who represent directly these savings institutions had been requested to give an opinion regarding the proposal. Is that correct?

Mr. GEORGE. They were asked to appear before the technical staff of the joint committee and to give information there about these matters.

Mr. IVES. That is exactly what I have in mind. However, I speak now of the supervisory authorities in the States. Those gentlemen were not invited to appear. Is that correct?

Mr. GEORGE. No. The taxpayers themselves, or the prospective taxpayers, were asked to come; and we thought they would come and would give us their suggestions.

Mr. IVES. My point is—and I am sorry to take this much time—that those particular persons in the States who are supervisors of those savings institutions, and who presumably are best qualified to speak on that subject, were not invited.

Mr. GEORGE. They are never invited to speak before the Finance Committee; but we hold public hearings, and they are privileged to attend them if they wish to do so.

Mr. IVES. I should like to straighten out this matter. I did not mean to say that they were not invited by the committee or that the others were not invited by the committees, but I mean that the supervisory authorities in the States did not receive the same kind of invitation which apparently was extended to those who represent, and are directly connected with, these savings institutions.

Mr. GEORGE. I do not know whether the supervisory authorities were asked to come either by Mr. Knutson for the hearing or before the technical staff.

Mr. IVES. I hold in my hand a copy of a letter addressed to the distinguished Senator from Georgia by the superintendent of banks in my State, and in that letter he says that his opinion has not been sought.

Mr. GEORGE. What is the date of the letter?

Mr. IVES. September 13.

Mr. GEORGE. That is since we finished working on the bill, I believe.

Mr. IVES. Yes, it is.

Mr. GEORGE. Yes. I repeat that we do not follow the practice of inviting witnesses. If we did, while the committee might obtain valuable information from some, nevertheless if we were expected to invite people to testify before us about taxation, it is readily conceivable that on every occasion we would be met by statements that someone who could shed great light on a subject had not been invited to appear.

So we hold a public hearing, and everyone who wishes to appear is quite welcome to do so.

Mr. IVES. I should like to ask another question in connection with this matter. Does not the Senator from Georgia feel that these particular State officials—and I point out that they are State supervisory officials; they are not connected with the banks, but they are supervisory officials and they control the conduct of the State banking institutions—might well have been invited, and that an exception might well have been made in their case, inasmuch as they, of all the people in the country, understand

the questions concerned with State savings institutions?

Mr. GEORGE. I have already said that I have presumed that the Secretary of the Treasury would ask them to appear and to discuss such questions. However, they have no right, and I stand on this statement—to determine the policy of the Government in regard to whether we shall tax any of these institutions. They might shed light on those questions, but we do not invite them; and on a matter of policy it is not necessary to invite them. Undoubtedly I think they would be invited to appear to discuss the question of what is an adequate reserve.

Mr. IVES. Mr. President, in that connection I should like to point out that it has been my understanding that matters of this kind, in connection with commercial banks, to a certain extent at least, are regulated by law. I may be wrong about that. If I am wrong, I stand ready to be corrected. However, certainly if anything of that kind exists in cases in which commercial banks are concerned, there should definitely have been written into this section some provision to determine how much the reserves shall be, what they are to cover, and everything connected with them. However, the section contains nothing of that kind.

Mr. GEORGE. Mr. President, I ask the Senator to indulge me for a moment, please. The Senate Finance Committee has never—and I do not know of any other committee which has—invited railroad commissions, utility commissions, or any other regulatory authorities of a State, although undoubtedly we would hear them if they wished to appear, to appear and testify. Generally speaking, the States have different laws and different regulations. If we were dependent upon the State authorities in determining the question of policy so far as the Federal Government is concerned, we probably would not get anywhere.

Mr. FLANDERS. Mr. President, I should like to clear my mind in reference to what I understood the Senator from Georgia to state in regard to staff conferences. If I correctly understood him, I understand that some sort of invitation was given to some groups of persons to attend staff conferences. Will the Senator clear my mind on that point?

Mr. GEORGE. There were requests by the technical staff to the mutual banks, and to the building and loan associations, to come before the staff and give to the staff, which then was engaged in making the study, such information as they could give to it.

Mr. FLANDERS. In the mind of the staff, there was no similar wisdom in inviting the men in the States who knew most about these types of organizations to appear before them. Is that the case?

Mr. GEORGE. No; and I would have to take a little exception to the Senator's broad statement, for I do not think the officials he mentions would know any more about these institutions than do the persons who own them and operate

them. The officials the Senator mentions probably have an intimate knowledge of them as supervisors.

Mr. FLANDERS. I think they know something about the sweep of the business as a whole, but not perhaps about particular institutions.

Mr. GEORGE. I understand that. I would call the Senator's attention to this fact: I have forgotten whether it was the 1950 act or an act of a previous year, but the chairman of the Maryland Public Service Commission came before our committee upon his own initiative and gave information to the committee. I am reminded that he came both years.

Mr. MILLIKIN. Mr. President, will the Senator yield?

Mr. FLANDERS. I yield to the Senator from Colorado.

Mr. MILLIKIN. I would like to say that although the Senate Finance Committee during my experience with it has not followed the practice of inviting witnesses. I have never known of any instance when anyone really wanted to testify who was not permitted to do so.

Mr. GEORGE. That is true. I have said that.

Mr. MILLIKIN. I have never known of a single instance of that kind. I also wish to say that the hearings were widely publicized, and I do not believe that anyone has a legitimate complaint in now saying that he had no opportunity to testify, because all he needed to do in order to get that opportunity was to request it. But let me add this, for the benefit of the distinguished senior Senator from New York. The question of State reserves and of State practice was squarely before the committee. The junior Senator from Colorado repeatedly brought before the committee the fact that, in his opinion, we were not giving sufficient attention to the requirements of the States so far as reserves were concerned, that we were not giving sufficient consideration to the requirements of FDIC so far as the reserves it might require were concerned.

The junior Senator from Colorado did not approve the committee's amendment. I do not say this in criticism. Honest men may differ.

I wish to say to the distinguished Senator from New York that I do not believe we can run a parallel between the reserves which should be built up for this type of organization and the reserves which should be built up for a commercial bank. The types of loans are entirely different, therefore the types of risk are entirely different. I have felt that we should allow these organizations to meet their ordinary operating expenses, of course, that we should not tax that which they distribute as interest to their members, that we should allow them to build up reserves; and personally I want them to build them up on the liberal side, I do not want to cheese-pare their reserves. I should like to see them ample—and then some—but when we get beyond that into the field of what I shall call for this purpose profits not needed for security regardless of the technicalities of the situation, I want to see those taxed, but

before they are taxed, I want to be sure we are exempting on the generous side, that which is necessary to keep those institutions solvent and sound. Personally, I do not believe that the formula of the committee accomplishes that objective, hence I opposed the formula of the committee. I wish that something would come before the Senate which would give us an alternative of a sound formula from which we can assure the protection of these organizations and at the same time collect taxes on that which is not needed beyond the level of protection.

Mr. IVES. I take it the Senator from Colorado—

Mr. FLANDERS. I yield to the Senator from New York.

Mr. IVES. I thank the Senator. I merely want to clear up one point. On the basis of what the Senator from Colorado has just said, I take it he would agree that a savings bank at least should have no profit, that nothing should be left over, everything should be paid over into reserves of one kind or other, or be paid to the depositors as interest. Is that what the Senator was trying to suggest?

Mr. MILLIKIN. Because of the nature of these organizations, one can get into a great big quagmire as to whether the use of the word "profits" is warranted.

Mr. IVES. There never should be any residue at all?

Mr. MILLIKIN. But what I am talking about is—call it what you may—they should be allowed to pay their expenses. They should be allowed to pay interest to their members. They should be allowed to set up reserves which will protect them against losses, impaired loans made in the past or which may be made in the future, and in my opinion it should be done on the liberal side. In my opinion one cannot draw a parallel between what should be done for commercial banks and what should be done for this type of bank. If I may say so, the experience of the last 25 years or 20 years or 15 years, which will largely govern the Treasury in its attitude toward these particular types of organization, is irrelevant. When these organizations make real-estate loans, they make long-term loans. At the present time there is an unescapable inflation in any loan which can be made. I hope that there will never be a depression. All of us will do all we can to prevent that. But it would be a very unprudent man who is a trustee to run his business on the theory that massive adversity will never come. I want to see the reserves there if that day should come which will protect these great institutions, and at the same time I should like to be confronted with a formula which will tax those profits which are not needed to protect their security and which we do not send back to those who own the organization, to wit, the members.

Mr. IVES. Does not the Senator from Colorado feel that some kind of conference with these supervisory authorities in the State should be held? These authorities presumably know better than anyone else in the country what kind

of provision should be made in this type of legislation. I do not mean by that that we should delegate our rights to the States or to anyone representing the States, but we need their advice in the instance.

Mr. MILLIKIN. If I were to say yes to that, I would be implying a criticism of the Senate Finance Committee, and regarding that I can only say that since the Senator from Georgia has been chairman, during the time I have been in the Senate, and during the time I was chairman, I cannot recall of a single instance when anyone who asked to testify was not permitted to do so. The staff has made quite a study of this subject. The issues which are involved were before the committee. I have some difference with the distinguished Senator from Vermont on that limited point. The committee did not act in ignorance. The question of these reserves, the question of State procedure, the question of State-required reserves, was brought up again and again. I may say we had this subject up, I think, three times. May I ask the distinguished chairman of the committee, did we not have this subject up three times?

Mr. GEORGE. Yes.

Mr. MILLIKIN. I think we had an original and two reconsiderations of this subject.

Mr. FLANDERS. Mr. President, will the Senator yield for a question?

Mr. MILLIKIN. Just a moment. I should like to make that clear. This was not something which was done "off the cuff." I think what we did was not wise, but I would not be candid if I did not say that it was considered at length. The facts were there from which a sound decision could have been had.

Mr. LEHMAN. Mr. President, will the Senator yield?

Mr. FLANDERS. Mr. President, I should like to suggest to the Senator from Colorado that I would not use the word "ignorance." My recollection is that I used the word "misapprehension," and I think I would like to stay with that word.

Mr. MILLIKIN. Oh, I think there is a misapprehension, and I say that without reflecting on the very high intelligence of those who voted the other way.

Mr. THYE rose.

Mr. MILLIKIN. There was in my judgment a misapprehension, because I cannot apprehend how anyone would adopt a formula which I believe is demonstrably insufficient to protect the safety of these concerns. But that is the field of the debate. The very able gentlemen who composed the majority of the committee, who prevailed, believe that they have adopted a formula which is adequate. I do not believe so.

Mr. THYE. Mr. President, will the Senator yield so that I may ask a question of the distinguished Senator from Colorado?

Mr. FLANDERS. Mr. President, I ask unanimous consent that I may yield to the Senator from Minnesota for that purpose, without prejudice to my right to the floor.

The PRESIDING OFFICER. (Mr. HUMPHREY in the chair). Is there ob-

jection? The Chair hears none. The Senator from Minnesota may proceed.

Mr. THYE. What percentage would be an adequate reserve for such an association?

Mr. MILLIKIN. The reserve in New York and Massachusetts is, as I recall it, 10 percent. It was proposed in committee that we permit such institutions to build up to a 10-percent reserve by the annual accumulation of a certain amount of profit. It is said that we must not call it profit—a certain amount of the money available for the purpose, each year, until they got the 10 percent.

Mr. FLANDERS. Mr. President, do I have the prerogative of joining this colloquy?

The PRESIDING OFFICER. The Senator from Vermont always has that prerogative. He has the floor.

Mr. FLANDERS. If I have the floor, I should like to state that Maple T. Harl, Chairman of the Federal Deposit Insurance Corporation, testified in the hearings conducted by the Senator from Delaware [Mr. FREAR] and the subcommittee of the Committee on Banking and Currency, as follows:

Senator FREAR. Do you have any difficulty in the operation of the FDIC in insuring mutual savings banks, considering the State laws as to maintaining reserves?

Mr. HARL. Not particularly. I think possibly the Senator has in mind one of our great States in which the law requires a 10-percent reserve.

Senator FREAR. Yes, New York.

Mr. HARL. And we subscribe to that principle wholeheartedly.

A little later he said:

We would like to see these earnings added to the reserves until they at least have a 10-percent reserve cushion; speaking from a straight insurance viewpoint, you can't get too much cushion in the insurance business.

Mr. THYE. Mr. President, will the Senator yield?

Mr. FLANDERS. I yield to the Senator from Minnesota.

Mr. THYE. In Minnesota, from the information given me, the reserve is between 5 and 6 percent. That struck me as being a very low reserve where loans are granted on a long-time-pay basis. In these inflationary times it is possible that some of the weaker organizations might go bankrupt if they had quite a number of losses, with such a small reserve as 5 or 6 percent. I know there is a great deal of concern in my State among the banks regarding the home-loan associations, and I know they feel they should stand a tax the same as the commercial banks. But from what I have been able to learn in the study I have made of the question, it seems to me that many of the associations which have come into being in the past 7, 8, or 10 years have not built up sufficient reserves so that they could withstand a slight deflation in home values if one were to occur. For that reason I feel justified in supporting the type of amendment which has been offered by the able and distinguished Senator from Vermont.

Mr. MILLIKIN. Mr. President, will the Senator from Vermont yield?

Mr. FLANDERS. I yield.

Mr. MILLIKIN. The distinguished Senator from Minnesota has expressed my own fears on this subject.

Mr. THYE. The Senator is a member of the committee which has made a scientific study of the question—

Mr. MILLIKIN. I would not attribute to myself the compliment of having made a scientific study. I have made a study of the facts coming before the committee, and, in my judgment, the formula proposed by the committee is not a safe formula for institutions of this kind. I should like to see a safe formula, after which we should tax that which remains.

Mr. THYE. I thank the Senator for answering the question.

Mr. LEHMAN. Mr. President, will the Senator from Vermont yield in order that I may offer an insertion for the RECORD?

Mr. FLANDERS. I yield.

Mr. LEHMAN. Mr. President, I have a telegram signed by William A. Lyon, which I should like to read. It is as follows:

NEW YORK, N. Y., September 10, 1951.
Senator HERBERT H. LEHMAN,

Senate Office Building:

From a supervisory standpoint the proposal now pending to levy an income tax on the undistributed earnings of mutual savings banks and savings and loan associations is, I feel, distinctly unwise. Being mutuals, these institutions are in a special category. This tax would give them strong incentive to distribute all earnings to escape taxation. A policy of retaining earnings to build up surplus for future growth and to provide adequate loss reserves would subject the mutuals to penalties for their conservatism. As mutuals cannot sell stock to raise additional capital it is especially necessary to guard their inner strength if long-standing policy of giving tax exemption to thrift and home financing institutions is to be ended. I respectfully urge that the method and effects be considered most carefully and after consultation with appropriate supervisory interests so as to avoid serious harm to institutions which public justly considers synonymous with strength and safety.

WILLIAM A. LYON,
Superintendent of Banks.

Mr. FLANDERS. I thank the Senator from New York for reading that telegram. It is very much to the point.

Mr. President, I invite attention to the fact that in the testimony of Mr. Maple T. Harl, before the subcommittee of which the Senator from Delaware [Mr. FREAR] is chairman, our attention is called to another regulatory influence by which permissively in this bill savings banks, mutual savings banks, and savings and loan associations may be taxed for following the rules laid down for them. Members of the FDIC also have to submit to the regulations of Mr. Harl and his organization. That is mandatory if the institutions are to come under the protection of the FDIC.

There is still a third point. Banks which had to have recourse to loans from the RFC to build up their capital after the experience of the 1930's have to submit to controls of this nature on the part of the RFC. They are not allowed to pay back on their capital loans unless they have, in the judgment of the RFC, set up sufficient reserves. There, again, the savings institutions may be penalized except as in the judgment of this new regulatory authority the tax de-

partment of the Treasury, in the view of the new regulatory authority, will grant permission to replenish the reserves as required without the penalty of taxation.

For the life of me, I do not see why these provisions are not simple enough to be written into the bill. The proposal to write them into the bill, however, was voted down in committee.

Mr. MURRAY. Mr. President, will the Senator from Vermont yield?

Mr. FLANDERS. I yield to the Senator from Montana.

Mr. MURRAY. I understand there are approximately 6,000 savings and loan associations in the United States, and I do not know how many thousands of mutual banks there are, but if this new regulatory body is established to determine the reserves of those organizations, will it not require a great expansion of the staffs, and would it not appear that there should be something written into the law to determine what the reserves should be?

In my State, according to letters from building and loan associations, it is believed that a reasonable reserve would be 10 percent. None of them has a reserve of 10 percent. The reserves run from 5 to 7½ percent. It seems to me that there should be some fixed figure in the bill. There seems to be a failure to differentiate between organizations like the mutual savings banks and ordinary commercial banks. These institutions were established to encourage thrift and saving among the working classes of the country, and to give them a stake in standing back of our capitalistic system. They have enabled many citizens to save money and to go into business for themselves. They have been a fine influence in developing thrift. It seems to me that we should be very careful about destroying institutions of that type.

Mr. FLANDERS. Mr. President, I will say to the Senator from Montana that I appreciate his contribution to this discussion, and, so far as I could hear clearly, and I think I heard clearly, I agree with every single word he said.

Mr. President, I wish to make one more point with regard to the assertion, if we want to use that term, that we have here concrete evidence of the truth of the old dictum that the power to destroy is inherent in the power to tax. There is in at least two States, and I think possibly three—Massachusetts, New York, and I think Connecticut—an institution known as savings bank life insurance. This idea was developed by the late Mr. Justice Brandeis when he was a judge in the State courts of Massachusetts. It is a life insurance organization without agents. It does a little discreet advertising, principally in the lobby of the savings bank, and all the transactions are made over the counter of the savings bank. No insurance agents visit homes or solicit. It is a means of getting life insurance at a minimum cost. One of the things this piece of legislation does is to lump this insurance business in with the savings business, with results which will be disastrous to this particular institution.

This business is really separate and distinct from the bank business. It is a

true insurance business operating under the actuarial considerations of the large insurance companies. It has to do business under the same laws as the legal reserve life insurance companies, to maintain separate books and records, and to make separate reports to State departments. The institutions carrying on this business are subject to supervision by the State officials having supervision over life insurance companies. Savings banks with life insurance departments pay separate State taxes on their banking business and on their life insurance business, and on different bases so far as State taxes are concerned. Their life insurance business is subject to the same State tax as that paid by life insurance companies.

What would be the effect if they are taxed as it is proposed that a bank be taxed under this bill? Federal income taxation of the premium and investment income of these life insurance departments, the same as the income of a bank or other business corporation, would make it impossible for them to continue business.

The power to tax has inherent in it the power to destroy, and in this particular situation it is in full evidence.

Mr. GEORGE. Mr. President, will the Senator yield?

Mr. FLANDERS. I yield.

Mr. GEORGE. If it is the desire to separate the insurance business from the bank business, I as chairman of the committee will certainly accept the proposal to let the insurance part of the business be taxed as insurance companies are taxed.

Mr. FLANDERS. On the same terms as the insurance companies are federally taxed under the proposed law?

Mr. GEORGE. Yes.

Mr. FLANDERS. That would remove the death sentence from the life insurance departments of the savings banks.

Mr. GEORGE. It was agreed in the committee that we would be willing to separate them if it was felt that that should be done.

Mr. FLANDERS. I thank the Senator from Georgia for his willingness to amend the bill to that effect. I should like to add what seems to me to be the fact, that this is one of the evidences of misapprehension and of not having gone far enough into the subject on the part of our committee.

Mr. GEORGE. Mr. President, it is at once evident that a tax-exempt institution will extend its operations into other fields. Here is a savings institution going into life insurance. The same is true of cooperatives. That is the thing which has brought the cooperatives into sharp focus, when our tax rates are going up astronomically. That is all there is to it. If the savings banks and the cooperatives had remained and functioned within their proper spheres it would have been very much better.

Mr. FLANDERS. I may say to the Senator from Georgia that in Massachusetts at least—I do not know if it is true of New York or Connecticut—the savings banks were compelled by law to go into this insurance operation. It was not done of their own volition. Perhaps the Senator from New York can tell me

what the situation was in New York State.

Mr. LEHMAN. The Senator from Vermont is accurate in his statement. I wish to say that I was Governor of my State at the time, and I strongly urged the passage of the law that made it possible for savings banks to go into the insurance business as a service to their people. I believe, just as is the case in Massachusetts, it has worked out very greatly to the benefit of the people of my State.

Mr. FLANDERS. I thank the Senator from New York.

Mr. FLANDERS subsequently said: Mr. President, I wish to have printed in the RECORD certain information with regard to the effect of taxation on life-insurance companies. I shall read a portion of it and ask that the remainder of it be printed in the RECORD at the point in my remarks where the matter was first discussed.

I read from the statement:

Federal income taxation of the premium and investment income of these life-insurance departments are the same as the income of a bank or other business would make it impossible for them to continue business. For illustration, the total gross income of the life-insurance departments in New York in 1950 was \$6,000,000, leaving a balance of \$4,500,000 after claims and operating expenses. Applying the proposed normal and surtax rates, the total tax would have been \$2,100,000. This would leave only \$2,400,000 to cover an increase in compulsory reserves of \$3,500,000 required by the State laws, immediately rendering the department insolvent. Similar results would follow in Connecticut and Massachusetts.

It goes into a proposed solution.

If savings banks are to be subjected to Federal income tax, the appropriate solution is to tax the income of the insurance departments of the savings banks in the same manner as the income of life-insurance companies. This is what has been done with respect to State taxes in Connecticut, Massachusetts, and New York.

This would present no difficulties in the administration of the tax in view of the separate and distinct manner in which these life-insurance departments must be operated under State laws.

Mr. President, I ask unanimous consent to have incorporated in my remarks the text of the statement, including a letter from the Treasury Department, dated July 7, 1941, signed by D. W. Bell, Under Secretary of the Treasury, giving the benediction of the Treasury Department to considering these savings banks as bona fide insurance companies and giving in figures the effect of the proposed taxation as banks of savings banks life insurance based upon 1950 operations.

There being no objection, the statement and letter were ordered to be printed in the RECORD, as follows:

FEDERAL INCOME TAXATION OF SAVINGS BANK LIFE INSURANCE

In three States (Connecticut, Massachusetts, and New York) laws are in effect under which 82 mutual-savings banks have established life-insurance departments which are authorized to engage in the business of life insurance. There are now in force some 600,000 policies, totaling \$620,000,000.

SEPARATE AND DISTINCT FROM BANK BUSINESS

These State laws, while making no provision for separate incorporation, require the life-insurance departments to be maintained and operated distinct from the rest of the bank as to assets, liabilities, accounting, and investments. Expenses are apportioned equitably.

These insurance departments are required to do business under the same laws as the legal-reserve life insurance companies, to maintain separate books and records and to make separate reports to State departments. They are subject to supervision by the State officials having supervision of life-insurance companies.

Savings banks with life-insurance departments pay separate State taxes on their banking and life-insurance business and on different bases. Their life-insurance business is subject to the same State taxes which are paid by life-insurance companies.

EFFECT OF TAXATION AS A BANK

Federal-income taxation of the premium and investment income of these life-insurance departments the same as the income of a bank or other business corporation would make it impossible for them to continue business. For illustration, the total gross income of the life-insurance departments in New York in 1950 was \$6,000,000, leaving a balance of \$4,500,000 after claims and operating expenses. Applying the proposed normal and surtax rates the total tax would have been \$2,100,000. This would leave only \$2,400,000 to cover an increase in compulsory reserves of \$3,500,000 required by the State laws, immediately rendering the department insolvent. Similar results would follow in Connecticut and Massachusetts.

PROPOSED SOLUTION

If savings banks are to be subjected to Federal-income tax, the appropriate solution is to tax the income of the insurance departments of the savings banks in the same manner as the income of life-insurance companies. This is what has been done with respect to State taxes in Connecticut, Massachusetts, and New York.

This would present no difficulties in the administration of the tax in view of the separate and distinct manner in which these life-insurance departments must be operated under State laws.

SEPARATE INCORPORATION

Separate incorporation of the life insurance business as life insurance companies is impossible under State laws and would be unnecessary. While not now separate corporations in a legal sense they are, for all practical purposes, separate entities. The Treasury Department has taken the view that a life insurance department is "an entity separate and apart from the bank." (See attached copy of Treasury Department letter dated July 7, 1941.)

—
TREASURY DEPARTMENT,
Washington, July 7, 1941.

Hon. JUDD DEWEY,
Deputy Commissioner, Savings Bank
Life Insurance, State House, Boston,
Mass.

DEAR MR. DEWEY: The Assistant Commissioner of the Public Debt advised you at my request in response to your letter of May 8, 1941, that careful consideration would be given to the question you raised as to whether the insurance departments of Massachusetts savings banks authorized to maintain such departments may hold United States Savings Bonds of Defense, series F or G, or both, to the extent of the prescribed limit without regard to holdings of such bonds by the banks concerned as such.

After thorough examination of the question you raised, I am able to inform you that the Department is willing to register savings bonds in the name of a savings bank organized under the laws of Massachusetts in trust for its insurance department, as an entity separate and apart from that of the bank concerned. Accordingly, bonds of series F or G, or both, may be held by a savings bank insurance department, to the extent of the prescribed limit, without regard to holdings by the bank purchased with assets of its savings department. Bonds purchased with assets of such an insurance department may be registered in the following form:

"The ——— Savings Bank, in trust for policyholders of the insurance department, under chapter 178, General Laws of Massachusetts."

By direction of the Secretary:

Very truly yours,

D. W. BELL,

Under Secretary of the Treasury.

Effect of proposed taxations as banks of savings bank life insurance (based on 1950 operations)

I. INCOME

	Net investment income	Premiums and other income	Total income
Connecticut.....	\$48,700	\$459,000	\$507,700
Massachusetts.....	2,307,200	10,569,600	12,876,800
New York.....	629,000	5,448,000	6,077,000
Total.....	2,984,900	16,476,600	19,461,500

II. CLAIMS AND EXPENSES

Connecticut.....	\$153,000
Massachusetts.....	4,655,000
New York.....	1,589,000
Total.....	6,397,000

III. INCOME LESS CLAIMS AND EXPENSES

Connecticut.....	\$354,700
Massachusetts.....	8,221,800
New York.....	4,488,000
Total.....	13,064,500

NOTE.—Actually in 1950 this amount was used as follows: To set up the legal reserves shown in item VI required by law to provide for cash values and other values given policyholders in event of nonpayment of premiums and to provide for future death claims; to pay dividends to policyholders amounting to nearly \$2,500,000; and the balance of approximately \$900,000 was added to policyholders' surplus.

IV. FEDERAL INCOME TAXES (UNDER SENATE BILL)

Connecticut.....	\$137,000
Massachusetts.....	3,971,000
New York.....	2,100,000
Total.....	6,208,000

V. NET INCOME AFTER TAXES

Connecticut.....	\$217,700
Massachusetts.....	4,250,800
New York.....	2,388,000
Total.....	6,856,500

VI. REQUIRED INCREASES IN LEGAL RESERVES

Connecticut.....	\$280,000
Massachusetts.....	5,875,000
New York.....	3,545,000
Total.....	9,700,000

VII. RESULTING DEFICIENCY IN AMOUNTS REQUIRED TO BE ADDED TO LEGAL RESERVES (CREATING INSOLVENCY)

Connecticut.....	\$62,300
Massachusetts.....	1,624,200
New York.....	1,157,000
Total.....	2,843,500

VIII. FEDERAL INCOME TAXES IF TAKED AS LIFE INSURANCE COMPANIES

Connecticut.....	\$2,000
Massachusetts.....	89,000
New York.....	24,000
Total.....	115,000

Mr. FLANDERS. Mr. President, quite a number of other Senators wish to speak, but some of us are becoming tired. I ask unanimous consent that the Senate may recess, at the pleasure of the Senate, without prejudice to my right to speak again on this subject, and without prejudice to my right to continue my speech tomorrow. I am not asking to be recognized first.

The VICE PRESIDENT. The Senator may speak a second time without unanimous consent if he so desires, and is recognized. Is the Senator asking that the Senate take a recess at this time?

Mr. McFARLAND. No, Mr. President, we have other business to transact.

The VICE PRESIDENT. The Senator from Vermont may be recognized again without having to obtain unanimous consent.

Mr. HUMPHREY. Mr. President—

The VICE PRESIDENT. Is the Senator from Vermont yielding the floor?

Mr. FLANDERS. I am not yielding the floor for the moment.

Mr. KERR. Mr. President, will the Senator yield?

The VICE PRESIDENT. Does the Senator from Vermont yield, and if so, to whom?

Mr. FLANDERS. I yield to the Senator from Minnesota.

Mr. HUMPHREY. I wonder whether or not the Senator from Vermont has given thought and consideration to the possibility of offering an amendment along the line of subjecting surpluses or reserves to the tax, as proposed in the bill, when the surpluses and reserves are either 10 percent or meet the statutory requirements of the respective States on the basis of whichever one is greater.

Mr. FLANDERS. I would say to the Senator from Minnesota that if the amendment to lift the provisions of the bill is voted down I can conceive of a number of unfortunate provisions of the bill that might be amended one by one, and this is one of the provisions which might be amended. However, I hope the vote to lift the provision will carry.

Mr. HUMPHREY. The Senator from Vermont has looked upon it as a remedial possibility.

Mr. FLANDERS. I think the term remedial possibility is an excellent one, and I accept it.

Mr. KERR. Mr. President, will the Senator from Vermont yield?

Mr. FLANDERS. I yield.

Mr. KERR. The Senator from Vermont has expressed concern for the safety of deposits in mutual savings banks. He is aware of the fact that those deposits are guaranteed by the FDIC up to \$10,000 on each deposit, is he not?

Mr. FLANDERS. I am aware of that fact. In being aware of the fact I do not subscribe to the idea that because deposits are insured by the FDIC therefore there remains no responsibility on the savings banks for judicious management on the one hand, and the following of State laws on the other.

Mr. KERR. Mr. President, will the Senator yield further?

Mr. FLANDERS. I yield further.

Mr. KERR. The amount of money which the mutual savings banks pay to

the FDIC for the insurance of their deposits is a deductible item of expense, even though the taxation under this bill should become a reality, is it not?

Mr. FLANDERS. It is a deductible item of expense.

Mr. KERR. Mr. President, will the Senator yield further?

Mr. FLANDERS. I am yielding. I am in a yielding mood.

Mr. KERR. The Senator is aware of the fact, is he not, that the FSLI is a similar insurance agency for insuring the deposits in savings and loans associations, and that such deposits are guaranteed up to \$10,000 by the FSLI?

Mr. FLANDERS. I would say with regard to that exactly what I have stated with reference to FDIC, and that it does not remove the necessity for judicious management on the part of those institutions, or remove the necessity for obedience to State laws.

If the Senator will further permit me, I will say that these very institutions which he mentions, the FDIC and the FLSI, set up standards of reserve which are quite a bit higher than some of those we have been talking about.

Mr. KERR. The expense which the building and loan associations have been paying for that insurance for their depositors would be a deductible item for them under this bill also, would it not?

Mr. FLANDERS. I will say to the Senator from Oklahoma that I do not know just where he is leading me, but so far as I can see up until now he is leading me in safe paths. I would say yes.

Mr. KERR. The answer is yes. I thank the Senator. I should like to ask the Senator a question with reference to some remarks made by the Senator from Maryland [Mr. BUTLER] who referred to the fact that savings banks might want in some years to make larger payments of interest to their depositors than they regularly do. With reference to that statement, I should like to ask the Senator from Vermont if it is not a fact that under this bill whatever interest these savings banks paid to their depositors on their deposits would also be a deductible item.

Mr. FLANDERS. That is true, as I read the bill.

Mr. KERR. That is true, as the Senator understands the bill?

Mr. FLANDERS. Yes. I am still interested in knowing where we are going. However, as the man said who fell off a 20-story building, as he passed the tenth story, "All right so far."

Mr. KERR. I thank the Senator. I am happy to discover that we are getting along so well and that both of us are happy. He has referred to the fact that some of these savings banks are in the life insurance business, and that in that business they have income from premiums, which he fears would be taxable under the bill. With reference to that statement, the Senator from Oklahoma does not agree with the Senator from Vermont, but the Senator from Oklahoma would like to ask a further question. If there were any doubt in the mind of a mutual savings bank whether or not the banking part of its business would be affected by the proposed tax,

would it not organize a subsidiary life insurance company to carry on that business, whereby that part of its business would be subject to the laws and taxes applicable to life insurance companies, and in no wise would be affected by the taxation provisions of the pending bill.

Mr. FLANDERS. It is my understanding that the State laws under which these savings banks and their insurance departments are set up recognize the separation of functions and tax the insurance parts of those businesses, which are carried on separate books, in the way that insurance companies are taxed and apply to them the proper regulations for insurance companies under the insurance departments of the States, whereas the appropriate regulations for savings institutions are administered in regard to the savings bank branches of those businesses.

Furthermore, the separation of those two functions without separation of the corporate structure has been recognized by Daniel Bell, then Under Secretary of the Treasury, in connection with the amount of particular types of bonds which it is lawful for a bank to have. He ruled that the insurance branches of the savings banks were subject to the Treasury laws and regulations which relate to the total volume of different types of bonds which insurance companies may carry, whereas the savings parts are subject to the laws and regulations which are applicable to savings banks.

So not merely is there a recognition on the part of both Federal and State bodies that these two functions are separate and have different laws and regulations applicable to them, but there has also been shown the practicability of operating on that basis for a long period of time.

Mr. KERR. I thank the Senator from Vermont very much, and I call attention to the fact that his answer substantiates two things which were my belief, namely, first, that the premiums from that source of income were not taxable as premiums and could not be taxable except if that part of the business showed a profit; and, second, that if there were the slightest question about that, the mutual savings bank could entirely eliminate the doubt by incorporating that part of its business in a subsidiary corporation, and then for a certainty could remove any possible question as to whether that part of its business would be taxable under this measure.

I thank the Senator very much.

Mr. FLANDERS. Mr. President, I may say to the Senator from Oklahoma that I begin to fear that he has taken me a few steps farther along this path than I am willing to go. The bill itself does not require or make it mandatory that the two parts of the business be separated. The bill itself should make that mandatory, so that there will be no question in the minds of the Bureau of Internal Revenue as to how and whether the total operations of a savings bank with an insurance department should be divided and administered.

Mr. GEORGE. Mr. President, I do not know whether the Senator from Ver-

mont understood me a while ago when I said, as chairman of the committee, that we were ready to accept an amendment separating the insurance departments from the savings departments.

Mr. FLANDERS. I shall have one prepared soon.

Mr. GEORGE. The committee itself had considered that; it was considered, at least, by most of the members of the committee who favored any tax on these institutions.

Mr. FLANDERS. Mr. President, I yield the floor.

During the delivery of Mr. FLANDERS' speech,

Mr. BRICKER. Mr. President, will the Senator from Vermont yield to me?

Mr. FLANDERS. I yield.

Mr. BRICKER. I have a statement of about 4 pages, and I ask the Senator from Vermont if he will ask for unanimous consent that without the Senator from Vermont losing the floor thereby, I may be permitted to speak for the RECORD at this time, so I may catch a plane in a few minutes. I believe I will take no longer than 6 minutes.

Mr. FLANDERS. Mr. President, I make that request.

The VICE PRESIDENT. Is there objection? The Chair hears none, and it is so ordered.

Mr. BRICKER. In my State we are, of course, interested in the mutual-savings bank about which the Senator from Vermont has spoken this afternoon. We have one very large one, one medium-sized one, and a smaller one in the State. What I shall say will deal directly with the savings and loan associations rather than the mutual savings banks. These are peculiarly community enterprises. They have been such throughout the life of the institutions in my State. They have rendered a very constructive community service in the field of home building, particularly by the use of private money and private capital. At this time, when there is need for housing, when everyone is rushing to the Government for public housing, it seems to me that every encouragement ought to be given to those institutions which use their own money for the purpose of building homes for the citizens of our country.

Likewise these institutions are built firmly upon the foundation of thrift and savings. There are those who feel that that is an outmoded virtue. I do not. I think it ought to be encouraged by the Congress of the United States.

I remember personally so well in the 1930's, when I was law officer for the State of Ohio, that we went through the distressing experience of not only financial loss but of tremendous human suffering as the result of the failure of these institutions which did not have adequate reserves to take care of the needs of their depositors who made the demands upon them.

The payment on deposits is not large. The average I think is about 2½ percent. Likewise the earnings are not high. The reserves at this time are not excessively high. I think the record shows that the average was approxi-

mately 7.5 percent during the past year or during the time the figures were taken by the committee. So passing over the issues that have been discussed so far by the Senator from Vermont, I want to say that I support him, not only in regard to mutual-savings banks but in regard to savings and loans associations as well.

Mr. President, in my judgment, section 313 would definitely impose a tax on thrift, and it would do so at a time when every factor in the economic outlook of the Nation cries out the need for more thrift, for more personal savings. In fact, the one inflation remedy on which every person in public life seems to agree is more savings by individuals; so when we are asked to vote a tax on institutions whose sole activity is the encouragement of thrift, I think it is neither wise, just, nor understandable. Remember that the savings and loan associations and the mutual savings banks for a century and a half have taken by the hand the hard-working, poor men and women of this country and encouraged them to save money and taught them the value of putting aside something for the future. They have 30,000,000 savers today. It seems to me that if we are wise in our public leadership, we shall do everything possible to assure that they attract another five to ten million savers into their membership during these years ahead when we have such special reason to dread too much spending. I am supporting the amendment because in conscience we cannot tax these thrift institutions unless we have provided for the safety of their members' funds in every way dictated by financial experience and by common sense.

Because of the eminent leadership of the State of Ohio in the savings and loan association business, comparable to the leadership of New England in the development of mutual-savings banking, I feel compelled to put this tax proposal and its consequences under a very sharp spotlight. The savings and loan associations in Ohio, with \$2,000,000,000 of the savings of men, women, and children, have contributed immeasurably to the stalwart thriftiness of our people and the high percentage of owned homes within our borders.

A savings and loan association can achieve adequate safety for its savers by prudent management, by adequate reserves as a cushion against losses, and by insurance of its accounts with the Federal Savings and Loan Insurance Corporation.

As nearly as I can analyze it in the brief time I have been able to give to it, section 313 would place a tax on the amounts which these institutions should, by every dictate of experience, be putting into solvency reserves in order to protect their savers against widespread calamity in the next real-estate depression. It would not take a great depression to wipe out the reserves which are the average throughout the country at the present time. I recall the experience we had in the thirties with these institutions in my State.

By undermining the ability of the association to build an adequate cushion

against disaster, this tax proposal is itself a slap in the face of prudent management.

Imagine the state of mind, the confusion, the consternation of the board of directors of one of these savings institutions sitting around the conference table, aware that the savings of thousands are entrusted to them, looking at the loans made to veterans and defense workers and hundreds of other families of low and moderate incomes on homes which are costing more to build or to buy than homes have ever cost before. What are they to do when they know that the cushion should be built up during these present prosperous years to absorb losses which are bound to come someday on loans of this type, and when the United States Government is reaching in to take 50 cents of every dollar which the association has available to build up that cushion?

As I study the question and ponder why the Senate Finance Committee, with its long experience and with its judgment which is respected by every Member of this body, kept section 313 in this bill after long deliberations, I can only conclude that somehow there is incomplete knowledge about the rather simple way in which a savings and loan association operates and what it does with the funds at its disposal every half year. Perhaps the injustice and the lack of wisdom of the proposed tax will clarify itself before us all when we realize that these associations pay out all of their earnings above expenses in dividends to savers, which dividends are subject to the full personal income tax.

They have no "retained earnings." There is no accumulation of funds which can be used for competitive purposes taking advantage of an unfair competitive situation with business enterprises which pay directly the corporate income tax. All that a savings and loan association does not pay out in dividends to its members is a periodic allocation into a fund which builds up over the years and serves much as the capital funds of a banking enterprise serve to protect it in periods of extreme loss. Savings and loan associations need reserves of this particular type because any losses which come to them are concentrated in a particular period of time, in 4 or 5 years out of every 20 or 25, and are the result of the very nature of their business of making home loans to families which must take a long time to pay those loans off.

Every supervisory official of every State department of financial institutions and every supervisory official for savings and loan institutions in the Washington establishment has spent the past 18 years instilling in the minds of those responsible for savings and loan associations and their sound and safe operation the need to create adequate cushions of the type I have just been describing. They have been insistent that the reserve be there to take care of the day when home prices are no longer soaring and the demand for homes has vanished, or at least has lessened. Most Senators can remember what that kind

of situation was like in the 1930's. The truth is that the savings associations could well put into reserves over the next decade every cent which they receive over and above dividends and expenses, and they would still not be accumulating any more than the amount which ordinary prudence dictates they should have for the protection of their depositors and the conduct of their business.

The third safety factor on which a savings and loan association may rely is the Federal Savings and Loan Insurance Corporation. I think that if you look at its situation you will see why the supervisory officials here in Washington have been so insistent about the need for building up adequate reserve funds in each insured savings institution. Two thousand nine hundred and forty-four different institutions with \$12,000,000,000 of savers' funds are insured by this instrumentality of the United States Government.

Mr. MILLIKIN. Mr. President, will the Senator yield?

Mr. BRICKER. I should be glad to yield, but I have only a minute or two. I will yield briefly for a question.

Mr. MILLIKIN. I do not wish to take the Senator's time.

Mr. BRICKER. I thank the Senator.

If we tax away the ability of these institutions to build up the kind of reserves which every thinking person who has studied the question thoroughly believes they should have, we are exposing the Federal Savings and Loan Insurance Corporation to a very grave burden. Should this burden fall upon it in the next time of real estate deflation, the Federal Treasury will pay dearly for the revenue it may have obtained from the tax on the savings institutions which this bill proposes. It would cost many times more, in my judgment, than the returns which will be received under section 313.

I should also like to remind my colleagues of the unusual role which the savings and loan associations play in the provision of money which ordinary people need to pay for their homes. Year in and year out they make about one-third of all of the home loans granted in this country. This is a business, as I have already pointed out, in which the risks are long term. Any tax on these institutions which hampers their ability to build reserves will endanger their ability to extend home-mortgage credit as effectively as they have in the past. The United States Senate has always given sympathetic treatment to measures to increase the availability of funds for people who need homes. It would be a sorry thing indeed for us to vote this tax hampering the ability of the most effective single source of home-mortgage funds in the country to carry on that good community constructive work.

I know that a great hue and cry has been raised throughout the length and breadth of the land that these institutions should pay directly the income tax paid by other corporations and by banks. Singularly, one of the arguments of those who want such a tax has been the great growth of savings in the institutions for which the Congress has always main-

tained a tax treatment different from the corporation tax. In an hour which calls for every possible incentive to more savings, at a time when the springs of home-mortgage money are not flowing freely enough to satisfy the veterans or the need in the defense areas, I can see no wisdom in taxing the associations which persuade people to save money and which supply home-mortgage funds.

I wish to bring to the attention of the Senate the fact that in this position I am fully supported by a letter from William K. Divers, Chairman of the Home Loan Bank Board, in Washington, and by a letter to him from the general counsel of that organization.

I shall support the amendment of the Senator from Vermont [Mr. FLANDERS]. I wish to thank him and other Members of the Senate for the unanimous consent granted me to speak at this time.

ORDER OF BUSINESS

Mr. HENNINGS, Mr. HOLLAND, and other Senators addressed the chair.

The VICE PRESIDENT. The Senator from Missouri is recognized.

The Chair wishes to state that several Senators have been waiting all afternoon, seeking recognition. Of course, the Chair is not bound by the order in which such requests are presented.

However, the Chair has also been advised that the Senator from Missouri [Mr. HENNINGS] desires to make a brief statement on a question of personal privilege, which, of course, is a privileged matter.

Therefore, under the circumstances, the Chair feels that he should recognize the Senator from Missouri at this time.

Mr. SALTONSTALL. Mr. President, a parliamentary inquiry.

The VICE PRESIDENT. The Senator from Massachusetts will state it.

Mr. SALTONSTALL. I hope what I have to ask is a parliamentary inquiry; I wish to ask either the Chair or the majority leader what will be the program for the remainder of the day and for tomorrow.

Mr. McFARLAND. I understood that the Senator from Michigan desired to make a speech for about an hour. I do not know whether the Senator from New Jersey wishes to speak this evening or whether the Senator from New York wishes to speak this evening.

I thought I would try to accommodate Senators who wish to make speeches this evening, and we shall convene in the morning at 10 a. m.

Mr. SALTONSTALL. Mr. President, will the Senator yield?

Mr. McFARLAND. Certainly.

Mr. SALTONSTALL. Then do I correctly understand that no votes will be taken today, but that Senators who wish to make speeches this evening may do so, and that thereafter the Senate will take a recess until 10 a. m. tomorrow?

Mr. McFARLAND. Yes. We had not planned to have any votes taken this evening.

The Senator from Michigan wished to speak on another matter, and he thought it would be just as appropriate for him to make his speech after we finished our business on the tax bill for today.

Mr. SALTONSTALL. Will there be any votes tomorrow?

Mr. McFARLAND. I hope there will be.

Mr. SALTONSTALL. I thank the Senator from Arizona and I thank the Senator from Missouri.

QUESTION OF PERSONAL PRIVILEGE

Mr. HENNINGS. Mr. President, there is a matter which I should like to bring to the attention of the Senate.

On Tuesday, as I was leaving my office for New York, to attend the convention of the American Bar Association, I was handed a letter from a Member of the Senate, and was advised that he had handed the letter to the press an hour or two prior to my receipt of the letter. Copies of the letter were released to the press.

I do not intend to dignify the letter with a reply. Nevertheless, Mr. President, in my opinion this letter is an affront to the honor of the Senate and impugns the integrity of one of the Senate's committees. I believe it is my duty to give to the Members of the Senate and to the public the full facts concerning the false implications contained in the letter.

The letter suggested that I should disqualify myself as a member of the Subcommittee on Privileges and Elections of the Senate Committee on Rules and Administration, in connection with its consideration of the resolution of the Senator from Connecticut [Mr. BENTON], Senate Resolution 187. This resolution, as Members of the Senate will recall, directs the Committee on Rules and Administration to consider and investigate further its recommendations on the 1950 Maryland Senatorial election, the participation of the junior Senator from Wisconsin [Mr. McCARTHY] in that campaign, and other such acts on his part, so that the committee will be enabled to determine whether it should initiate action toward his expulsion from the United States Senate.

The letter also suggested that any action taken by that Subcommittee of the Senate Committee on Rules and Administration would be influenced by the fact that I am a member of a law firm a partner in which, John Raeburn Green, undertook to move the Supreme Court for a rehearing in the case of Gates, one of the 11 convicted Communist leaders. The letter further suggested that the subcommittee could not act with propriety because the same law firm represents the St. Louis Post-Dispatch, which agreed editorially with the dissent of two Justices from the Court's decision upholding the conviction of the Communist leaders, and which has criticized the junior Senator from Wisconsin [Mr. McCARTHY] for some of his activities.

Because I am a member of a law firm which has been in existence for 70 years, and which has as clients the St. Louis Post-Dispatch and the Pulitzer Publishing Co., and because a member of the same firm has undertaken the appeal of one of the convicted Communists, it is implied that I am unqualified to sit on the subcommittee, and that any action

noon, I am going to say that as a Member of this distinguished body and as formerly a practitioner of law for 22 years, I am unable, as a lawyer, as well as a Senator being familiar with the oath I have taken, to understand how the Senator from Missouri [Mr. HENNINGS] could under the circumstances sit in judgment as a member of the Subcommittee on Privileges and Elections of this body and hear testimony and evidence against another Member, when within his own heart he would feel malice and ill will against the other, and would send to his fellow Senator a telegram showing that malice and ill feeling in his own heart. A man might hold ill will in his heart and never divulge it, but when he sends a telegram setting out that hatred and ill will, then that is a serious, very serious matter.

I am quite certain that when the distinguished Senator from Missouri realizes what he stated in the telegram, that which he feels in his heart—he would not have sent the telegram I am now going to read to the Senate—the Senator from Missouri will not wish to sit in judgment upon any person, let alone another Senator, under such circumstances.

The telegram reads as follows:

NEW YORK, N. Y.

HON. JOSEPH McCARTHY,
United States Senate,
Washington, D. C.:

I propose to discuss you in the Senate on Friday. I hope that you will have time to be there even if it requires your temporary absence from inventing smears and lies about others.

THOMAS C. HENNINGS,
United States Senator from Missouri.

Mr. President, a parliamentary inquiry.

The PRESIDING OFFICER. The Senator will state it.

Mr. WELKER. Did I correctly understand the ruling of the Chair to be that the letter I submitted would be printed in the body of the RECORD?

The PRESIDING OFFICER. That is true.

Mr. WELKER. And that it was ordered printed, without objection?

The PRESIDING OFFICER. The letter has been ordered to be printed in the RECORD.

Mr. BENTON. Mr. President, will the Senator yield for a question?

Mr. WELKER. I am glad to yield.

Mr. BENTON. I am sure there is no difference between the Senator from Idaho and myself on this subject. I wish to ask a question, simply to make this matter abundantly clear for the RECORD. Does the Senator from Idaho agree that the reason why both of us are perfectly willing to have the letter printed in the RECORD is that it is his judgment that the American people will react to the letter in one way, whereas it is my judgment that the American people will react in a completely opposite way, and that that is the fundamental difference between us?

Mr. WELKER. In answer to that inquiry, I will say that in my opinion all red-blooded and thinking American people will react to this letter in a way ex-

actly opposite from the way the Senator from Connecticut would hope they would react.

Furthermore, Mr. President, I will say to you and to the Senator from Connecticut that I came to the United States Senate following a campaign based upon the fact that I want to remove every Communist from the United States Government and from the land of the United States. When thousands of our young men are dying across the sea I am unable to understand why a man should be condemned for his crusade to stamp out communism in the United States. I have heard all too much about "red herrings" and political smearing. Communists have stolen every atomic secret we have had. We have had Communist spies and we have had the Hisses, Remingtons, Coplons, and others. The American people know we have coddled and condoned them. I want to join with any American who will stamp them completely out of this Nation forever.

It may be that the Senator has erred in some instances. I do not know about that, but I will say that, as a result of the work he is doing, the American people have focused their attention on the ever-present danger that Communists exist in our midst in this country, and in our Government today; and as long as Senator McCARTHY is right I will be behind him 100 percent in the effort to stamp out communism in the United States and all over the world. Red-blooded Americans could not do otherwise.

Again I go back to the proposition that I like to see honest tribunals and honest courts of law, and I hate to think that any Senator or any human being would be judged by another sitting as a member of a subcommittee or a court who holds within his heart malice and hatred against the one upon whom he expects to pass judgment, in this case malice toward the Senator from Wisconsin.

EXECUTIVE MESSAGES REFERRED

As in executive session,

The PRESIDING OFFICER (Mr. FREAR in the Chair) laid before the Senate messages from the President of the United States submitting sundry nominations, which were referred to the appropriate committees.

(For nominations this day received, see the end of Senate proceedings.)

EXECUTIVE REPORTS OF COMMITTEES

As in executive session,

The following favorable reports of nominations were submitted:

By Mr. MURRAY, from the Committee on Labor and Public Welfare:

George W. Merck, of New Jersey, to be a member of the National Science Board, National Science Foundation, vice Edward L. Moreland, deceased; and

Earl P. Stevenson, of Massachusetts, to be a member of the National Science Board, National Science Foundation, vice Charles E. Wilson, resigned.

By Mr. CHAVEZ, from the Committee on Public Works:

Col. Donald S. Burns, Corps of Engineers, to serve as President and member of the California Debris Commission, vice Col. John S. Seybold, to be relieved.

NOMINATION OF WILLIAM C. FOSTER TO BE DEPUTY SECRETARY OF DEFENSE

Mr. McFARLAND. Mr. President, as in executive session, I ask unanimous consent that the nomination of William C. Foster, of New York, to be Deputy Secretary of Defense, be considered.

The PRESIDING OFFICER. Is there objection?

Mr. CAIN. Mr. President, a parliamentary inquiry.

The PRESIDING OFFICER. The Senator will state it.

Mr. CAIN. Is the request to consider the nomination?

Mr. McFARLAND. Yes; as in executive session.

Mr. CAIN. I have no objection.

There being no objection, the Senate proceeded to consider the nomination.

The PRESIDING OFFICER. The question is, Will the Senate advise and consent to the nomination of William C. Foster to be Deputy Secretary of Defense?

Mr. CAIN. Mr. President, the Senator from Washington wishes to make a statement regarding the nomination which is now before the Senate.

It is not pleasant to vote against a friend who is a Republican, but the junior Senator from Washington did that yesterday without hesitation or regret. I was the only member of the Armed Services Committee of the Senate who voted against the nomination of Mr. William C. Foster to be the Deputy Secretary of Defense. I wish to state briefly the reasons which required me to oppose the appointment of a person whom I consider to be possessed of real capacity.

I voted against the nomination of Mr. Foster because he represented a prime example of the tendency of the administration to seek appropriations from the Congress without providing the Congress with accurate information and correct facts from which sound judgments and decisions can be rendered. As the Deputy Administrator for the Economic Cooperation Administration, Mr. Foster permitted himself to be misled by his assistants, and he offered an official statement to a Senate committee which he did not know to be true. This statement which was largely misleading was designed for the sole purpose of minimizing committee questions in an effort to have a requested appropriation approved.

On June 13, 1950, Mr. Foster appeared before the Senate Appropriations Committee in support of a supplemental request for \$100,000,000 for fiscal 1951, for the Republic of Korea. June 13, 1950, was 2 weeks before the outbreak of war in Korea.

In appearing before the committee, Mr. Foster was accompanied by these persons: Mr. C. Tyler Wood, Assistant Administrator for Operations; Mr. E. A. J. Johnson, Director, Division of Korea Program; Mr. Wilhelm Anderson, Deputy Chief, ECA Mission to Korea; Mr. Frederick H. Bunting, Division of Korea Program; Mr. Frederick C. Spreyer, Division of Korea Program; and Mr. Edwin C. Garwood, Director, Budget Division.

In his statement to the Senate Appropriations Committee, which took about 5 minutes to read, Mr. Foster said this:

I am happy to tell the Appropriations Committee, that, in my judgment, the trend of events in South Korea is more favorable than it has been at any time since the liberation of that country in 1945. The reasons for optimism are military, political, and economic. It is my considered opinion that in the face of great difficulty the Government of the Republic of Korea is now steadily gaining strength in each of these three sectors.

1. A rigorous training program has built up a well-disciplined army of 100,000 soldiers; one that is prepared to meet any challenge by North Korean forces; and one that has cleaned out the guerrilla bands in South Korea in one area after another.

During the course of the Appropriations Committee hearing, which lasted for the better part of a day, not a single one of his assistants questioned what Mr. Foster had told the committee about the ability of the South Korean army to meet any challenge by North Korean forces. The committee was led to believe that the Economic Cooperation Administration was certain that no war would develop in Korea and that the Congress could safely appropriate in fiscal 1951, \$100,000,000 to be spent to facilitate the maintenance of political independence, the achievement of economic stability, and the eventual unification of the country as a single democratic state.

Since Mr. Foster testified that war in Korea was practically unthinkable, our Nation has spent not a hundred million dollars for economic assistance, but something more than \$8,000,000,000 to fight a war in Korea.

To his credit, Mr. Foster assumed full responsibility for the misleading advice which he gave to the Senate Appropriations Committee in June of 1950. He likewise testified that he had not been in Korea before he offered his statement. He testified that his statement had been designed from reports which he had requested from ECA agents in Korea.

In answer to a committee member's question, Mr. Foster stated that he had neither requested nor read nor studied the intelligence reports of the Central Intelligence Agency. By his own admission, Mr. Foster let his advisers place Mr. Foster in the position of being a military authority when he possessed no such qualifications, and when he had no military intelligence evaluations available to him.

The Congress of the United States suffers from a lack of staff and from an inability adequately to determine the progress of executive activities throughout the world. The Congress must largely rely on the executive branch of our Government to submit the true facts in any given situation. Unless committees of the Congress know what the truth actually is, the Congress will too often make appropriations which are either not required or which will be wasted.

I voted against the appointment of Mr. Foster because I want to register my considered criticism of the administration in every instance where it seeks to take advantage of the Congress by sub-

mitting information which is insufficient, inaccurate, or misleading. I shall never vote to confirm the appointment of any executive agent who permits himself to be a pawn in the hands of others. The stakes which our Nation is playing for these days are entirely too serious and high for carelessness, which can lead to disaster, to be condoned in any way. In knowing Mr. Foster to be a man of considerable ability, I take for granted that he will never again appear before a committee of the Congress without making as certain as he can that the testimony he desires to offer is both accurate and factual.

I hope that my vote against Mr. Foster will be construed and understood to be a vote against any executive agent of our Government who offers anything but all of the facts and the truth to the Congress.

THE PRESIDING OFFICER (Mr. FREAR in the chair). The question is, Shall the Senate advise and consent to the nomination of William C. Foster, of New York, to be Deputy Secretary of Defense? [Putting the question.] The "ayes" have it, and the nomination is confirmed.

Without objection, the President will be notified.

LEGISLATIVE SESSION

Mr. McFARLAND. Mr. President, I ask unanimous consent that the Senate resume consideration of legislative business.

The PRESIDING OFFICER. Without objection, the Senate will resume consideration of legislative business.

REVENUE ACT OF 1951

The Senate resumed the consideration of the bill (H. R. 4473) to provide revenue, and for other purposes.

Mr. DIRKSEN. Mr. President, I shall not detain the Senate very long. I may, however, not have an opportunity to discuss the pending Flanders amendment, so I wish to insert in the RECORD, and more nearly formalize, some documents I referred to in the running debate this afternoon.

First of all, I pointed out that I have received a letter from the auditor of public accounts of the State of Illinois, who happens to be an elected official. In that letter he sounds a warning that I do not believe can be ignored. I therefore think it is of high import that the letter be included in the RECORD, for the information of the Members of the Senate as well as others. So, Mr. President, I ask unanimous consent that the letter addressed to me by the auditor of public accounts of the State of Illinois be printed in the RECORD at this point.

There being no objection, the letter was ordered to be printed in the RECORD, as follows:

AUDITOR OF PUBLIC ACCOUNTS,
Springfield, September 13, 1951.
The Honorable EVERETT M. DIRKSEN,
United States Senate,
Senate Office Building,
Washington, D. C.

MY DEAR SENATOR: I am deeply concerned over the present tax proposal which I understand has been or is about to be submitted by the Finance Committee to the entire Senate as an amendment to House

Resolution 4473. As you know, I am charged with the supervision of 473 State-chartered savings and loan associations, and one of the most important parts of this supervision is to safeguard the funds invested in these associations so that as far as humanly possible they will be solvent and able to pay their members the full amount of their investments plus earnings.

In this type of institution which has as its primary purpose a home-mortgage lending operation it is necessary to build reserves against future losses. In this connection the General Assembly of the State of Illinois at the last general session raised the reserve requirement for State-chartered associations so as to place them on a more realistic basis in line with the growth and development which have been experienced by the savings and loan associations in the State of Illinois. Irrespective of the fact that over 25 percent of net income has been allocated to loss reserves in 1950, we find that the reserve position of our associations at the end of the year 1950 slightly declined.

I wish to point out that the amendment as proposed does not give consideration to the reserve requirements of our Illinois law or of other State laws; therefore, we feel that in this respect this legislation has highly dangerous implications. To tax the methods of income distribution by a number of these associations acting in conformity with our Illinois State law under principles of taxation set up for ordinary stock corporations would likewise result in confusion, possible discrimination or revolutionary changes in present operation.

An analysis of our State-chartered associations indicates that the average allocation to dividends for the past year was 2.62 percent per annum. If this reserve allocation is to be continued at the present rate and the additional tax burden is passed on to the investing members by a reduction in dividend, they would receive a return averaging only 1.38 percent. The result would be heavy withdrawals and financial chaos would be created in the savings and loan associations.

The only other alternative would be a sharp increase in interest rates to borrowers, which is, of course, highly objectionable, and would retard home ownership. At the present time the savings and loan business in the State of Illinois is taking care of almost one-half of the home loans which are being made, namely, 45 percent. They are specialized thrift and home-financing institutions and to take them out of the home mortgage market would only lead to Government lending as a substitute as the other financial institutions could not take up the slack.

It is just impossible to treat mutual savings and loan associations like ordinary corporations. Their earnings are in the tax stream as indicated by the Treasury Department in its testimony. All earnings go to operating expenses, to dividends, and to reserves, and, therefore, are ultimately taxed one way or another.

This same analysis can be made in regard to Federal associations operating in the State of Illinois; therefore the entire savings and loan business in this State would be affected by the proposed legislation.

I particularly want to call your attention to the seriousness of this legislation and I shall appreciate your consideration. I urge your support in opposition to this proposed amendment to House Resolution 4473 if it reaches the Senate floor. If you deem it appropriate, I have no objection to your presenting my views to Senator GEORGE and the Senate Finance Committee members. I hope they will understand our State's position in this matter.

Respectfully yours,

BENJAMIN O. COOPER,
Auditor of Public Accounts.

Mr. DIRKSEN. I may say, Mr. President, that while I recognize the force of the argument made today by the Senator from Georgia [Mr. GEORGE] that it would be possible so to concentrate power in a State supervisory position as to hamstring the activities of the Federal Government, yet I am not unmindful of the fact that any action which might be taken here which might impair or destroy the reserves of a thrift institution in my State would provoke a condition that would be very difficult indeed to overcome. If for any reason such an institution had to be liquidated because its reserves had to be impaired, one could scarcely satisfy the people who, by thrift and frugality, had become shareholders of such an organization with some kind of a legalistic argument. So this letter comes as something of a warning from the elected auditor of public accounts of the State of Illinois.

Mr. President, secondly, there was addressed to the chairman of the Finance Committee on the 4th day of September, 1951, a rather lengthy letter written by William K. Divers, Chairman of the Federal Home Loan Bank Board, and also an interoffice communication from the office of the general counsel, T. Wade Harrison of the Home Loan Bank Board to Mr. William K. Divers. I may say that Mr. Divers, of course, in his supervisory capacity speaks for some 1,500 Federal savings and loan associations. His organization also acts as trustees of the Federal Savings and Loan Insurance Corporation which insures accounts up to \$10,000 in 2,860 institutions of the savings-and-loan type.

Mr. President, if for any reason the action proposed to be taken by the Congress should impair the solvency of those institutions, we would have the rather odd spectacle of having to go back to another Federal agency in order to bail them out. I mention that this afternoon, and I reemphasize it by reading a statement contained in Chairman Divers' letter, as follows:

We would like to emphasize that the staff of the Committee on Finance has never called upon our Board for an expression of its views on the proposed tax or related matters, and this is the first time our Board has submitted its views to your committee.

I might remark also that since the Home Loan Bank Board supervises some 1,500 Federal savings and loan associations, its position in the matter should be given attention.

So I ask unanimous consent to have the letter and the interoffice communication printed at this point in the RECORD.

There being no objection, the matters referred to were ordered to be printed in the RECORD, as follows:

HOUSING AND HOME FINANCE AGENCY,
HOME LOAN BANK BOARD,
Washington, D. C., September 4, 1951.
The Honorable WALTER F. GEORGE,
Chairman, Committee on Finance,
United States Senate, Washington,
D. C.

MY DEAR SENATOR GEORGE: We have noted from the CONGRESSIONAL RECORD of August 29, 1951, that the Committee on Finance has taken tentative action on amendments to H. R. 4473 which, if adopted, would tax mu-

tual savings banks, savings and loan associations, including building and loan associations, cooperative banks, homestead associations, and similar institutions.

Let me assure you that we are not unappreciative of the many weighty problems before your committee and your desire to spread the tax burden as evenly as possible. However, the proposed tax, in our opinion, would have a serious adverse effect on these institutions and would possibly destroy them. An additional consideration which should not be overlooked is that the proposed tax would apparently prevent the organization and development of new associations which are still needed in many county seats and in new and developing parts of our country.

We are responsible for the chartering, regulation, and supervision of some 1,500 Federal savings and loan associations. We act as trustees of the Federal Savings and Loan Insurance Corporation which insures accounts up to \$10,000 in 2,860 institutions of the savings and loan type. In our supervisory capacity we have constantly urged substantial, annual allocations to reserves for losses.

Savings and loan associations are limited in their investments to first-mortgage loans and to United States Government bonds. Approximately 70 percent of their mortgages are not insured or guaranteed. Substantial reserves against losses are imperative because (1) the real-estate market has been on the rise since the early thirties; (2) losses in Government bonds may occur if liquidation of bonds is necessary; and (3) losses may be suffered even if mortgages are insured or guaranteed, as was demonstrated in the recent floods in Kansas, Missouri, and Oklahoma.

The proposed tax would permit an association to establish a loss reserve based on its experience of the last 20 years. Such a loss record in our opinion is not a safe basis for establishing reserves because the real-estate market has risen without interruption for almost 20 years. We are satisfied from our analysis of the situation that a 20-year experience loss reserve will not be adequate when the real-estate market turns down. We would therefore be faced with two alternatives if the proposal became law: (1) If adequate credits are made to reserves by these institutions, it would be necessary for these institutions to reduce dividends to such an extent that we believe it would cause general withdrawals of savings and would gradually result in the liquidation of these institutions. For example, the average insured association in 1950 had savings of \$4,000,000, paying an average dividend of 2½ percent and making an annual reserve allocation of 1½ percent of its savings. In order to maintain the same reserve allocation of 1½ percent of it would be limited to not more than a 1-percent dividend paying a tax of slightly more than 1½ percent of savings. (2) The second alternative is that the institutions would continue to pay the same dividend rates as formerly. In this case the loss reserves would not be sufficient and our supervisory and insurance loss problems would be increased tremendously. For example, the average insured institution in 1950, due to growth, barely maintained its ratio of reserves to savings, notwithstanding that it allocated one-third of its net income to reserves instead of paying it out in dividends. If this average institution reduced its allocation to reserves by a half, its reserve ratio would decline steadily to a dangerous point.

We would like to emphasize that the staff of the Committee on Finance has never called upon our Board for an expression of its views on the proposed tax on related matters, and this is the first time our Board has submitted its views to your committee.

We hope you will reconsider your tentative decision in the light of the effects it may have upon these institutions which have almost 30,000,000 savers.

Time has not permitted an exhaustive study of this matter. We are enclosing a memorandum from our general counsel setting forth additional considerations. We will, of course, be glad to have further studies made for your committee and to cooperate in any way which you deem desirable.

Sincerely yours,
WILLIAM K. DIVERS,
Chairman.

HOME LOAN BANK BOARD,
September 4, 1951.

From office of the general counsel.
To Mr. William K. Divers, chairman.

You have requested that a study be made of the effect which the adoption of the amendments to H. R. 4473 taxing mutual-savings banks, savings and loan associations, and similar institutions would have on these institutions. The proposed amendments would tax these institutions as ordinary corporations, allowing a deduction for dividends or interest paid to depositors and allowing a special deduction for amounts placed in bad-debt reserves based upon experience over a period of time.

Time has not permitted us to make as complete a study, including case histories on institutions in the various reserve categories, as we would like. However, from the figures readily available we have obtained the following:

1. If these institutions are taxed as proposed, the figures indicate that these institutions could not pay reasonable dividends and at the same time make required allocations to their reserves for losses. In 1950 the dividends paid by institutions insured by the Federal Savings and Loan Insurance Corporation were at an average rate of 2.55 percent. The over-all average of reserves to assets for all associations was substantially the same at the end of the year as it was at the beginning. In other words, though supervisory authorities were diligent in their efforts to increase the over-all reserves, they remained virtually static during the year.

Had the 52-percent tax been applied in 1950 to the total amounts remaining after dividends and the same dividend been paid, the average reserve position of all insured associations would have decreased during the year one-half of 1 percent. On the other hand, had the 52-percent tax been applied in 1950 and had the same credits been made to reserves by all insured associations that were made, the average dividend paid would have been 1 percent. It is quite evident that these institutions cannot retain their capital if they pay dividends of only 1 percent, and it is questionable whether they can retain their capital if dividends are decreased to any substantial extent. On the other hand, it would appear to be unsafe to permit a decline in the reserves. These figures are alarming and would appear to indicate that a tax such as proposed would be disastrous for the savings and loan industry.

Should the tax be imposed, the normal thing for the management of an association to do would be to make every effort to maintain the capital in the association, and it is fearful that the reserves would first suffer.

The disastrous effect would work slower on associations which have been long established and have strong reserve positions, as they may be able to remain in a relatively safe position for awhile, though their reserves will be gradually lowered percentage-wise. However, it appears clear that many comparatively new associations which have not had time to build strong reserves and probably some other associations with low

reserve positions could not be permitted to continue operation by supervisory authorities because of the low reserves and the inevitable fact that reserves could not be built up as required by law or regulations. New associations could not be organized under such conditions.

2. All of the 6,000 associations in the United States, except approximately 200, are mutual institutions whose earnings are distributed on a pro rata basis to shareholders after allocations to necessary reserves for losses. In these institutions the reserve which the association is able to build is the only cushion which protects the shareholders or the Federal Savings and Loan Insurance Corporation from losses. There are no stockholders who have a liability to shareholders or depositors, and there is no capital except that placed with the institution by the shareholders. Congress and the supervisory authorities have recognized this in requiring the building of adequate reserves.

Congress, in passing title IV of the National Housing Act, creating the Federal Savings and Loan Insurance Corporation, required that each member institution within a reasonable time not exceeding 20 years build its reserve to at least 5 percent. The Insurance Corporation by regulation requires that three-tenths of 1 percent of each insured account in the institutions be placed in reserve annually until the reserve reaches 5 percent of all insured accounts. The charter of each Federal savings and loan association requires semiannual credits to reserve accounts until the reserves equal 10 percent of the share capital of the association. The Insurance Corporation has required as a condition of insurance in many instances that the applying association agree to set aside a minimum of 25 percent of net income to reserves whenever the reserves fall below 5 percent of assets. These represent the minimum requirements which Congress and the supervisory authorities consider necessary.

3. The special deduction proposed in connection with the taxing of these institutions would be allowed from amounts placed in bad-debt reserves based on experience over a period of years. Title IV of the National Housing Act creating the Federal Savings and Loan Insurance Corporation was passed in 1934, and the Home Owners' Loan Act providing for the creation of Federal savings and loan associations was passed in 1933. Thirty percent of all insured associations were incorporated during the period of rising prices since 1933, and almost all of the \$14,000,000,000 of home mortgages held by savings and loan associations during this period of rising prices. Consequently, these institutions have had virtually no losses and therefore a tax deduction based on losses over this period would be inconsequential. Reserves in these institutions are created to take care of losses that may occur in times of stress. The long rise in real estate prices and the present sharp inflationary trend have given those responsible for supervision of institutions of these types much concern. The inflationary condition which we face today makes necessary the building of even larger reserves to meet future contingencies.

As accounts up to \$10,000 in 2,860 of these institutions are insured by the Federal Savings and Loan Insurance Corporation, the Corporation would be called upon to pay heavy losses in times of stress. The Insurance Corporation risks would increase if the reserve ratio of insured institutions would decrease.

We would be glad to go further into this matter and obtain additional information if time permits.

T. WADE HARRISON.

Mr. DIRKSEN. Mr. President, thirdly, I have a copy of another letter dated September 19, 1951, which is signed by the superintendent of banks of the State of New York, the commissioner of banks of the Commonwealth of Massachusetts, the bank commissioner of the State of Connecticut, and the building and loan supervisor of the State of Colorado. That letter also was addressed to the chairman of the Finance Committee and bears directly upon the observations I am now making. I ask that the letter be printed in the RECORD at this point as a part of my remarks.

There being no objection, the letter was ordered to be printed in the RECORD, as follows:

SEPTEMBER 19, 1951.

Senator WALTER F. GEORGE,
Chairman, Senate Finance Committee,
United States Senate,
Washington, D. C.

MY DEAR SENATOR GEORGE: We have tried very hard since you were kind enough to talk with us yesterday to devise a formula which would permit mutual savings institutions to be taxed without creating difficulties that would impair their inner strength. A number of different approaches have been explored. Since we are away from our offices, however, we have not had the statistical data and tax information at hand which are necessary to test out adequately the various methods that have occurred to us of taxing the mutual banking organizations. Given more time we are confident that a formula could be developed which would not contravene the supervisory standards which we as public officials feel obliged to call to your attention.

As a broad principle we feel that conditions should be made favorable for the mutuals to build up a surplus position equal to at least 10 percent of their liabilities to depositors and shareholders. Beyond that, we believe that reserves against assets amounting to from 3 to 5 percent should be established. What we have been unable to determine overnight is the rate at which this surplus and reserve position could be attained. This is one of the calculations that shortage of information at our disposal here has made it impossible for us to make. Our best judgment at this time is that surplus should be built up annually out of earnings at from $\frac{1}{2}$ to $\frac{3}{4}$ percent of deposit and share liability and contingency reserves at an annual rate of $\frac{1}{4}$ to $\frac{1}{2}$ percent. It is not necessary to

point out that a good many mutual institutions already have surplus equal to 10 percent or more of liabilities and thus would not be entitled to the deduction for surplus, and a large number also have substantial reserves. Of this we are convinced: The prolonged boom and the steep rise in real estate prices in recent years have made it imperative that surplus and reserve strength be built up without delay. As you well know, if savings banks and savings and building and loan associations underestimate their needs for surplus and reserve cushions they have no stockholders to fall back on in an emergency.

We respectfully request that the committee consider carefully the advisability of permitting this whole matter to be further explored between now and the end of the year with a view toward taking action early next year on any tax of these institutions which the Congress may deem necessary and desirable. We say again that we are not undertaking to advise the committee on the large question of whether or not the mutual savings institutions should be taxed.

If we may refer to the jointly-signed letter which we left with you yesterday, we wish to call your attention again to the inequity in paragraph (f) of your bill resulting from the failure to include debts due to funds created under State law along with those due to Federal agencies. In addition, we strongly urge once more that savings bank life insurance departments be treated for tax purposes like life insurance companies.

We should like again to assure you of our deep appreciation of the courtesies you have shown us.

Very truly yours,

WILLIAM A. LYON,
Superintendent of Banks, State of
New York.

TIMOTHY J. DONOVAN,
Commissioner of Banks, Commonwealth of Massachusetts.

L. K. ELMORE,
Bank Commissioner, State of Connecticut, and President, National Association of State Savings, Building and Loan Supervisors.

R. C. MATTHEWS,
Building and Loan Supervisor, State of Colorado.

Mr. DIRKSEN. Finally, Mr. President, it seems to me that it would be useful to the Members of the Senate if there were made available an authentic table indicating the financial audit of the savings and loan associations of the country which come under the jurisdiction of the Federal Home Loan Bank Board and under State agencies. So I submit for inclusion in the RECORD, in connection with my remarks, three tables which bring this audit up to date, which indicate the number of associations, their assets, their gross loans, the mortgage loans, the net loans, reserves, and other pertinent information.

There being no objection, the tables were ordered to be printed in the RECORD, as follows:

Trend of selected financial items for all operating savings and loan associations (including non-home-loan bank members), 1922-1950

[Amounts in millions of dollars]

Year ending Dec. 31	Number of associations	Total assets	First-mortgage loans			Real estate owned	Cash	U. S. Government obligations	Savings capital—private	FHLB advances and other borrowed money	Reserves and undivided profits	Mortgage loans made during year
			Gross loans	Mortgage-pledged shares	Net loans							
1922.....	10,009	3,343	3,009	541	2,468	(1)	(1)	(1)	2,210	(1)	(1)	862
1923.....	10,744	3,943	3,549	632	2,917	(1)	(1)	(1)	2,626	(1)	(1)	1,187
1924.....	11,844	4,766	4,289	770	3,519	(1)	(1)	(1)	3,153	(1)	(1)	1,315
1925.....	12,403	5,509	5,085	881	4,204	(1)	(1)	(1)	3,811	(1)	(1)	1,620
1926.....	12,626	6,334	5,842	1,032	4,810	(1)	(1)	(1)	4,378	(1)	(1)	1,824

Footnotes at end of table.

*Trend of selected financial items for all operating savings and loan associations (including non-home-loan bank members),
1922-1950—Continued*

[Amounts in millions of dollars]

Year ending Dec. 31	Number of associations	Total assets	First-mortgage loans			Real estate owned	Cash	U. S. Government obligations	Savings capital—private	FHLB advances and other borrowed money	Reserves and undivided profits	Mortgage loans made during year
			Gross loans	Mortgage-plledged shares	Net loans							
1927	12,804	7,179	6,586	1,098	5,488	(1)	(1)	(1)	5,027	(1)	(1)	1,895
1928	12,666	8,016	7,257	1,207	6,050	(1)	(1)	(1)	5,762	(1)	(1)	1,932
1929	12,342	8,695	7,791	1,234	6,507	(1)	(1)	(1)	6,237	(1)	(1)	1,791
1930	11,777	8,829	7,760	1,358	5,402	238	(1)	(1)	6,296	(1)	(1)	1,262
1931	11,442	8,417	7,214	1,324	5,890	370	(1)	(1)	5,916	(1)	(1)	892
1932	10,915	7,737	6,407	1,239	5,148	642	(1)	(1)	5,326	(1)	(1)	543
1933	10,596	7,018	5,559	1,122	4,437	828	(1)	(1)	4,750	(1)	(1)	414
1934	10,744	6,406	4,593	883	3,710	1,042	(1)	(1)	4,458	(1)	(1)	451
1935	10,266	5,875	3,947	655	3,292	1,163	(1)	(1)	4,254	(1)	(1)	564
1936	9,663	5,688	3,760	523	3,237	1,150	210	98	4,131	194	479	755
1937	8,870	5,600	3,832	422	3,410	1,014	199	80	4,015	247	476	897
1938	8,289	5,543	3,908	353	3,555	890	215	75	4,005	243	486	798
1939	7,719	5,524	4,077	320	3,757	681	267	72	4,060	225	470	986
1940	7,184	5,672	4,374	290	4,084	492	301	70	4,272	233	457	1,200
1941	6,905	6,011	4,798	246	4,552	328	340	106	4,652	266	469	1,379
1942	6,540	6,109	4,783	227	4,556	203	405	316	4,010	153	496	1,051
1943	6,498	6,604	4,793	209	4,584	117	465	853	5,494	134	534	1,184
1944	6,279	7,458	4,983	183	4,800	60	413	1,671	6,305	159	572	1,454
1945	6,149	8,747	5,521	145	5,376	33	450	2,420	7,365	336	645	1,913
1946	6,093	10,202	7,276	135	7,141	26	556	2,009	8,548	402	751	3,584
1947	6,045	11,687	8,971	115	8,856	13	569	1,740	9,753	541	855	3,811
1948	6,011	13,028	10,409	104	10,305	12	663	1,455	10,064	590	909	3,607
1949	5,983	14,622	11,714	98	11,616	15	880	1,462	12,471	499	1,106	3,636
1950 ²	5,980	16,925	13,810	85	13,725	18	913	1,491	14,038	896	1,286	5,237

¹ Not available.

² Preliminary estimates.

TABLE 2.—All member savings and loan associations of Federal Home Loan Bank System—assets and liabilities, by asset size groups, Dec. 31, 1950

[Amounts in thousands of dollars]

Items	United States total	Under \$250,000	\$250,000 to \$499,999	\$500,000 to \$999,999	\$1,000,000 to \$2,499,999	\$2,500,000 to \$4,999,999	\$5,000,000 to \$9,999,999	\$10,000,000 to \$24,999,999	\$25,000,000 and over
Number of associations	3,894	235	400	648	1,034	726	522	257	72
ASSETS									
First-mortgage loans	12,660,737	31,782	129,542	398,242	1,412,375	2,129,319	2,931,401	3,202,670	2,425,406
Other loans	118,910	340	1,189	3,145	10,503	15,376	23,610	28,229	36,518
Real estate sold on contract	49,574	246	526	1,429	6,847	11,266	11,318	15,499	2,443
Real estate owned	13,596	47	172	350	1,394	1,961	2,780	3,498	3,394
FHLB stock	176,546	558	1,884	5,333	10,927	29,456	39,885	44,597	34,906
U. S. Government obligations	1,364,398	1,813	8,176	31,029	125,913	222,569	286,388	354,487	334,023
Other investments	34,322	44	298	738	3,263	6,005	8,447	7,697	7,830
Cash on hand and in banks	890,490	2,604	9,294	29,604	103,811	158,696	215,887	211,614	153,990
Office building (net)	123,711	101	428	1,724	9,064	16,866	26,816	32,144	36,568
Furniture and fixtures (net)	19,278	39	126	437	1,931	3,216	4,744	4,779	4,006
Other assets	16,983	48	81	246	962	1,781	3,825	3,775	6,265
Total assets	15,468,545	37,622	151,706	472,277	1,695,990	2,596,511	3,555,101	3,908,989	3,050,349
LIABILITIES AND CAPITAL									
Savings capital	12,861,553	29,403	122,426	393,739	1,432,188	2,201,413	2,978,473	3,222,500	2,481,411
Mortgage pledged shares	47,706	1,203	3,214	6,825	11,758	9,717	10,112	3,698	1,179
Advances from FHLB	788,834	1,367	7,465	20,017	73,484	106,592	166,487	207,701	205,721
Other borrowed money	60,399	311	1,611	3,436	8,149	8,941	11,852	14,360	11,739
Loans in process	393,419	339	1,332	5,203	23,299	45,307	80,031	132,558	105,350
Other liabilities	126,464	287	1,101	2,770	10,883	19,575	30,321	31,535	29,992
Permanent stock	34,628	243	448	1,285	3,124	6,689	8,761	8,958	5,120
Deferred credits	11,618	33	142	430	992	1,607	2,190	2,789	3,435
Specific reserves	13,675	50	123	369	1,270	1,718	2,702	3,476	3,967
General reserves	767,336	3,071	9,366	25,999	89,299	132,848	180,792	193,764	132,197
Undivided profits	362,913	1,315	4,478	12,204	41,544	62,104	83,380	87,650	70,238
Total liabilities and capital	15,468,545	37,622	151,706	472,277	1,695,990	2,596,511	3,555,101	3,908,989	3,050,349
PERCENT TO ASSETS									
First mortgage loans	81.8	84.5	85.4	84.3	83.3	82.0	82.5	81.9	79.5
Cash and U. S. Governments	14.6	11.7	11.5	12.8	13.5	14.7	14.1	14.5	16.2
Savings capital	83.1	78.2	80.7	83.4	84.4	84.8	83.8	82.4	81.3
General reserve and undivided profits	7.3	11.7	9.1	8.1	7.7	7.5	7.4	7.2	6.6

TABLE 3.—All member savings and loan associations of Federal Home Loan Bank System—income and expense, by asset size groups, 1950

[Amounts in thousands of dollars]

Items	United States total	Under \$250,000	\$250,000 to \$499,999	\$500,000 to \$999,999	\$1,000,000 to \$2,499,999	\$2,500,000 to \$4,999,999	\$5,000,000 to \$9,999,999	\$10,000,000 to \$24,999,999	\$25,000,000 and over
Associations reporting operations:									
Number.....	3,894	235	400	648	1,034	726	522	257	72
Assets.....	15,468,545	37,622	151,706	472,277	1,695,990	2,596,511	3,555,101	3,908,989	3,050,349
Gross operating income:									
Interest:									
On mortgage loans.....	563,419	1,653	6,640	19,732	67,211	97,612	131,603	137,748	101,220
On real estate sold on contract.....	2,656	10	33	85	382	589	628	812	117
On investments and bank deposits.....	35,334	44	193	766	3,256	5,810	7,566	9,072	8,627
Premiums, commissions, and fees.....	39,137	54	179	612	1,989	3,520	7,139	13,370	12,274
Net income from real estate owned.....	366	4	16	12	47	75	54	99	59
Gross income from office building.....	9,106	9	50	141	603	890	1,553	2,560	3,300
All other operating income.....	10,204	26	81	278	927	1,603	2,072	2,527	2,690
Gross operating income.....	660,222	1,800	7,192	21,626	74,415	110,099	150,615	166,188	128,297
Less operating expense:									
Compensation.....	87,682	356	1,171	3,398	10,789	14,899	19,969	21,197	15,903
Rent, light, heat, etc.....	6,249	53	139	340	940	1,132	1,382	1,079	1,184
Repairs, taxes, and maintenance of office building.....	8,732	7	42	143	591	985	1,589	2,527	2,848
Depreciation of office building.....	3,068	3	15	65	277	457	787	815	649
Advertising.....	16,028	14	61	240	1,077	2,121	3,819	4,619	4,077
Federal insurance premium.....	8,075	2	38	170	734	1,320	1,936	2,166	1,709
Audit.....	1,338	18	52	92	231	272	305	215	163
Supervisory examinations and assessments.....	2,325	20	56	125	347	428	522	496	331
All other operating expense.....	46,603	121	396	1,237	4,446	7,032	10,638	12,515	10,218
Total operating expense.....	180,100	594	1,970	5,810	19,432	28,646	40,947	45,629	37,072
Net operating income before interest and other charges.....	480,122	1,206	5,222	15,816	54,983	81,453	109,668	120,559	91,215
Less interest charges:									
On advances from FHL banks.....	10,065	28	138	335	1,080	1,398	2,021	2,444	2,621
On borrowed money.....	1,054	14	41	78	178	153	199	226	165
Total interest.....	11,119	42	179	413	1,258	1,551	2,220	2,670	2,786
Net operating income.....	469,003	1,164	5,043	15,403	53,725	79,902	107,448	117,889	88,429
Add: Nonoperating income.....	4,553	20	81	120	391	517	867	1,300	1,257
Net income after interest and before charges.....	473,556	1,184	5,124	15,523	54,116	80,419	108,315	119,189	89,686
Less: Nonoperating charges.....	2,972	6	15	47	192	331	570	730	1,081
Net income.....	470,584	1,178	5,109	15,476	53,924	80,088	107,745	118,459	88,605
Allocation of net income:									
Reserves.....	99,765	127	833	2,945	10,942	17,188	23,179	26,732	17,819
Undivided profits.....	65,052	132	608	1,767	6,228	9,820	14,495	16,659	15,343
Dividends.....	305,767	919	3,668	10,764	36,754	53,080	70,071	75,068	55,443
PERCENTAGES									
To gross operating income:									
Interest income:									
On mortgage loans.....	85.3	91.8	92.3	91.2	90.3	88.7	87.4	82.9	78.9
On investments and bank deposits.....	5.4	2.4	2.7	3.5	4.4	5.3	5.0	5.5	6.7
Compensation—expense.....	13.3	19.8	16.3	15.7	14.5	13.5	13.3	12.8	12.4
Advertising—expense.....	2.4	.8	.8	1.1	1.4	1.9	2.5	2.8	3.2
Total operating expense.....	27.3	33.0	27.4	26.9	26.1	26.0	27.2	27.5	28.9
Net operating income.....	71.0	64.7	70.1	71.2	72.2	72.6	71.3	70.9	68.9
Net income.....	71.8	65.4	71.0	71.6	72.5	72.7	71.5	71.3	69.1
Allocation of net income:									
Reserves and undivided profits.....	35.0	22.0	28.2	30.4	31.8	33.7	35.0	36.6	37.4
Dividends.....	65.0	78.0	71.8	69.6	68.2	66.3	65.0	63.4	62.6

Mr. DIRKSEN. Mr. President, I yield the floor.

Mr. BRIDGES. Mr. President, in the discussion of the amendment proposed by the distinguished Senator from Vermont [Mr. FLANDERS] and several other Senators, including the Senator from New Hampshire, this afternoon relative to the elimination of the tax on mutual savings banks, I asked that a number of letters from my State relative to the tax be made a part of the RECORD. I have the letters and now offer them for the RECORD and ask that they be printed at this point.

There being no objection, the letters were ordered to be printed in the RECORD, as follows:

PETERBOROUGH SAVINGS BANK,
Peterborough, N. H., September 7, 1951.
Hon. H. STYLES BRIDGES,
United States Senate,
Washington, D. C.

MY DEAR SENATOR BRIDGES: I have been advised that there is a proposed tax on the in-

come of mutual savings banks, and savings and loan associations. I understand that dividends paid to depositors and certain deductions to meet possible losses on loans would be exempt from taxation. However, as president of the Peterborough Savings Bank—with something over 5,000 depositors—my objection to this bill is that the income not distributed would be subject to the regular United States corporate income tax, possibly as much as 52 percent.

This tax would come out of the pockets of the depositors in mutual savings banks like our own and as I wrote you in my letter of June 1, it would tend to discourage people from being thrifty. Quite possibly it would alienate depositors from the mutual savings banks which are the oldest and strongest banks in the country.

I earnestly ask that you give this bill your immediate attention and attempt to kill it for the reasons stated above. I appreciate your continued interest in the affairs of the mutual savings banks.

Cordially yours,

KARL G. UPTON,
President, Peterborough Savings Bank.

THE BRISTOL SAVINGS BANK,
Bristol, N. H., September 13, 1951.
The Honorable H. STYLES BRIDGES,
The United States Senate,
Washington, D. C.

DEAR SENATOR BRIDGES: In framing the new tax bill, we hope that no provisions discriminatory to mutual savings banks will be adopted, and we trust you will use your influence to this end.

Very truly yours,

L. K. TILTON, President.

NEW HAMPSHIRE SAVINGS BANK,
Concord, N. H., September 10, 1951.
The Honorable STYLES BRIDGES,
United States Senate,
Washington, D. C.

DEAR SENATOR BRIDGES: The board of trustees of this bank has instructed me to advise you of our disapproval of the tentative action by the Senate Finance Committee in regard to the taxation of mutual-savings banks.

The purpose of a mutual savings is well expressed in our articles of incorporation from which I quote, "for the purpose of enabling industrious persons of all descrip-

tions to invest such parts of their earnings as they can conveniently spare in a profitable manner." This original purpose has never been lost sight of and for many years "mutuals" have been operated for the benefit and for the protection of the small wage earners, the widows and elderly people who have accumulated some savings for their own protection against the vicissitudes of life.

Since one of the primary duties of the savings banker is to return the principal of the depositor, dollar for dollar, it has been imperative that proper reserves be established and maintained each year.

Generally speaking, the deposits of the mutual savings bank are principally invested in Government bonds (partly for patriotic purposes and partly for the security they give) and the remainder in mortgage loans on homes of the citizens in their areas. Thus, it can be seen that the mutual savings bank renders a valuable service not only to the depositor but to the National Government and to its local community.

The imposition of a Federal tax on savings banks would virtually be an additional tax on the depositor who already pays an income tax in his own respective bracket on the dividend he receives. In addition, it would tend to weaken the strength of the bank because of the inability to build up reserves from the remaining income after payment of dividends.

In conclusion, I would like to again emphasize the fact that savings banks are organized and operated for the benefit of the small saver and anything that is done to penalize these people or to weaken the institution in which they have great dependence and the highest confidence would be a grave mistake.

Sincerely yours,

JOHN A. TERRILL,
Secretary.

MERRIMACK COUNTY SAVINGS BANK,
Concord, N. H., September 7, 1951.

Hon. H. STYLES BRIDGES,
Senate Office Building,
Washington, D. C.

DEAR SENATOR BRIDGES: We are sorry to learn that the Senate Finance Committee has voted to tax the income of mutual savings banks. We know that you, being a savings bank officer, are thoroughly familiar with the arguments against such taxation but we do wish to record our objection to the passage of any bill providing for the taxation of our mutual savings banks.

We appreciate your previous efforts in this direction and know that you will do everything possible to prevent such legislation.

With best personal regards, we are,

Cordially yours,

HARRY A. BARTLETT,
President.
CLIFTON A. SMITH,
Treasurer.

CONCORD, N. H., September 6, 1951.

Hon. STYLES BRIDGES,
United States Senator from
New Hampshire,
Care, Japanese Peace Conference,
San Francisco:

George Gilman, of tax committee for mutual savings banks, requests that I wire you to request the Senate Finance Committee to withdraw the bill taxing mutual savings banks until a study can be made to determine what tax the banks can stand and which will not hinder their progress and usefulness.

ERNEST P. ROBERTS,
President.

PORTSMOUTH SAVINGS BANK,
Portsmouth, N. H., September 11, 1951.

Hon. STYLES BRIDGES,
United States Senate,
Washington, D. C.

DEAR SENATOR BRIDGES: As you know, the Senate Finance Committee has tentatively voted to tax the income of mutual savings banks, subject to certain deductions.

While we appreciate the problems confronting this committee in its attempt to raise money, we cannot too strongly urge that this particular tax be reconsidered. It is our sincere belief that such a tax would be most harmful to all thrift institutions and might after a period of time even threaten their continued existence.

It is our sincere hope that the committee will reconsider their tentative action which will in our opinion adversely affect many millions of savers throughout the country.

Very truly yours,

PORTSMOUTH SAVINGS BANK,
By N. E. RAND, President.

LACONIA SAVINGS BANK,
Laconia, N. H., September 12, 1951.

Re Federal taxation of mutual savings banks.

Hon. STYLES BRIDGES,
Senate Chamber, Washington, D. C.

MY DEAR SIR: You are so well acquainted with the mutual savings banks' situation that it seems unnecessary to write you this letter, but we wish to voice our opposition to you about the Senate Finance Committee's tentative vote to tax income on mutual savings banks which we understand was voted on August 29, 1951.

It seems to us that we are being included in this vote to help cover up some of the controversy of farm cooperatives, and we believe mutual savings banks should not be taxed.

With personal regards, I beg to remain
Yours very truly,

A. C. KINSMAN,
President.

CLAREMONT SAVINGS BANK,
Claremont, N. H., September 7, 1951.

Senator STYLES BRIDGES,
Washington, D. C.

DEAR SENATOR: We understand that legislation is in the making to levy an income tax on mutual savings banks. It is natural that a savings banker would object to this sort of tax. We wish to register herewith our violent protest against any such measure. An examination of the history and growth of this institution will reveal that we are probably the fastest growing savings bank in the United States. This means that we have difficulty in maintaining a proper surplus over and above a fair return to our depositors. Any tax will make it more difficult for us to run a sound bank. We believe that this institution is operated in close adherence to the mutual feature.

Please give your serious consideration to defeating this bill.

Very truly yours,

HENRY C. HAWKINS, Jr.
Treasurer.

IONA SAVINGS BANK,
Tilton, N. H., September 10, 1951.

Senator STYLES BRIDGES,
Senate Chamber, Washington, D. C.

DEAR SENATOR BRIDGES: At our last trustees meeting the board was advised as to tentative vote taken by the Senate Finance Committee re Federal taxation of mutual savings banks.

Our entire board considers this to be an outrageous and uncalled for imposition upon

the functions and purposes of a mutual savings bank. Our aim is to promote thrift, therefore if this vote is carried through, the entire efforts of every mutual savings bank throughout the country will have been defeated.

Our board requests that you do all in your power in helping to defeat this bill re Federal taxation.

Any courtesy shown us in this matter will be greatly appreciated.

Yours sincerely,

A. A. COVIEO,
Treasurer.

NEWPORT SAVINGS BANK,
Newport, N. H., September 11, 1951.

Hon. STYLES BRIDGES,
United States Senator,
Washington, D. C.

DEAR SENATOR BRIDGES: We want you to know that we are very much opposed to Federal taxation of mutual savings banks and we shall appreciate anything you may do in an effort to defeat this proposed legislation.

Many thanks and kindest regards.

Very truly yours,

B. B. BUTLER,
Treasurer.

MECHANICS SAVINGS BANK,
Manchester, N. H., September 7, 1951.

Hon. STYLES BRIDGES,
Senate Office Building,
Washington, D. C.

DEAR SENATOR BRIDGES: We are writing you regarding the proposed Federal taxation of mutual savings banks, as the tentative vote by the Senate Finance Committee suggests that this may be done.

The writer has been connected with savings banks in New Hampshire for something over 50 years and with the Mechanics Savings Bank of Manchester for 44 years.

This bank has paid liberally to its depositors since 1879, an average for the entire time of 3.77 percent. In many of the years, however, it has been impossible to earn more than a margin of one-fourth of 1 percent. As you know, we have no capital stock and all of the earnings are either paid or accrue to the depositors. During the period, in slumps in industry and securities, many times, except for accumulated guaranty funds and undivided profits, it would have been impossible to pay dollar for dollar for deposits, and we think that it is not in the interest of the hundreds of thousands of savings banks depositors to reduce their equity in reserve funds so that their principal might be wiped out.

Government guaranty of principal in limited amounts cannot take the place of accumulated reserve funds, and with the big debt of the Government, we cannot be sure that that is a guaranty.

We should be very pleased if you could do anything to avoid the taxation of mutual savings banks by Federal taxes, as these are State chartered institutions without benefits to anybody but the depositors.

Yours very truly,

H. M. BICKFORD,
Treasurer.

FRANKLIN SAVINGS BANK,
Franklin, N. H., September 4, 1951.

Hon. STYLES BRIDGES,
Senate Office Building,
Washington, D. C.

DEAR STYLES: I am writing you with respect to the tentative vote taken by the Senate Finance Committee to recommend subjecting mutual savings banks to the regular United States corporate income tax.

It is a very serious matter when institutions which are dedicated to the encouragement of thrift and operated as instruments for the accumulation of small savings and for no other purpose, are subjected to a corporate income tax. I shall not go into the technical reasons why this is unwise, as I am sure they will be presented more lucidly from other sources. There is no doubt, however, that it would work a serious hardship on many of the banks and would retard the growth of all mutual savings banks in restricting their reserves so that they might not be adequate to protect future increases in deposits, particularly if such increases were to be accompanied by losses on loans without adequate reserves to offset them.

I know you will do everything within your power to see that the recommendation as proposed by the Finance Committee is not adopted.

With very kind personal regards.

Sincerely yours,

CHARLIE

(C. W. Adams, Jr.),

Treasurer.

POWER SHORTAGE IN THE PACIFIC NORTHWEST

Mr. MAGNUSON. Mr. President, I never thought the day would come when I would be introducing a bill such as I am about to introduce for appropriate reference. With the great untapped hydroelectric resources in the Pacific Northwest, and with the great development we have had in the past 15 years, I never believed the day would come when we would have even the semblance of a great power shortage, which we now have in the Pacific Northwest.

We have invoked the brown-out. With all the power dams we have, with the great number of kilowatts, still, with the advent of industries and the increase of population, and the fact that this year has been a very dry year in that area, we have had to invoke a brown-out which has caused the shutting down of many logging operations, and even the shutting down of some of the aluminum operations so necessary for defense, to the extent that we do not know just how long it will last.

Despite the fact that we have gone ahead with considerable development, apparently we have not developed even yet enough power to supply the needs of that great area and its great population. It requires many years to build a dam. Despite the fact that the Appropriations Committees of both Houses were very generous in the appreciation of our problem at this session, and gave us one of the greatest power packets in the way of appropriations that we have ever had, it will still take a great deal of time. We find ourselves in the same position as some of those in the Tennessee Valley.

Because of the now pressing power shortage and because of the fact that we can supplement the great hydroelectric developments by the addition of steam plants, for which fuel is available in the area, those of us interested on the House side and on the Senate side are introducing a bill authorizing the Secretary of the Interior to build certain steam plants in the area to supplement this power. I know that if the bill is passed the Secretary of the Interior will make a good case for the supplemental power, as he did in the case of the Tennessee Valley Authority.

At this time I ask unanimous consent to introduce the bill for appropriate reference.

The PRESIDING OFFICER. The bill will be received and appropriately referred.

The bill (S. 2161) to authorize the construction, operation, and maintenance of certain fuel-fired electric generating plants in order to make it possible for the Department of the Interior to meet certain defense power requirements in the Pacific Northwest, and for other purposes, introduced by Mr. MAGNUSON, was read twice by its title, and referred to the Committee on Public Works.

COASTAL SHIPPING FOR THE REPUBLIC OF KOREA

Mr. MAGNUSON. Mr. President, I ask unanimous consent, out of order, to introduce for appropriate reference a joint resolution to assist in the rehabilitation of the economy of South Korea. I notice that the joint resolution merely mentions Korea. I ask that the word "South" be inserted.

The PRESIDING OFFICER. Without objection it is so ordered. The joint resolution will be received and appropriately referred.

The joint resolution (S. J. Res. 104), to assist in the rehabilitation of the economy of South Korea, and for other purposes, introduced by Mr. MAGNUSON, was read twice by its title, and referred to the Committee on Interstate and Foreign Commerce.

Mr. MAGNUSON. If and when the situation clears up in Korea, we shall have the responsibility for assisting to as great an extent as we can in the rehabilitation of South Korea. We want to do that at the least cost to the American taxpayer, with a minimum of effort on our part, and, of course, the maximum of effort on their part to aid in their rehabilitation. I have recently been in Korea. It is going to be a long and difficult job. We want to do it as cheaply as possible.

One of the important problems of rehabilitation is the matter of restoration to a very minor extent of the Korean maritime, in order that it may operate in Korean coastal waters and in the Sea of Japan and throughout the economic areas of South Korea. Many of us, after several conferences, believe that we can assist at the least cost by allowing the Republic of South Korea to buy not more than 50,000 tons of cargo ships from our stockpile. That is what the bill proposes.

The ships which are needed in Korea, and will be needed even more when the military are withdrawn and rehabilitation takes place after the war is over are ships of the type which we have in moth balls, which we have not been able to sell, and for which we have no use ourselves. We would ask the South Koreans to pay the asking price which all citizens of the United States and others paid prior to the expiration of the Ship Sales Act.

The amount involved, up to 50,000 tons, may not all be used, but the ships are vessels which are, in the main, adaptable to what we call coastal waters. There is absolutely no use for them in

the United States. They have been in moth balls since the war. We built them for war purposes. The only other place they might be used would be on the Alaskan run. My home town of Seattle has purchased two of them, I believe. The rest of them remain here.

It seems to me that we could not only get some money for the United States Government and dispose of some surplus ships for which we have no use, but that we could aid to a considerable extent in the rehabilitation of South Korea. I believe that the psychological effect on the South Koreans of being able to fly their flag on the seas and to have these ships would be an important factor in our program for the rehabilitation of the entire Orient.

Mr. President, I ask unanimous consent to have printed in the body of the RECORD at this point a statement which I have prepared, which shows not only the need of the Republic of Korea for coastal shipping, but the background of the whole question, and the present Korean situation. The statement shows the minimum shipping requirements.

There being no objection, the statement was ordered to be printed in the RECORD, as follows:

THE REPUBLIC OF KOREA'S NEED FOR COASTAL SHIPPING

1. BACKGROUND

An essential part of the United Nations program for Korean relief and rehabilitation, in which the United States is playing a major part, is the development of adequate Korean transportation facilities. The success of the Korean reconstruction program depends in a large measure on the acquisition of a number of small coastal-type ships for handling the internal transport of essential supplies within Korea, as well as the transportation of a portion of goods between Korea and nearby Asiatic ports.

The Korean reconstruction program, under the leadership of the Republic of Korea and the United Nations Korean Reconstruction Agency, involves heavy imports of relief and rehabilitation supplies, including food, clothing, fertilizer, coal, petroleum, raw cotton, lumber, cement, iron and steel products, machinery, and other miscellaneous raw materials and reconstruction equipment.

It is estimated that about one-third of these supplies will be imported from nearby Japan, while the remainder will be imported from the United States and other world markets. Small coastal-type vessels of the CI-M-AVI and Baltic (N-3) coaster class are vessels which are well equipped for the Japan-Korea shipping, as well as for the transshipment of goods brought from the United States and elsewhere from Pusan to Korea's secondary ports. The port of Pusan, in southeastern Korea, is the only Korean port south of the thirty-eighth parallel which can accommodate trans-Pacific-type ships alongside, with the result that almost all the bulk imports from the United States and Europe will come into Pusan. These imports can then be distributed within the Republic of Korea by transshipments in ROK coastal ships to the various secondary ports on Korea's eastern, southern, and western coasts.

The Korean Peninsula has few transverse railroads and a relatively poor system of inland highways. The east coast area of the Republic of Korea has the largest coal mines south of the thirty-eighth parallel, in the Samchok area, as well as other essential mineral, forestry resources and several major manufacturing plants. However, there are no railroad connections between this

prepared concerning the price-control question which will be before the Senate after we have finished with the pending revenue bill.

There being no objection, the statement was ordered to be printed in the RECORD, as follows:

STATEMENT OF A. WILLIS ROBERTSON, DEMOCRAT, OF VIRGINIA, CONCERNING THE CAPEHART AMENDMENT

In the recent hearings held by our subcommittee on the so-called Capehart amendment to the Defense Production Act, all witnesses for consumer groups advocated outright repeal of that section and all witnesses for industry favored its retention without change.

At the conclusion of those hearings my subcommittee recommended to the full committee a substitute for the Capehart amendment that would allow producers full allowance for all labor, materials and transportation and a reasonable allowance for all elements of costs commonly referred to as overhead. It also would apply the same formula to the consideration of individual applications for relief from financial hardship and would extend provisions of the section to cover industrial services.

The full committee approved this recommendation by a vote of 9 to 4 and on next Monday, S. 2092 as revised will be introduced by Senator MAYBANK with all Democratic members of the committee as cosponsors.

Meanwhile, Senator CAPEHART for himself and three other Republican members of the committee, has offered as an alternative S. 2155.

The fact that the four members of our committee who voted for the retention of the Capehart amendment without change are now sponsoring S. 2155, which greatly modifies the Capehart amendment, is a silent tribute to the position taken by the majority and the question of retaining the Capehart amendment in its present form has to all intents and purposes been eliminated.

The issue which the Senate will now decide is whether industry shall be allowed a fair and reasonable profit but be required under the new committee bill to absorb some costs in the interest of price stabilization or whether industry, under the new Capehart bill, shall be permitted to move up to a general level of new ceiling prices before being required to absorb all new costs except direct and indirect labor.

Here, in brief, are the essential differences between the two bills that will be before the Senate:

S. 2092 removes the unworkable features of the Capehart amendment which requires individual calculations of increases in administrative and overhead costs up to July 26, 1951. These provisions require the OPS to grant ceiling price increases to manufacturers even in cases where there had not been any roll-backs, and to grant increases even in cases of manufacturers who, far from suffering hardship, are enjoying unusual profits.

S. 2092 offers a workable means of allowing necessary and unavoidable costs.

S. 2155 includes certain clarifying amendments which are similar to the committee bill but it returns, for all practical purposes, to the original Capehart amendment.

It would place ceiling price revisions on an industry-wide rather than an individual basis but—and this is the catch—it requires this to be done within 60 days. It must be obvious to anyone that OPS could not possibly do this job on a general basis for all industries, whether in 60 days or during the remainder of the act, except by permitting individual calculations. That makes the new Capehart bill just as unworkable as the present law.

In another respect the new Capehart bill is worse than the old one because it is made compulsory as a roll-back formula, whether or not it fits, or is fair. That might mean the wiping out of price increases for industries, the formula simply does not fit, for example, the machine-tools industry, where Mr. Wilson recently directed an increase in ceiling prices in order to obtain vitally necessary expansion in production.

S. 2155 also adds a second formula which adds to the difficulties because after July 26, 1951, increases in wage costs must be passed on but materials costs cannot be passed on. This ignores the question of whether wages account for 10 percent, 50 percent or 80 percent of an industry's costs and obviously would be inequitable as between industries. This would be particularly inequitable for industries which suffered unavoidable increases in materials costs. Indeed, S. 2155 itself requires materials price increases first to cover all cost increases up to July 26, 1951, and second to cover wage cost increases after July 26, 1951. Yet no price increases would be allowed to cover these materials cost increases.

When industry is fully informed I am confident that it will accept the committee bill because this bill prevents future roll-backs below prescribed levels unless all necessary and unavoidable cost increases since the Korean war started are reflected in the ceiling price. The bill provides protection against individual financial hardship. The committee bill is fair, both to producers and to consumers, and no patriotic businessman should ask for more than that.

REVENUE ACT OF 1951

The Senate resumed the consideration of the bill (H. R. 4473) to provide revenue, and for other purposes.

THE VICE PRESIDENT. The question before the Senate is the amendment of the Senator from Vermont [Mr. FLANDERS].

SOLICITATION OF CONTRIBUTIONS FROM CANDIDATES FOR POSTMASTERS IN MICHIGAN

Mr. FERGUSON. Mr. President, I come to the Senate floor today to call the attention of the Senate to what my colleague [Mr. MOODY] called to the attention of the public in a press release yesterday. I read the first sentence of that press release:

Senator BLAIR MOODY * * * denounced attempts by the Democratic State central committee to get contributions from candidates for postmaster appointments in Michigan.

I want to join in the denunciation of the attempt of the Democratic State central committee or any other political agency to obtain contributions from candidates for postmasterships.

Years ago the Congress of the United States, through both of its political parties, attempted to take postmasters out of politics. We placed postmasters under civil service and in doing so the people were led to believe that from that time on those who served them in the capacity of postmasters, those in charge of their mail, would not be political hacks, nor would their positions be considered as political plums, nor would it be necessary for them even to belong to a political party; that efficiency in their work would be the test, and that an examination would be given to test their capacity to be postmasters or mail carriers, as the case might be.

In my early days in Detroit, at the time I started to practice law, I attempted at the YMCA to teach men who wanted to become railway mail workers, that is, those who sort the mail on the railway trains, positions in which skill rather than political maneuvering was essential. I know it was their desire to serve on the basis of ability, and I know the public and the Nation are best served when the spirit of preformance rather than patronage prevails.

Mr. President, I believe what caused my colleague to denounce this attempt was the content of a letter placed in the CONGRESSIONAL RECORD day before yesterday by Representative GEORGE MEADER, of the Second Michigan District. The letter is on the letterhead of the Democratic State Central Committee of Michigan, Lansing, Mich. At the top of the letterhead appears the following:

George S. Fitzgerald, national committeeman; Mrs. Minnie C. Schwinger, national committeewoman.

This letter was addressed to a citizen of Michigan, and I will read it into the RECORD again because I think it is very significant. It is as follows:

Our State chairman has just recommended your appointment as postmaster of—

Mr. MEADER, in reading the letter, left out the town—

Michigan, to—

That is the name of the person to whom the State chairman had recommended the prospective postmaster. My colleague, the junior Senator from Michigan, in his press release, indicates that his name was inserted in that letter. I read further:

As you know, there are still several steps to be taken before your appointment is finally confirmed—

That is a very significant statement by the writer of this letter on the stationery of the Democratic State Central Committee of Michigan—

there are still several steps to be taken before your appointment is finally confirmed, but judging from past experience you can now be reasonably sure of the final appointment.

In checking our contributor files, I do not find your name listed in our Democratic green book as a 1951 contributor.

Contributions to the Democratic Party are strictly voluntary, and certainly your appointment is not contingent on a contribution. Yet strong party organization is essential to our American form of democratic government, and we can't have such organization without a broad financial support from all members of our party.

I am sure that no lengthy argument is needed to convince you of the importance of contributing to the party of your choice. For your convenience, I enclose a pledge card and business-reply envelope, and hope that you will soon join the several thousand other Democrats who now pay their party dues by this method.

Receipts for all contributions are issued by the national committee as well as the State control committee.

Sincerely,

HOWARD P. HUNT,
Finance Director.

Mr. President, if that is not a solicitation, if that is not an attempt to obtain money for an appointment to public of-

vice, then I do not know how one could be made. When a man is told that he has been recommended to a Senator, and then is told, "But, as you know, there are still several steps to be taken before your appointment is finally confirmed," and then told that his name is not in the green book of contributors to the party, I do not know how it can be said that that is not solicitation.

I know how my distinguished colleague felt about the question of solicitation. I join him in his denunciation of any such attempt. It goes further than a moral issue. It is a violation of law. Section 214 of the Criminal Code, title 18, has this to say, and it is the law of the land:

OFFER TO PROCURE APPOINTIVE PUBLIC OFFICE

Whoever pays or offers or promises any money or thing of value, to any person, firm, or corporation in consideration of the use or promise to use any influence to procure any appointive office or place under the United States for any person, shall be fined not more than \$1,000 or imprisoned not more than 1 year, or both.

That deals only with the offer or promise to procure appointive public office. Section 215 reads as follows:

ACCEPTANCE OR SOLICITATION TO OBTAIN APPOINTIVE PUBLIC OFFICE

Whoever solicits or receives, either as a political contribution or for personal emolument, any money or thing of value in consideration of the promise of support or use of influence in obtaining for any person any appointive office or place under the United States, shall be fined not more than \$1,000 or imprisoned not more than 1 year, or both.

My colleague says that he has asked 76 recipients of his letters to answer three questions within 3 days. I read his press release:

Since the letter from the State central committee's finance director is being made the subject of a political smear—

I am quite unable to understand what my distinguished colleague means by that particular sentence. I see no suggestion of a political smear in calling to the attention of the Congress and the authorities the matter of a solicitation of funds for appointment to public office, when such solicitations are against the law. The question is solely whether or not there has been a violation of the law, and it is proper to raise the question. As my distinguished colleague says, he denounces the attempt by the Democratic State central committee to obtain contributions from candidates for appointment in Michigan.

I might say that I was somewhat at a loss to understand why just 76 people were to be asked to answer whether or not they had made any contribution or had been solicited, but after some inquiry, I found an illuminating article dated September 17, 1951, in the Detroit Free Press. It is by the distinguished writer of the Free Press, its Washington correspondent, James M. Haswell. It has a two-column headline reading as follows:

Seventy-six postal positions filled by MOODY. Senator breaks patronage log jam. Some objections raised.

Senator Moody has made political recommendations for 76 Michigan postal appointments since Governor Williams appointed him April 23.

Then it goes on to say:

The Governor's appointment of Moody broke a political stalemate which had existed for several months, and gave him control of patronage reaching into every community in the State.

I am surprised that the Governor of Michigan should feel that postmasters were a part of the patronage of the great State of Michigan. The word "patronage," of course, indicates that Government employment and the postal service are part of a political spoils system. As I said before, so far as postmasters were concerned, we attempted to take them out of politics. We now find that the governor of a State indicates in the newspapers that they are back in politics, and that anyone who wants to be a postmaster in Michigan or wants to carry the mail must be approved. Further, as indicated by the letter from the finance director of the Democratic State Central Committee of Michigan, Howard P. Hunt, who signed the letter soliciting funds, one must be a party contributor.

That is not the only thing which makes me want to go further in inquiring into this matter than my colleague has indicated in his press release of yesterday. I know that he will want to join me in a request that not merely these 76 persons be asked whether or not they were solicited or whether they paid money, but that there be a complete and thorough investigation of the whole question of patronage involving postmasters, and the solicitation and payment of funds for appointment to Federal office in the great State of Michigan.

The letter I have read into the RECORD clearly indicates that there is another way to determine the facts besides asking these 76 men whether they paid money or were solicited for funds. I hope that the Committee on Expenditures in the Executive Departments will take up this question immediately, and investigate this situation, as it investigated an analogous condition in Mississippi. The committee will find that it can obtain information from the Green Book of Contributors to the Democratic Party for 1951, or it can go to Mr. Boyle's office and obtain the desired information. Mr. Boyle is the national chairman of the Democratic Party. The Senate committee can find out from him how much has been paid in by the various individuals, who were anxious to be appointed to public office in the State of Michigan, because I find from this letter that it is indicated that the national committee also gives receipts.

Yesterday I received a letter, from which I shall read. It reads, in part, as follows:

In 1937 Arnold C. Mistell, county Democratic chairman, was appointed Baldwin postmaster. He hired his daughter, his son, and his daughter-in-law. The son later took over the job of postmaster until he left for war. Then the daughter took over until the son returned after World War II, and the job was again given to him.

On July 1 this year the rural mail carrier retired and the postmaster's son was appointed the other day to that job, in spite of the fact that the subcarrier has an excellent record of service. But now comes the payoff. Another son, without experience, is to be given the postmaster's position. And

both of these appointments are without competitive examination. This last son never got out of the United States during the war.

I am not even intimating that either of these should go to the Republicans, but what I am trying to say is, Should this be a family affair? There are two other efficient boys in the post office, both Democrats. One spent 5 years overseas and has been in the post office 5 years. Both of these boys have families of their own and are much more deserving than the last family son mentioned.

The man who signed that is L. J. Moothart, superintendent of Lake County schools, Baldwin, Mich.

Mr. Moothart is not naive enough to think that the civil-service jobs are really civil-service jobs, because he did not expect any of them to go to Republicans, but he does believe that they should not be controlled absolutely by the family of the county Democratic chairman.

Mr. President, I call this matter to the attention of the Senate because I believe we have had an example of the fact that if a person wants to get an RFC loan he must see certain people connected with the Democratic Party. Yes, it was indicated on the floor of the Senate yesterday that a high official of the Republican Party was employed to appear before the Board and to arrange loans. That practice cannot be censured too severely, regardless of the political party concerned. It tends to confirm a public impression that one had to have political connections to do business with the Government. The business of the Government should not be influenced by political considerations nor conducted in a purely political atmosphere. A citizen of the United States should not be required to secure the intervention of someone directly connected with politics in order to obtain his just rights, and we should take great pains to avoid giving any impression that such intervention is necessary.

Mr. McFARLAND. Mr. President, did I correctly understand the Senator from Michigan to say that in order to get a loan from the RFC it was necessary to contact someone in the Democratic Party?

Mr. FERGUSON. Oh, no.

Mr. McFARLAND. What did the Senator say? I believe the RECORD will show it.

Mr. FERGUSON. I am saying that I criticize and I severely criticize—

Mr. McFARLAND. Does the Senator know that there have been literally hundreds and hundreds of loans made in regard to which no one in either party made any suggestion?

Mr. FERGUSON. I would say that there were even thousands.

Mr. McFARLAND. Very well. I would suggest that the Senator read the RECORD and see what he said a few moments ago.

Mr. FERGUSON. There are really thousands. My point is that the situation has become very serious, when the people are led to believe that they have to have influence to obtain positions with the Government.

As was indicated in an editorial in the State Journal on Sunday, September 9, 1951, this is what the people are being led to believe they must do, in order to

influenced by any contributions which may have been made or promised.

Since the issue of clean government is involved, and since the letter from the State central committee finance director now is being made the subject of a political smear, I urge that you reply to this communication within 3 days.

Will you be good enough to use the enclosed addressed envelope to mail your reply to me?

Sincerely yours,

BLAIR MOODY,
United States Senator.

REVENUE ACT OF 1951

The Senate resumed the consideration of the bill (H. R. 4473) to provide revenue, and for other purposes.

Mr. HENDRICKSON. Mr. President, at this time I rise to add my voice to those of the Senators who have so ably argued the case for the pending amendment.

I had intended to speak at some length on the subject, but I do not see any real value which could come from adding cumulative evidence to the splendid record which already has been made in support of the amendment.

Under the circumstances, Mr. President, I now ask unanimous consent that the formal remarks I have prepared on the subject be printed at this point in the RECORD, as a part of my remarks.

There being no objection, the statement was ordered to be printed in the RECORD, as follows:

STATEMENT BY SENATOR HENDRICKSON ON PROPOSED TAX RECOMMENDED BY SENATE FINANCE COMMITTEE AS AMENDMENT TO H. R. 4473 RELATIVE TO SAVINGS AND LOAN ASSOCIATIONS AND OTHER MUTUAL INSTITUTIONS

1. The proposal would be destructive of the incentive to save, it would place an undue burden on the thrifty, would impair the financial soundness of these mutual associations and would result in higher costs of financing home ownership and in requiring the Government to take a greater part than at present with taxpayers' funds in the home financing field.

(a) It would be destructive of the incentive to save and would place an undue burden on the thrifty: Let us bear in mind that the proposed tax can either be paid by reducing the return to people who save or by reducing the allocation for reserves for future losses. If dividends are reduced, it means in New Jersey that the rate of return to these savers would go down from the present low level of 2.36 percent to a little over 1 percent. The 700,000 people who are saving in these associations today, are not in the wealthy or speculative class. They are ordinary hard-working citizens. At a sacrifice to themselves and to their families, they are laying something aside for the future and are building a stronger economy. They are the greatest force against inflation in this country today. They are not throwing this money wildly into the purchase of consumer goods or stock-market speculation; they are painstakingly setting it aside in a nonspeculative and noninflationary endeavor. They pay their taxes on their income from their wages or other sources and on the earnings they receive from their mutual savings and loan association. They cannot hope for big profits. Their return is limited to these small dividends because of the nature of their mutual association which in effect operates so that they loan their savings to other people in and around their community for the purpose of financing their homes at the limited rates permitted for home mortgage lending.

It seems inconceivable that at a time like this, when thrift and saving are so essential to the national welfare, that Congress should pass a bill which would in effect reduce the already small reward for thrift by more than half. The result would inevitably be to discourage saving and to encourage spending, and it would put an undue burden on those people who should be encouraged to more saving, rather than to less saving in these times of inflationary dangers.

(b) It would impair the financial soundness of these associations; but it may be said, the associations need not reduce their dividend rates—let the dividend rate stay the same and pay the tax out of the amount that is reserved for loss. Obviously if the tax is taken out of the funds which past experience and prudence dictates are needed to safeguard against losses, then they will not be there when the time comes to charge losses. Financial soundness will be impaired. These institutions will become insolvent and the loss will be borne out of the savings of the thrifty or out of the funds of the Federal Savings and Loan Insurance Corporation, to the point that the Corporation may well become insolvent.

If the mutual savings and loan associations had large surpluses set aside for the private benefit and profit of specific individuals, far and above what might be anticipated would be necessary for loss purposes, there might be something to the argument of taxing these accumulations. The fact is however, that the savings and loan associations of New Jersey, have accumulated a loss reserve of only 5.6 percent of their total resources. This has been painstakingly accumulated from year to year by setting aside about 28 percent of their net income. If this tax had been imposed last year and had been taken out of the reserves, the ratio today would be only 4.9 percent and we can see that ratio going down almost to the disappearing point by that process.

The Federal Government in the case of the Federal savings and loan associations and insured State chartered associations, and the State governments insofar as their State chartered associations are concerned, have recognized the absolute necessity for reserves and have established legal minimums to which these associations must adhere. Here we have a proposal in the tax bill by which Congress would treat these funds as an earning or a profit, when Congress in dealing with them otherwise has said that they are necessary reserves for potential losses, based upon past experience and prudence. The State governments likewise treat them as necessary reserves.

(c) It would increase the cost of home ownership: The imposition of this tax would increase mortgage interest rates. In the first place it would slow up and eventually dry up, the flow of funds into these institutions and would therefore reduce the available money for mortgages. The law of supply and demand would operate and the rate would go up. Furthermore, the associations seeking to avoid in part at least, the destructive effects of the tax upon thrift saving and upon their necessary reserve ratios, would look for higher rates from their borrowers. The whole philosophy of Congress for many years has been to make better shelter available to the great mass of people at more reasonable costs. This tax proposal is in direct reverse of all that has gone before, and is directly against the best interests of the mass of the people.

(d) It would require the Government to take a greater part than at present with taxpayers' funds in the home-financing field: Almost every time a proposal is made for the Government to enter into one or another type of business, it is upon the claim that private enterprise cannot accomplish the purpose. Our public-housing effort is based on the theory that private enterprise

cannot serve the segment of the population that public housing is supposed to serve. The wish is expressed that private enterprise were able to serve these people—it would be better that way, but since they cannot do it, the Government must step in.

In the mutual savings and loan association, we have private enterprise at its best. It is a mutual operation in which no one person receives the benefit over another, but all of the participants share on an equal basis. It has made home ownership possible to many millions in this country who otherwise could not have accomplished their wish. The imposition of this tax will dry up this mutual operation and the void thus caused will be filled by direct Government operation with taxpayers' funds.

2. Deduction formula is not adequate: It has been said that those proposing this tax do not wish to harm or destroy the savings and loan associations—that there will be allowed an adequate deduction from the tax for the establishment of necessary reserves. This is not so, and no one who has any experience with the operation of savings and loan associations can agree that the proposal set forth in the bill or in the committee report provides any adequate formula for deduction from the tax for the establishment of necessary reserves.

The committee report suggests a loss reserve based upon 25 years experience as prescribed by the Commissioner of Internal Revenue. It does not take into account that a number of associations have commenced their corporate existence within the last 10 or 15 years when losses were small; that the real estate cycle is a long cycle and that when losses occur they are severe in a few years and should be prepared for over a long period of time. There is no assurance in the bill or in the committee report of protection against destruction by this tax.

3. An adequate reserve: The question of what should be allowed as an adequate deduction from tax for reserve purposes, results in the conclusion that the status of these associations should be left just as it is today. The present tax law in effect permits them to build an adequate reserve. The method under which these associations operate, their relatively small return and their inability to make large and speculative profits, makes it difficult enough for them to build up an adequate reserve today. They can't build excessive reserves. Their real profits are already taxable as dividends in the hands of their members and these members are already fully taxed upon such earnings. If there is the desire to permit these associations to build and maintain adequate reserves, then no change should be made in their present status.

4. Supervisory authorities should have been consulted: The various supervisory authorities were not consulted by the Senate Finance Committee as to the effects of this tax. It is the duty of the Home Loan Bank Board insofar as federally chartered and State chartered insured associations are concerned, to see that they are operated as the law requires and with safety and soundness. The same duties devolve upon State authorities insofar as State-chartered associations are concerned. It would seem that in the case of quasi-public institutions such as the savings and loan associations, that the authorities supervising them and responsible for the public's protection, should have been invited to express an opinion on this topic.

Under date of September 4, 1951, Mr. William K. Divers, Chairman of the Home Loan Bank Board, wrote to the Honorable WALTER F. GEORGE, chairman of the Senate Committee on Finance, and said: "We would like to emphasize that the staff of the Committee on Finance has never called upon our Board for an expression of its views on the proposed tax or related matters, and this is the first

time that our Board has submitted its views to your committee."

In his letter Mr. Divers said: "The proposed tax in our opinion would have a serious adverse effect on these institutions and would possibly destroy them." Copy of Mr. Divers' full letter is appended. Unfortunately at the time this letter was written the Senate Finance Committee had already acted.

5. House Ways and Means Committee twice rejected the proposal: This proposal is not new. It was before the House Ways and Means Committee when they considered tax legislation in 1950 and again this year. On both occasions competitive influences exerted great pressure upon members of the committee to impose such a tax. It was rejected on both occasions by that committee, and is not included in the House version of the bill this year.

I trust that this amendment will be adopted with overwhelming support.

Mr. HENDRICKSON. Mr. President, I also ask unanimous consent to have printed in connection with my remarks a memorandum prepared by the Tax Savings and Loan Associations and other mutual institutions of New Jersey, and a letter addressed to the distinguished Senator from Georgia [Mr. GEORGE] from Mr. William K. Divers. I ask that they be printed at this point in the RECORD, as part of my remarks.

There being no objection, the memorandum and letter were ordered to be printed in the RECORD, as follows:

MEMORANDUM RE EFFECTS OF ADOPTION OF AMENDMENT TO H. R. 4473 PROPOSED BY THE SENATE FINANCE COMMITTEE TO TAX SAVINGS AND LOAN ASSOCIATIONS AND OTHER MUTUAL INSTITUTIONS

The following series of points supplement the memorandum of September 10, 1950, submitted by the New Jersey Savings and Loan League:

Point 1: The tax bill proposes to apply corporate tax rates on mutual savings and loan associations' income after deducting dividends paid to members.

This places a penalty on conservative management by taxing amounts set aside from earnings to take care of unforeseen losses or else will require a reduction of dividend rates paid by the associations which now average 2.36 percent to such a point that it would remove any incentive for thrift and would undoubtedly create a withdrawal of substantial funds from the associations.

Point 2: It has been stated that the proposed tax would allow the associations to also deduct allocations to loss reserves.

This proposal of the Senate Finance Committee, we have been informed, gives consideration to a loss reserved based on 25-year loss experience as prescribed by the Commissioner of Internal Revenue. We do not feel that this type of a reserve allocation would be appropriate to the savings and loan institutions or would provide adequate reserves for losses. Losses in home-mortgage lending are generally concentrated in a very few years of business depression, and averaging these for 25 years would provide inadequate allocations to reserves. In addition, there are a great many institutions in New Jersey that have not been in business for 25 years and where because of the inflationary period through which we have been going have experienced no losses. These institutions have been putting into reserves approximately 1 percent of the assets per year, and even with this size allocation have had a difficult time maintaining reserve ratios that supervisory authorities or informed opinion deem to be adequate.

Point 3: Savings and loan associations in New Jersey are providing about 30 percent of the money needed in the State to finance

the individual of modest means in ownership of his own home and currently have approximately 115,000 home mortgage loans on the books.

Any tax which would have the effect of reducing the incentive of people to save and which would create withdrawals of existing funds saved in an institution, would have a marked effect on the ability of the people of New Jersey to buy or build their own home. Savings and loans are the only institutions in the State whose investment function is primarily limited to financing individual home ownership. The funds to do this come from the accumulation of a large number of thrifty savers saving small amounts periodically. Curtailing the activity of institutions of this type would substantially cut the availability of money for home financing in the State.

Point 4: Supervisory authorities were not consulted by the Senate Finance Committee before acting on this proposed tax.

The Home Loan Bank Board, a Federal agency, supervises those institutions which are chartered by the Federal Government and those institutions which are chartered by the State that are members of the Federal Savings and Loan Insurance Corporation. In New Jersey almost 90 percent of the savings and loan assets are subject to the supervision and regulations of the Home Loan Bank Board. The Home Loan Bank Board was not consulted by the Senate Finance Committee and only after the action of the Senate Finance Committee was noted in the CONGRESSIONAL RECORD did the Home Loan Bank Board on its own initiative communicate with Senator GEORGE and point out that they as supervisors had not been consulted on this matter; that they considered that a great supervisory problem would be created by this tax and expressed their reasons therefor. Copy of this letter from the Chairman of the Home Loan Bank Board to Senator GEORGE discussing this situation is attached.

Point 5: The earnings of these associations are already taxed.

On the average 70 percent of the net income of the associations in New Jersey is distributed to members as dividends. This is taxable income in the hands of the recipients and we estimate that approximately \$2,300,000 of Federal income tax was paid in 1950 under the existing tax laws on the dividends received by the savers. The proposed tax would increase substantially the amount of tax they have already paid. It can be demonstrated from official figures that the Federal Treasury already derives more revenue from \$1,000,000 of savings and loan assets than it does from \$1,000,000 of commercial bank assets including taxes paid by the bank itself, taxes paid by its depositors on interest they receive and taxes paid by the stockholders on cash dividends on their capital stock.

Point 6: Commercial banks are very much in favor of this tax.

Commercial banks are in favor of this tax because their primary function is to operate a commercial banking business and make a profit on the business for the limited number of holders of stock of the bank. They therefore desire to pay the minimum return on deposits consistent with their ability to attract and hold deposits. Savings and loan associations are mutual institutions and therefore all earnings after the payment of expenses and allocation to loss reserves are paid to the savers. They also invest in home mortgages which carry with them a slightly higher yield than the typical bank investments. As a result the thrifty people have been receiving a return on their savings and loan thrift greater than that paid by most commercial banks on their time deposits and therefore have attracted a good bit of the savings of the public. Commercial banks would like to destroy the competitive ad-

vantage the mutual institutions have by taxing away the differential between the earnings in a savings and loan and earnings in a commercial bank.

HOME LOAN BANK BOARD,
Washington, D. C., September 4, 1951.
The Honorable WALTER F. GEORGE,
Chairman, Committee on Finance,
United States Senate,
Washington, D. C.

MY DEAR SENATOR GEORGE: We have noted from the CONGRESSIONAL RECORD of August 29, 1951, that the Committee on Finance has taken tentative action on amendments to H. R. 4473 which, if adopted, would tax mutual savings banks, savings and loan associations, including building and loan associations, cooperative banks, homestead associations, and similar institutions.

Let me assure you that we are not unappreciative of the many weighty problems before your committee and your desire to spread the tax burden as evenly as possible. However, the proposed tax, in our opinion, would have a serious adverse effect on these institutions and would possibly destroy them. An additional consideration which should not be overlooked is that the proposed tax would apparently prevent the organization and development of new associations which are still needed in many county seats and in new and developing parts of our country.

We are responsible for the chartering, regulation, and supervision of some 1,500 Federal savings and loan associations. We act as trustees of the Federal Savings and Loan Insurance Corporation which insures accounts up to \$10,000 in 2,860 institutions of the savings and loan type. In our supervisory capacity we have constantly urged substantial, annual allocations to reserves for losses.

Savings and loan associations are limited in their investments to first mortgage loans and to United States Government bonds. Approximately 70 percent of their mortgages are not insured or guaranteed. Substantial reserves against losses are imperative because: (1) The real-estate market has been on the rise since the early thirties; (2) losses in Government bonds may occur if liquidation of bonds is necessary; and (3) losses may be suffered even if mortgages are insured or guaranteed as was demonstrated in the recent floods in Kansas, Missouri, and Oklahoma.

The proposed tax would permit an association to establish a loss reserve based on its experience of the last 20 years. Such a loss record in our opinion is not a safe basis for establishing reserves because the real-estate market has risen without interruption for almost 20 years. We are satisfied from our analysis of the situation that a 20-year experience loss reserve will not be adequate when the real-estate market turns down. We would therefore be faced with two alternatives if the proposal became law: (1) if adequate credits are made to reserves by these institutions, it would be necessary for these institutions to reduce dividends to such an extent that we believe it would cause general withdrawals of savings and would gradually result in the liquidation of these institutions. For example, the average insured association in 1950 had savings of \$4,000,000 paying an average dividend of 2½ percent and making an annual reserve allocation of 1½ percent of its savings. In order to maintain the same reserve allocation of 1½ percent, it would be limited to not more than a 1-percent dividend, paying a tax of slightly more than 1½ percent of savings; (2) the second alternative is that the institutions would continue to pay the same dividend rates as formerly. In this case the loss reserves would not be sufficient and our supervisory and insurance loss problems

would be increased tremendously. For example, the average insured institution in 1950, due to growth, barely maintained its ratio of reserves to savings, notwithstanding that it allocated one-third of its net income to reserves instead of paying it out in dividends. If this average institution reduced its allocation to reserves by a half, its reserve ratio would decline steadily to a dangerous point.

We would like to emphasize that the staff of the Committee on Finance has never called upon our Board for an expression of its views on the proposed tax or related matters, and this is the first time our Board has submitted its views to your committee.

We hope you will reconsider your tentative decision in the light of the effects it may have upon these institutions which have almost 30,000,000 savers.

Time has not permitted an exhaustive study of this matter. We are enclosing a memorandum from our general counsel setting forth additional considerations. We will, of course, be glad to have further studies made for your committee and to cooperate in any way which you deem desirable.

Sincerely yours,

WILLIAM K. DIVERS,
Chairman.

HOME LOAN BANK BOARD,
September 4, 1951.

From office of the general counsel.

To Mr. William K. Divers, chairman.

You have requested that a study be made of the effect which the adoption of the amendments to H. R. 4473 taxing mutual savings banks, savings and loan associations, and similar institutions would have on these institutions. The proposed amendments would tax these institutions as ordinary corporations allowing a deduction for dividends or interest paid to depositors and allowing a special deduction for amounts placed in bad-debt reserves based upon experience over a period of time.

Time has not permitted us to make as complete a study, including case histories on institutions in the various reserve categories, as we would like. However, from the figures readily available, we have obtained the following:

1. If these institutions are taxed as proposed, the figures indicate that these institutions could not pay reasonable dividends and at the same time make required allocations to their reserves for losses. In 1950 the dividends paid by institutions insured by the Federal Savings and Loan Insurance Corporation, were at an average rate of 2.55 percent. The over-all average of reserves to assets for all associations was substantially the same at the end of the year as it was at the beginning. In other words, though supervisory authorities were diligent in their efforts to increase the over-all reserves, they remained virtually static during the year.

Had the 52-percent tax been applied in 1950 to the total amounts remaining after dividends and the same dividend been paid, the average reserve position of all insured associations would have decreased during the year one-half of 1 percent. On the other hand, had the 52-percent tax been applied in 1950 and had the same credits been made to reserves by all insured associations that were made, the average dividend paid would have been 1 percent. It is quite evident that these institutions cannot retain their capital if they pay dividends of only 1 percent and it is questionable whether they can retain their capital if dividends are decreased to any substantial extent. On the other hand, it would appear to be unsafe to permit a decline in the reserves. These figures are alarming and would appear to indicate that a tax such as proposed, would be disastrous for the savings and loan industry.

Should the tax be imposed the normal thing for the management of an association to do would be to make every effort to maintain the capital in the association and it is fearful that the reserves would first suffer.

The disastrous effect would work slower on associations which have been long established and have strong reserve positions as they may be able to remain in a relatively safe position for a while, though their reserves will be gradually lowered percentage-wise. However, it appears clear that many comparatively new associations which have not had time to build strong reserves and probably some other associations with low reserve positions, could not be permitted to continue operation by supervisory authorities because of the low reserves and the inevitable fact that reserves could not be built up as required by law or regulations. New associations could not be organized under such conditions.

2. All of the 6,000 associations in the United States, except approximately 200, are mutual institutions whose earnings are distributed on a pro rata basis to shareholders after allocations to necessary reserves for losses. In these institutions the reserve which the association is able to build is the only cushion which protects the shareholders or the Federal Savings and Loan Insurance Corporation from losses. There are no stockholders who have a liability to shareholders or depositors and there is no capital except that placed with the institution by the shareholders. Congress and the supervisory authorities have recognized this in requiring the building of adequate reserves.

Congress, in passing title IV of the National Housing Act creating the Federal Savings and Loan Insurance Corporation, required that each member institution within a reasonable time, not exceeding 20 years, build its reserve to at least 5 percent. The Insurance Corporation by regulation requires that three-tenths of 1 percent of each insured account in the institutions be placed in reserve annually until the reserve reaches 5 percent of all insured accounts. The charter of each Federal savings and loan association requires semi-annual credits to reserve accounts until the reserves equal 10 percent of the share capital of the association. The Insurance Corporation has required as a condition of insurance, in many instances, that the applying association agree to set aside a minimum of 25 percent of net income to reserves whenever the reserves fall below 5 percent of assets. These represent the minimum requirements which Congress and the supervisory authorities consider necessary.

3. The special deduction proposed in connection with the taxing of these institutions would be allowed from amounts placed in bad debt reserves based on experience over a period of years. Title IV of the National Housing Act creating the Federal Savings and Loan Insurance Corporation was passed in 1934, and the Home Owners' Loan Act providing for the creation of Federal savings and loan associations was passed in 1933. Thirty percent of all insured associations were incorporated during the period of rising prices since 1933, and almost all of the \$14,000,000,000 of home mortgages held by savings and loan associations was acquired by savings and loan associations during this period of rising prices. Consequently, these institutions have had virtually no losses and therefore a tax deduction based on losses over this period would be inconsequential. Reserves in these institutions are created to take care of losses that may occur in times of stress. The long rise in real-estate prices and the present sharp inflationary trend have given those responsible for supervision of institutions of these types much concern. The inflationary condition which we

face today makes necessary the building of even larger reserves to meet future contingencies.

As accounts up to \$10,000 in 2,860 of these institutions are insured by the Federal Savings and Loan Insurance Corporation, the Corporation would be called upon to pay heavy losses in times of stress. The Insurance Corporation risks would increase if the reserve ratio of insured institutions would decrease.

We would be glad to go further into this matter and obtain additional information if time permits.

T. WADE HARRISON.

Mr. HENDRICKSON. Mr. President, I wish now to announce that at an appropriate time I shall ask to be excused from voting on this amendment because I am not only a shareholder in a building and loan association in New Jersey, but I am also a director and the solicitor of the association. Therefore, inasmuch as, from time to time, I may enjoy compensation as solicitor, I feel that I should be barred from voting on this issue.

Mr. FLANDERS. Mr. President, will the Senator yield?

Mr. HENDRICKSON. I am glad to yield.

Mr. FLANDERS. As a shareholder, not an officer, in a building and loan association, I cannot comprehend why the junior Senator from New Jersey should wish to be excused from voting. A building and loan association is a fiduciary organization. The Senator from New Jersey has the duty of protecting the other shareholders in his building and loan association; and he will fail to do his duty if he refuses to vote. I suggest that he reconsider the announcement he has just made.

Mr. HENDRICKSON. Mr. President, I do not wish to refrain from voting. I merely think it my duty to ask to be excused. I quite agree with the distinguished Senator from Vermont that, were I only a shareholder, I would be voting; and in voting for the amendment, I would be voting in the interest of my fellow shareholders and therefore would have some just cause to vote. But since I hold other offices in the association, I think the line is pretty close, and I am not going to cross the line.

Mr. FLANDERS. I still cannot agree, Mr. President. As a Senator from New Jersey, the Senator has a responsibility in addition to his responsibility as an officer of a building and loan association, and it is his duty to accept that added responsibility. I certainly cannot understand the position he has taken. I trust he will reconsider it, and, when he sees the situation more clearly, will decide to vote on the amendment before the Senate.

Mr. HOLLAND. Mr. President, will the Senator from New Jersey yield?

Mr. HENDRICKSON. I gladly yield.

The VICE PRESIDENT. The question suggested by the Senator from New Jersey is a personal question which appeals to every Senator, and it is a question about which each Senator must make up his own mind according to his own judgment. It is not a matter for argument on the floor. Does the Senator from New Jersey yield to the Senator from Florida?

Mr. HENDRICKSON. I thank the distinguished occupant of the chair, of course, for his observation.

I yield gladly to the Senator from Florida.

Mr. HOLLAND. Mr. President, far from agreeing with the position taken by the distinguished Senator from Vermont, the Senator from Florida feels that the Senator from New Jersey is to be commended and complimented for the attitude which he has taken. I cannot believe that the Senator from Vermont heard all of the statement made by the Senator from New Jersey, because the end of that statement was that he was the solicitor and the attorney for the savings and loan association, of which he is also a member and a director, and it would be inconceivable to the Senator from Florida that the Senator from New Jersey could come to any other decision than the one he has announced, in view of the fact, as stated by him, that he is the attorney and adviser and solicitor for the association. I commend him for his position.

Mr. FLANDERS. Mr. President, will the Senator yield?

The VICE PRESIDENT. Does the Senator from New Jersey yield to the Senator from Vermont?

Mr. HENDRICKSON. I yield for a question.

Mr. FLANDERS. Then perhaps I shall ask for the floor. Let me merely say—

Mr. HENDRICKSON. Mr. President—

Mr. FLANDERS. I am inquiring whether on this question of personal responsibility, which the Chair, as I understand, ruled is not subject to discussion from the floor, it would still be in order for me to explain to the Senate what I would do were I in the position of the Senator from New Jersey.

The VICE PRESIDENT. It will be in order for the Senator to explain anything, if and when he gets recognition.

Mr. FLANDERS. Very well.

Mr. HENDRICKSON. I did want to make this statement to the Senate, Mr. President. I do not want my position to be construed as being any less enthusiastic for the measure which is pending before the Senate than the enthusiasm of other Senators. As I said at the beginning of my remarks, the case has been made for the pending amendment, in my judgment, thoroughly and ably made and I am quite as enthusiastic for the adoption of the amendment of the distinguished Senator from Vermont as is any Senator on the floor. But I do feel constrained to make the request to be excused from voting when my name is called.

Mr. MURRAY. Mr. President, I wish to join with my colleagues who are opposing the provisions of section 313 of the pending tax bill. I am familiar with the operations of the building and loan associations in my State of Montana, and I am convinced that the provisions of section 313, as now worded, will have the effect of taxing out of business the savings and loan associations, building and loan associations, and other similar cooperative savings institutions which

have been built up in this country during the past 100 years or more.

On the floor of the Senate yesterday it was repeatedly said that "the power to tax is the power to destroy." I think it is certainly true that if section 313 of this bill is enacted into law it will have a destructive effect on all these existing cooperative savings and loan associations. It also will prevent the establishment and operation of similar institutions in areas of our country now developing and in need of organizations of this character.

More than a century ago these institutions were established in the United States to encourage thrift and promote home ownership. They constitute an example of how our capitalistic economy seeks to give every citizen an opportunity, through the exercise of thrift and enterprise, to become an owner of property and have a stake in supporting the capitalistic system.

These are typically nonstock organizations. About 6,000 of them are now doing business in this country, with total assets between \$14,000,000,000 and \$15,000,000,000. Their membership constitutes a large section of our population.

Under existing laws, designed to encourage thrift, these organizations, as distinguished from members, have been exempt from income taxes. It is now proposed by section 313 of the pending measure to remove this tax exemption and hereafter tax these organizations just like other American corporations such as the General Motors, the General Electric, the Chase National Bank, and the various commercial banks; except that these larger corporations are permitted to utilize certain ways and means through which they are able to escape taxation in a substantial way. These loopholes enjoyed by the large corporations were well illustrated on the floor day before yesterday by the able Senator from Minnesota [Mr. HUMPHREY] and others participating in the debate.

Mr. President, I think it is the height of absurdity to place these savings and loan associations in the same class as other business or financial corporations. These savings and loan companies do not create spectacular fortunes for their members. They do not attract investors from Wall Street. They cater only to the low-income earners from across the tracks. They aid their members only in a small way to become owners of property. Prior to the development of these institutions a century ago, the great masses of the people occupied a very lowly position in our economy, marked by a high degree of poverty and degradation. A laboring man in our early history did not own property, had no vote, and had very little opportunity to improve or change his status. He was known as a serf or a servant, and when born into that class he retained that status throughout his life. These savings and thrift institutions, as they grew up, became a sort of bulwark to our capitalistic system. They gave these poorer members of society an opportunity to become property owners and have a stake in the development and preservation of capitalism.

Let us see how these savings and loan organizations operate. All income is entirely distributed for payment of operating costs, allocation to necessary loss reserves, and dividends or interest paid to members. There is no ring of proprietary stockholders in these associations. In Montana we have a number of them scattered over the State, and they have contributed much to the development of thrift and the ownership of homes in Montana.

Contrary to the propaganda put out against these organizations about escaping taxation, it should be understood that the average savings and loan or building and loan association produces approximately \$5,000 of Federal tax revenue for the country for each million of savings deposits. This is most important. It was demonstrated during the hearings on this bill that these institutions produced 50 percent more tax revenue than was produced by the commercial banks of the Nation. These figures are supported in the record of the hearings. This proves that these savings and loan organizations are already doing more than their share in providing national tax revenue.

The movement to levy an income tax on savings and loan associations developed several years ago. A propaganda organization created by big business and designed to put these institutions out of business, has been carrying on a nationwide campaign to make it appear that these organizations had been escaping taxation and should be taxed. Their real purpose was to put them out of business, because they were considered as encroaching upon the activities of banks and private loan organizations. The private organizations want a monopoly in this field. Last session proposals to levy a direct tax on the savings and loan associations, on top of the tax revenue already provided through taxes levied against each member, died in the committees of Congress. This session the Ways and Means Committee of the House considered such proposals again, and after a thorough study dropped the matter completely.

The report which has been submitted with the bill deals, on page 26, with the proposed tax on building and loan associations. Table 10, which shows the distribution of the net income of these associations, leaves the impression that there is a substantial amount of earnings which are not distributed to members and which therefore should be taxed.

Now, Mr. President, it is important to look behind these figures. There is no explanation in the report of the basic reasons for the retention of a portion of these earnings for reserves against future losses. In fact, the report wholly ignores the State and Federal statutory requirements for loss reserves which these associations must meet or be liquidated.

These legal loss reserve requirements are the result of bitter experience in depression days, when thousands of people lost their hard-earned savings. We must recognize the States' rights to protect their thrifty citizens who wish to become real members of our capitalistic

society. This bill does not recognize such States' rights. It merely says that possibly these associations might be permitted to set up bad-debt reserves if they can get the approval of the Commissioner of Internal Revenue.

But the Commissioner of Internal Revenue owes no allegiance to any State government or to its laws. He is responsible only to Federal law, and it is his duty to collect all the taxes possible under the revenue acts we pass. Of course, he will vastly expand the organizations he directs in order to take on this job.

There is also an insistent comparison of building and loan associations with commercial banks and even with ordinary taxable corporations. This comparison will not stand up. Commercial banks are owned by a few stockholders who are in business to make a profit for themselves by the use of their depositors' funds. Ordinary corporations are similarly owned by stockholders who engage in business activities of many kinds for the primary purpose of making a good profit.

A mutual building and loan association, on the other hand, is owned by little people who pool their meager savings for the sole purpose of making loans to their neighbors and fellow members for the financing of home ownership and the upbuilding of communities. They were created in the first instance not as mere profit-making institutions, but as a bulwark to our capitalistic system.

The interest paid by these borrowers goes to pay operating expenses and to meet future losses by the setting up of reserves, and to make possible a distribution of taxable dividends which encourage thrift and attract the funds of small-income earners needed for home building.

The only question which can be legitimately raised is whether the reserves for future losses are larger than necessary. If there is ever another real-estate decline, such as occurred in the great depression, these reserves will certainly not be excessive. In any event, they are under State and Federal supervision, and can easily be controlled.

But let us take time to study this matter more carefully. Let us invite the best minds in the Federal and State supervisory departments to study it and give us their best judgment. Let us not take hasty action which may jeopardize the safety of the savings of 30,000,000 people.

We certainly should not let the National Tax Equality League propagandize us into precipitate action on this subject. Let us take more time to study the problem. If we are not satisfied with the national policy to which we adhered for a hundred years before the National Tax Equality League set out to wreck it, we should study the problem carefully before acting.

Such a tax as is here proposed, in my opinion, is confiscatory. Coming on top of the tax revenues already provided through the taxation of the members of these organizations, it would have a serious effect on every community in the country. Few people would put their savings into these savings institutions if

this tax were put into effect, because, while all the members would be paying the regular income tax on their dividends, the institution itself would be taxed in such a way as to compel it to decrease its dividends to members. Thus there would be a big drop in depositors; funds for the financing of homes would dwindle; and interest rates would rapidly rise, to the benefit of the monopolies left in the field.

It is important to note that these savings and loan organizations we are now discussing form our country's largest single group of home-financing institutions, making over a third of all home loans in the United States. Seventy percent of these loans are of the conventional type—not insured by the Federal Housing Administration or guaranteed by the Veterans' Administration. There are no other institutions in the country providing such support for our capitalistic system. All over the world people have been driven into the ranks of the Communists because they were unable to secure decent housing and decent living conditions.

Mr. President, our economic system is not in a position to stand such a blow as this measure will prove to be. If we take away from these citizens in the lower income ranks the opportunity to make the measly savings they are at present able to accomplish, it will work some very evil consequences. One of the consequences will, without doubt, be a demand for further direct Government financing in home building. It will bring about a further concentration of the banking and loaning business of the country. It will lead us further along the road to collectivism which we have been traveling for some time.

We have been drifting into a system of concentrated ownership of our financial and industrial enterprises. A small group of powerful financial interests dominates the big insurance companies, the large banks, and the great industrial organizations of the Nation. These huge combinations of capital, controlled by a few, are gradually coming to own every business in the United States. This gradual concentration of ownership has gone so far as to prompt economists to question its effect upon the future of our economic system. It has been pointed out that collectivism in business and industry begets collectivism in Government.

In the face of these dangerous developments, it is difficult to understand why anyone should propose a program which would certainly have a destructive effect upon the small savings and loan institutions, which are the refuge of the working classes of the country, furnishing the only means whereby a worker can begin to build up his savings to acquire a home and provide for the security of his family. A man starting in life with a small salary has an opportunity, through the utilization of these institutions, to become an independent citizen with a home and with savings which often permit him to enter the ranks of small-business men.

Earlier in my remarks I referred to a propaganda organization which has

been attacking these institutions and advocating a taxation program which, if carried into effect, will cause them to fold up. Representative DANIEL A. REED, of New York, in the House a short time ago exposed the activities of the National Tax Equality League, which has been the principal advocate of taxation of building and loan associations and other cooperative organizations, principally the farm cooperatives. His remarks concerning the NTEA will be found in the Appendix of the CONGRESSIONAL RECORD of May 28, 1951, page A3244.

The National Tax Equality Association was thoroughly studied as shown in House Report No. 1675, Eighty-first Congress, second session, by the House Select Committee on Small Business. According to this report the association was organized in 1943 with headquarters in Chicago. The law firm of Scott & Schuler apparently were the organizers, and had offices in the Chicago headquarters of the NTEA, as well as in the Washington headquarters of the National Associated Businessmen, Inc., an organization with which NTEA apparently had intimate connections.

The NTEA claims that it is a research organization and not subject to the Lobbying Act, although it commenced filing reports thereunder in 1949. NTEA has had receipts of \$500,000 or more a year. In this connection, the hearings before the House Ways and Means Committee indicate that their receipts last year were about \$600,000. The NTEA pays Scott & Schuler \$48,000 a year, plus reimbursement substantially for expenses, plus free office space for the law firm in their Chicago offices. In 1950 there were 30 contributors from public utility companies whose contributions amounted to \$500 or more.

The National Associated Businessmen Inc., was substantially formed by the NTEA. This organization pays Scott & Schuler \$10,000 a year retainer, plus free office space in the Washington headquarters. The NTEA has furnished substantial sums to the State affiliates of the National Associated Businessmen, Inc. At a hearing held by the House Small Business Committee on August 22, 1949, Mr. Scott admitted that the NTEA accepted contributions from big business, denying that it was specifically a small-business organization, but admitted it claimed to represent small business. The House Small Business Committee reports that the NTEA has filed evasive reports under the Lobbying Act.

The House committee investigation further revealed that the NTEA made monthly periodic payments of about \$200 each to individuals whose names are listed as secretaries of the State affiliates of the National Associated Businessmen, Inc. Both organizations use similar, and often identical, literature.

The House committee came to the conclusion that the claims of both of these organizations that they represent small business were false and misleading.

Among the things that were developed in the statement by Representative REED of New York, in the CONGRESSIONAL RECORD of May 28, 1951, is the fact that the

income of the organization is tax exempt, and that contributions made to the organization by individuals are also tax exempt even though it is apparently subject to the Lobbying Act.

Now, Mr. President, in conclusion I wish to say I think it would be a great mistake to enact legislation of this character, based on insufficient study and at the behest of selfish interests who are seeking to unload their own tax responsibilities on these savings and loan organizations. It would undermine the confidence of the lower income groups in this country in the fairness and justice of our Government, which now, more than ever, should be on guard to strengthen our capitalistic system rather than undermine it. I am sure that the Senate will disapprove this rash, ill-considered proposal.

Mr. FLANDERS. Mr. President, will the Senator from Montana yield?

Mr. MURRAY. I yield to the Senator from Vermont.

Mr. FLANDERS. I should like to ask a question of the Senator from Montana, suggested by his very logical and strong presentation of the case before the Senate. Does the Senator from Montana feel that there is any other possible reason for this proposed taxation than simply to provide revenue? Can he conceive of any other reason?

Mr. MURRAY. I can say that the National Tax Equality Association is imbued with the notion that these savings and loan institutions are in competition with private organizations, and does not think that they should be allowed to have this tax exemption, inasmuch as they are in the same field with private organizations. In my opinion that is a false conclusion. These institutions in reality are organized to meet a much-needed want in this country. As I pointed out in my statement, they provide aid to a very large degree in the building of homes.

Mr. FLANDERS. The Senator from Montana would agree, would he not, that on the face of it the taxation proposed may require a lowering of the dividends paid to depositors?

Mr. MURRAY. That will certainly result from the language of the section.

Mr. FLANDERS. In so doing it would weaken these institutions, lead their depositors to go elsewhere, and tend to destroy the system, all of which I understand can be left within the discretion of the Bureau of Internal Revenue of the Treasury; but the power is afforded, under the terms of the section, to diminish the possibility of their continuing their strength and continuing their expansion. If the intent was to raise revenue, as I am sure was in the mind of the committee, I wonder whether the Senator from Montana does not feel that the danger of decreasing the return to the depositors, and a consequent weakening of the institutions themselves, diminishes the chances even for a return of revenue.

Mr. MURRAY. I think the provision would have an effect contrary to what the committee desires to accomplish. It would destroy the savings and loan organizations, which are already provid-

ing tax revenues for the country in much greater proportion than are commercial banks.

Mr. FLANDERS. I thank the Senator.

Mr. GEORGE. Mr. President, will the Senator yield?

Mr. MURRAY. I yield.

Mr. GEORGE. I should like to ask the Senator if he knows whether this national association—he called it by name, but I do not know its name—

Mr. MURRAY. The National Tax Equality Association.

Mr. GEORGE. Yes. Does the Senator know whether they had anything whatsoever to do with the committee's report on the bill?

Mr. MURRAY. I do not know whether they appeared before the committee or not, but I know that they have been carrying on quite an extensive Nation-wide campaign.

Mr. GEORGE. Does not the Senator know that the report filed by the joint staffs of the Treasury and of the joint committee in 1951 was the basis on which we have proceeded to study this question? If the Senator does not know that, I wish to assure him that this report on mutual savings banks and building and loan associations was prepared jointly by the staffs of the Treasury Department and the Joint Committee on Internal Revenue Taxation in April 1951.

As a matter of fact, the staffs had been making a study for 2 years prior to that time. So the bogeyman to whom the Senator has referred, as residing in Chicago, has nothing whatever to do with the committee's effort to raise some additional taxes.

Let me also call attention to the fact that according to this report, which is the best available source of information I have been able to obtain, in the State of Montana, the Senator's own State, these associations—presumably the building and loan associations—have a reserve of 5 percent of their net earnings until the reserve equals 5 percent of the book value of the stock. I assure the Senator again that the official charged with responsibility for setting up a reserve would presumably not make it less than 5 percent of the net earnings. Indeed, I would be willing to write into the law a provision for a reserve of 10 percent of net earnings until they reach 10 percent of the liabilities of the institution. But I want to disabuse the Senator's mind of anything which may be lingering in it to the effect that the committee is dependent upon any association, whether it be a propaganda organization or not, to secure information for it, or to furnish it with information upon which it can act in tax matters. That is what I am anxious the Senator should understand.

Let us take the State of New York, the State which has the largest interest in this particular subject matter. The State of Massachusetts and the State of Connecticut are also interested, but New York and Massachusetts are particularly interested. Let us see what the reserve requirements are in the State of New York. The State of New York requires a reserve of 10 percent of net earnings per

annum until the reserve equals 10 percent of deposits. Whenever the amount available for dividends exceeds 15 percent of deposits, the excess shall be distributed as an extra dividend if the State superintendent, with the approval of the State banking board, so directs.

So presumably we could rely upon Federal officials to take account of what the reserve requirements are in the several States. Many States have far less strict requirements. In Connecticut there is a requirement of one-eighth percent of deposits semiannually until the surplus equals 3 percent of deposits. In Oregon 5 percent of the net earnings until the reserve equals 10 percent of deposits. Those are very reasonable reserves. That is precisely what the State of New York is aiming at, except that it requires a reserve of 10 percent of the net earnings per annum until the reserve equals 10 percent of deposits, which seems to me to be reasonable. Even in Massachusetts the requirement is only one-eighth percent and not more than one-fourth percent of deposits semiannually until the reserves equal 7½ percent of deposits. So the Federal Government is not proposing to destroy these institutions.

I remind the Senator of another truism. He quoted Marshall, who was often referred to yesterday, to the effect that the power to tax is the power to destroy. Let me also remind the Senator that the power to exempt one group from taxation and to put the burden on another is the power to destroy the group which is taxed.

It seems to me that the Senator's statement, along with all the other statements which have been made, indicate the good qualities and character of these associations. Certainly they are good. The ordinary commercial bank is a good institution. The railroads carried civilization across the continent, but they were taxed; and the commercial bank is taxed. All other business organizations are taxed. For some reason or other savings and loan associations and other institutions use the corporate form to do business. That they accumulate earnings is true beyond all peradventure of doubt. They may not be excessive earnings. I do not say they are. Undoubtedly any tax on them would be a burden on them, just as a tax is a burden on anyone else. It may have a tendency to cut down their final net earnings, but so does the tax on everyone else cut down his possible net earnings.

So I do not see why the Senator should be unduly alarmed because we want to impose a reasonable tax solely on the earnings, over and above a reasonable reserve. If we were proposing to wipe out their reserves and not permit them to have any reserves at all, and make them pay a tax on the reserves, that would raise another question. The committee never had that in mind at all, and does not have it in mind now.

Mr. MURRAY. But the bill, as it stands, does not provide any fixed reserve. It leaves it to the judgment of the Bureau of Internal Revenue.

Mr. GEORGE. It does; but the section of the code under which the Bureau

must operate requires a reasonable reserve. If the Commissioner were to fix an unreasonably low reserve the courts would still have power, and the Congress would have power, to step in and say, "Your reserve is too small."

Mr. MURRAY. I think it would be a feast for the lawyers of the country to turn over to them the question of determining whether or not the ruling of the Bureau of Internal Revenue has been reasonable. I agree with the Senator that there should be at least a 10 percent reserve, for building and loan associations, because we found during the depression that as a result of failure to have adequate reserves, some of the building and loan associations were closed up. We might have the same situation again.

Mr. GEORGE. Certainly they were closed up; and some of the commercial banks and manufacturing concerns were closed up. Taxes, of course, are a burden on whoever has to bear them. In one way they are a burden, and in another way they are a great privilege, because these banks have great privileges given them, and no one wants to destroy them.

Mr. MURRAY. We must not overlook the idea that the United States adopted this policy in the first instance because of the situation—

Mr. GEORGE. Certainly. So did the United States adopt the policy of chartering national banks, but they pay taxes.

Mr. MURRAY. Oh, yes.

Mr. GEORGE. And when their profits go to the stockholder, he pays a tax on the dividends.

Mr. MURRAY. But those are definitely profit-making institutions.

Mr. GEORGE. Certainly they are profit-making institutions for someone, or they would not be organized.

Mr. MURRAY. Those corporations were not set up to help the little fellow. At the commencement of our economic system the little fellow in this country had very few rights. He had no property. He had no vote because he had no property.

Mr. GEORGE. I disagree with the statement of the Senator that commercial banks were not set up to help the little fellows as well as the big fellows. Many business institutions are set up to aid the little man as well as the big man. I do not agree with the Senator's fundamental philosophy if he takes the contrary view. I know very well that these institutions do good. I know very well that they serve a useful purpose. That is not the question.

Mr. MURRAY. Not merely a useful purpose, but an essential purpose. They were necessary to bring about property ownership among lower income ranks.

Mr. GEORGE. I think they may be.

Mr. MURRAY. They were necessary at the time, because the ordinary people could not acquire homes. They had no vote because they had no homes, and this policy was adopted by the country for the very purpose of protecting the capitalistic system.

Mr. GEORGE. When these banks were first organized or chartered there was no tax on any competing institu-

tion. There was no tax on the commercial banks. There was no Federal income tax. These banks had their origin long before that, and they have continued in operation; but now, since taxes have become so heavy upon enterprises which are partially competitive, if not directly competitive, the question arises whether or not we should take a look at them and see if they should not bear some of the tax burden, particularly at a time when we are compelled to raise the rates to such an astronomical figure as 52 percent.

Mr. MURRAY. These organizations have already provided tax revenue for the country in a greater degree than the commercial banks.

Mr. GEORGE. I doubt that. I would not think that at all.

Mr. MURRAY. That is in the record, and I do not think it can be successfully disputed. Prior to the existence of savings institutions average citizens had no place to go which provided the savings opportunity. They were left out in the cold.

Mr. GEORGE. Suppose all that is true; is that any reason why these mammoth organizations, controlling vast concentrations of wealth, and accumulating vast earnings year by year, should not bear some of the burden of Government.

Mr. MURRAY. I do not know what the Senator means by mammoth organizations. I do not believe these building and loan associations can be referred to in that manner. Some of them have only \$500,000, \$600,000, or \$1,000,000. How can we compare them with Standard Oil, Chase National Bank, or some of the other large corporations that count their assets in billions? I do not believe there is any basis of comparison at all.

Mr. LEHMAN. Mr. President, will the Senator yield?

Mr. MURRAY. Yes.

Mr. LEHMAN. In reply to the distinguished chairman of the Finance Committee, I would say that savings banks go back in their origin further than the memory of any Member of the Senate or, as a matter of fact, farther than the memory of any man living today. They were organized for the purpose of encouraging thrift and encouraging savings. That purpose has been maintained ever since they were started. They, as well as building and loan organizations, provide a means of safe investment and safe deposit of funds, with some reasonable return in the form of interest.

I believe the chairman of the Committee on Finance overlooks one fact. The reserves which are set up by mutual companies belong to the depositors, whereas in the commercial banks the reserves belong to the stockholders. There is a vast difference in that situation. There is not one person—and I repeat what I said yesterday—who can possibly profit from the operations of mutual companies save the depositors and members of those companies. There are no such things as dividends to stockholders. All the money belongs to the depositors and the members of the mutual companies.

Mr. GEORGE. Certainly.

Mr. LEHMAN. May I complete my remarks?

Mr. GEORGE. Yes; if the Senator wishes to do so.

Mr. LEHMAN. I have a personal interest in this matter because I have experienced in my public life the dangers of not maintaining adequate reserves. I was governor of my State in 1933. Although most people believe that the banks in New York State were closed by the President of the United States, that is not a fact. The banks in New York were closed by me as governor of the State, at the request of the clearinghouse committee, early on the morning of Saturday, March 4, nearly 12 hours before the swearing in of the President of the United States. They were closed because it was perfectly evident that unless they were closed, during the banking hours which were about to commence, there would be such a run on the banks that they would be completely depleted of their current assets, notably, of their gold. It was a worrisome situation. It was one that had great implications of harm.

I can say to the distinguished chairman of the committee that one of the weakest links in the entire banking system of New York was the savings banks. It was a weak link not because of mismanagement or maladministration, but merely because they had not the reserves in sufficient size or quantity to care for the situation.

I realize that the situation has improved since then. The reserves have been built up to some extent. However, I feel that we owe a duty to the millions and millions of depositors in our mutual savings companies, both banks and building and loan associations, who in my State alone number more than 9,000,000, or considerably more than half the population of the State. We owe a duty to them to see that adequate reserves are built up and maintained.

The law of the State of New York requires a minimum reserve of 10 percent. In my judgment that is too low. The reserves should be considerably higher than that. Certainly under section 313 of the pending bill the building up of reserves to an amount which in the judgment of the managers of these banks representing the depositors, not representing stockholders, is adequate, cannot possibly be brought about.

Mr. GEORGE. It seems to me that the entire argument of the distinguished Senator is beside the point. Of course, the institutions serve a useful purpose, or they would not have patronage, and they would not be doing business. But the question is whether they should be entirely exempt from Federal tax at a time when competitive institutions are called on to pay higher and higher taxes.

There may be good reasons for a lower tax. I think there is as to all such institutions, and I regret very much that the tax goes up to the level indicated in the bill, but the real question is, Are we going to have a group of tax-exempt organizations with large assets and controlling vast concentrations of economic power?

The Senator from Montana [Mr. MURRAY] was disturbed. He said that the

institutions affected were small banks. I invite his attention to the fact that in 1949 the total assets of the mutual savings and loan banks were \$21,492,900,000. That was at the end of 1949. They have grown rapidly since then. They had surpluses and undivided profits of \$2,039,600,000. That was in 1949. They have larger reserves now.

The building and loan associations had total assets at the end of 1949 of \$14,650,000,000. They had general reserves and undivided profits of \$1,100,000,000.

Mr. MURRAY. Is that not a good thing for the United States?

Mr. GEORGE. Certainly, but should they not pay some tax on the profits?

Mr. MURRAY. They would not pay any tax if adequate reserves as suggested were not permitted and taxes were levied as contemplated. They would fold up.

Mr. GEORGE. The question is, Should they not pay some tax? Other people pay taxes.

Mr. MURRAY. Of course. All Members pay taxes.

Mr. GEORGE. Commercial banks do.

Mr. MURRAY. Is the Senator going to put there organizations in the same classification with the big banks of the country?

Mr. GEORGE. Certainly not. We are not proposing to tax them on total income. We are proposing to tax them only on their net profits, after an allowance for reasonable reserves.

Mr. MURRAY. How will the Government receive any appreciable tax income from a program of that kind?

Mr. GEORGE. Oh, yes; they would. They would be paying a tax of about \$140,000,000 a year. If they were not paying any tax, we would not hear anything on this floor against this provision; let me assure the Senator of that.

Mr. MURRAY. That would be on the theory that they had built up excessive reserves.

Mr. GEORGE. That is after allowing, in all instances, a reasonable reserve equal to the requirements of the several States.

Mr. BUTLER of Maryland. Mr. President, will the Senator from Montana yield?

The PRESIDING OFFICER (Mr. FREAR in the chair). Does the Senator from Montana yield to the Senator from Maryland?

Mr. MURRAY. I yield.

Mr. BUTLER of Maryland. I have before me statistics dealing with one of the largest and, I think, one of the oldest mutual savings banks in America; certainly it is one of the oldest. It has deposits amounting to \$150,000,000. Its projected 1951 earnings, after dividends, will amount to approximately \$360,000. It pays 2 percent on its deposits of \$150,000,000, or \$300,000 annually. It will be seen that its reserve over the expenses of running the institution and the dividends paid to its depositors is but 12 percent of such addition to deposits.

Any bank of that size would ordinarily have a normal increase in deposits during the year. If the bank has a normal increase of deposits of as much as

\$3,000,000, or 2 percent, the situation would be that before any taxes its reserves would be down to 6 percent of its deposits on that year's operations, which would be very dangerous. If it is taxed under this bill—and it certainly is possible that it would be taxed in some amount under the provisions of this bill—the result would be to drive its reserves down to 3 percent or 4 percent, and thus virtually put that bank out of business in a very short period of time.

Mr. GEORGE. Oh, no. Let me say to the Senator that the bank would not be put out of business. After these proposed taxes are imposed, the bank might not be able to earn as much as it was previously earning. However, that is true of every railroad, every commercial bank, and every business enterprise in the United States. If the tax were lifted from any given enterprise, so that it no longer had to pay the total Federal income tax, we would find that enterprise would make a much better showing. That would be true of all enterprises in such a case.

Mr. BUTLER of Maryland. Mr. President, will the Senator from Montana yield further?

Mr. MURRAY. I yield.

Mr. BUTLER of Maryland. The bank to which I refer pays but 2 percent on its deposits at the present time, and it is really a competitor with the Government of the United States, which pays 2.5 percent or 2.9 percent on its securities. The people will not continue to put their money into these savings banks under such a program, when they can get a better return on their money from the bank's competitor, the Government of the United States.

So if we pass this bill we would drive private capital out of private enterprise and into the Government, which we all wish to discourage.

Mr. GEORGE. Let me call the Senator's attention to the fact that his own State of Maryland taxes these banks.

Mr. BUTLER of Maryland. That is true.

Mr. GEORGE. Yes. Why not make the argument against the State, then? Why make the argument against the Federal Government and why say that the Federal Government must not have any revenue from these vast accumulations?

Mr. BUTLER of Maryland. I do not think they are vast.

Mr. MURRAY. That is the trouble, Mr. President; the Federal Government is taking over all the fields of revenue in all the States; and if that process is continued, soon there will not be left in the States any money with which to conduct the State governments.

Mr. GEORGE. Mr. President, I congratulate the Senator from Montana on his conversion to the States' rights doctrine. I am very glad to have the backing of his valuable assistance in that regard. [Laughter.]

Mr. MURRAY. I thank the Senator for the compliment.

Mr. GEORGE. I thank the Senator for permitting me to interrupt him.

Mr. FLANDERS. Mr. President—

Mr. MURRAY. I yield to the Senator from Vermont.

Mr. FLANDERS. Mr. President, I wish to make sure that I shall be in order; therefore, I shall ask the Senator from Montana whether he will request unanimous consent that I may be permitted to ask a question of the Senator from Georgia.

Mr. MURRAY. I ask unanimous consent for that purpose, Mr. President.

The PRESIDING OFFICER. Is there objection? Without objection, permission is granted to the Senator from Vermont to ask a question of the Senator from Georgia, without causing the Senator from Montana to lose the floor.

Mr. FLANDERS. I should like to say to the Senator from Georgia that I was interested in and pleased by a few words in his discussion, toward the last of his colloquy with the Senator from Montana, at the point where he indicated an interest in, and some feeling of responsibility for, compliance with the State law on the part of these institutions. Of course, I would have to consult the RECORD to determine the exact words he used; but there was a very evident interest on his part in compliance by these institutions with the laws in regard to reserves.

I wish to ask the Senator from Georgia whether my recollection is correct, namely, that I asked the committee to protect against taxation the funds of these mutual institutions which are required to go into reserves, in accordance with State law, but that the committee refused to protect those funds from taxation.

Mr. GEORGE. The committee did not refuse to protect those funds from taxation. The committee said that the reserve which would be recognized for the purpose of taxation would be the reserve which would be set up under section 23 (k) of the Internal Revenue Code, provided that reserve was reasonable.

Mr. FLANDERS. My recollection is that I made a specific motion to that effect.

Mr. GEORGE. The Senator may have done so. However, the reserves required vary as between the States; almost every State has a different requirement. Hardly any two of the States have the same reserve requirement.

Mr. FLANDERS. That is true.

Mr. GEORGE. So if the Federal Government goes at all into the field of taxing these institutions, as it taxes State bank institutions, it will not recognize the reserve fixed by the State, but it will recognize a reasonable reserve, so that the reserve requirement will be uniform throughout the country, in that respect.

Obviously it would be a very unfair system of taxation which would permit one State to allow its commercial banks, let us say, to set aside 15 percent as a reserve, while another State allowed its commercial banks to set aside only 5 percent, and then for the Federal Government to say, "We will tax all your profits above that reserve."

The fair and the equitable thing to do is to have set up a uniform reserve which

must be reasonable, under the very language of the statute.

I was referring to the fact that in Montana, the State of the distinguished Senator who has the floor, a reserve of only 5 percent of the net earnings is required, whereas in New York 10 percent is required. Practically none of the States require more than 10 percent.

Mr. MURRAY. I am not sure whether that is the present law in Montana.

Mr. GEORGE. The 1949 information is the latest we have.

Mr. MURRAY. The situation in Montana may have changed, because I know that some of the building and loan associations in Montana have 7½ percent reserves, and are trying to build up to 10 percent reserves.

Mr. GEORGE. These figures were furnished by the National Savings Bank League, and they may have been superseded because of a subsequent act.

Mr. FLANDERS. Mr. President, at the beginning of the answer given by the Senator from Georgia, I understood him to say that he did not agree with my recollection that I had made such a motion and that the committee had voted otherwise. However, from the remainder of the Senator's remarks I understand that the committee did vote otherwise.

Mr. GEORGE. The committee did vote otherwise because the committee believed in a uniform reserve which would be applicable throughout the country, and would not favor one State as against another. That was the reason for it.

Mr. FLANDERS. Let me end my part of the colloquy by saying that this emphasizes one of the points I made yesterday, namely, that the imposition of such a tax will constitute a moving in by the Federal Government on the rights and powers of the States; and that is one of the many reasons why I object to section 313 of the bill.

Mr. LEHMAN. Mr. President, will the Senator from Montana yield, to permit me to ask a question of the distinguished chairman of the committee?

Mr. MURRAY. I yield.

Mr. LEHMAN. I ask this question with some hesitation, because I realize that the distinguished chairman of the Finance Committee knows 100 times as much about taxation as I do. However, I seek information.

I believe it to be a fact that the reserves in a mutual company belong to the depositors.

Mr. GEORGE. But not to any particular depositor.

Mr. LEHMAN. That is true.

Mr. GEORGE. The reserves belong to the depositors at the time of liquidation, which might be 50 years hence.

Mr. LEHMAN. That is perfectly true.

Mr. GEORGE. Yes.

Mr. LEHMAN. But assuming that the reserves belong to the current depositors—and I acknowledge that they would receive those reserves only in case of liquidation—is not there something in my theory that what is proposed in this case is really a tax on capital?

Mr. GEORGE. Oh, no.

Mr. LEHMAN. And not at all a tax on the earnings, because the deposits would not be taxed, of course; and yet the reserves are really a part of the deposits.

Mr. GEORGE. The Senator is quite wrong. The proposal here is to tax only on earnings, and net earnings at that, after the payment of dividends, after the payment of interest, and after a reasonable reserve has been set aside.

In the year of liquidation I imagine that under the laws of nearly all the States the then depositors would receive a pro rata share of whatever surplus had been accumulated. But there is no liquidation of these institutions, I may say to the Senator, and therefore the reserve is nothing in the world but a net profit which is carried over. In this bill we do not propose to tax all of that reserve; we propose to tax only the reserve which is in excess of the amount allowed by the Bureau of Internal Revenue under section 23 (k) of the Internal Revenue Code, which requires a reserve, and which requires it to be reasonable. The committee has gone further in its report to say that in fixing the reserve the institution must take into consideration the history of each individual unit over a long period of time, say 25 years, I believe, where that did not operate against the bank; and other requirements are made. So we made every effort to be fair.

I frankly said yesterday that if I felt that I was able to write an adequate reserve on the average, I would as soon put the provision in the law as leave it to the discretion of the Commissioner. I wonder if the distinguished Senators would be willing to take a written-in reserve of 10 percent of the net earnings of these organizations, until there is an average, or until it has reached 10 percent of the total liabilities or deposits. That certainly would be fair, and if Senators wish to do it, I think we might agree.

Mr. LEHMAN. I thank the Senator very much.

Mr. MURRAY. Mr. President, I should like to call the Senator's attention to a letter which he received from the Home Loan Bank Board, in which the Board takes the position that there has not been sufficient study of this subject, and that time should be allowed for the purpose of carrying on an exhaustive study in order to arrive at what should be done about this matter. I read—

Mr. GEORGE. I do not want to interrupt the Senator, but we have been studying this subject since 1948, and if we are to do anything about it, the time is certainly ripe, when we are increasing other corporate rates to 52 percent, to do a little something in this field.

Mr. HOLLAND. Mr. President, will the Senator yield?

The PRESIDING OFFICER. Does the Senator from Montana yield to the Senator from Florida?

Mr. MURRAY. I should like to read a quotation from the letter to which I have referred.

The PRESIDING OFFICER. The Senator declines to yield.

Mr. MURRAY. Mr. President, this is a letter from the Chairman of the Home Loan Bank Board, in which he discusses this program set forth in the pending bill, and in conclusion he says:

We would like to emphasize that the staff of the Committee on Finance has never called upon our Board for an expression of its views on the proposed tax or related matters, and this is the first time our Board has submitted its views to your committee.

We hope you will reconsider your tentative decision in the light of the effects it may have upon these institutions which have almost 30,000,000 savers.

Time has not permitted an exhaustive study of this matter. We are enclosing a memorandum from our general counsel setting forth additional considerations. We will, of course, be glad to have further studies made for your committee and to cooperate in any way which you deem desirable.

I ask that this letter and the attached memorandum be placed in the RECORD at this point in my remarks.

The PRESIDING OFFICER. Is there objection?

There being no objection, the letter and attached memorandum were ordered to be printed in the RECORD, as follows:

HOUSING AND HOME FINANCE AGENCY,
HOME LOAN BANK BOARD,
Washington, D. C., September 4, 1951.
The Honorable WALTER F. GEORGE,
Chairman, Committee on Finance,
United States Senate,
Washington, D. C.

MY DEAR SENATOR GEORGE: We have noted from the CONGRESSIONAL RECORD of August 29, 1951, that the Committee on Finance has taken tentative action on amendments to H. R. 4473, which, if adopted, would tax mutual savings banks, savings and loan associations, including building and loan associations, cooperative banks, homestead associations, and similar institutions.

Let me assure you that we are not unappreciative of the many weighty problems before your committee and your desire to spread the tax burden as evenly as possible. However, the proposed tax, in our opinion, would have a serious adverse effect on these institutions and would possibly destroy them. An additional consideration which should not be overlooked is that the proposed tax would apparently prevent the organization and development of new associations which are still needed in many county seats and in new and developing parts of our country.

We are responsible for the chartering, regulation, and supervision of some 1,500 Federal savings and loan associations. We act as trustees of the Federal Savings and Loan Insurance Corporation, which insures accounts up to \$10,000 in 2,860 institutions of the savings and loan type. In our supervisory capacity we have constantly urged substantial, annual allocations to reserves for losses.

Savings and loan associations are limited in their investments to first mortgage loans and to United States Government bonds. Approximately 70 percent of their mortgages are not insured or guaranteed. Substantial reserves against losses are imperative because (1) the real estate market has been on the rise since the early thirties; (2) losses in Government bonds may occur if liquidation of bonds is necessary; and (3) losses may be suffered even if mortgages are insured or guaranteed, as was demonstrated in the recent floods in Kansas, Missouri, and Oklahoma.

The proposed tax would permit an association to establish a loss reserve based on its experience of the last 20 years. Such a loss record in our opinion is not a safe basis

for establishing reserves because the real-estate market has risen without interruption for almost 20 years. We are satisfied from our analysis of the situation that a 20-year experience loss reserve will not be adequate when the real-estate market turns down. We would therefore be faced with two alternatives if the proposal became law: (1) If adequate credits are made to reserves by these institutions, it would be necessary for these institutions to reduce dividends to such an extent that we believe it would cause general withdrawals of savings and would gradually result in the liquidation of these institutions. For example, the average insured association in 1950 had savings of \$4,000,000, paying an average dividend of 2½ percent and making an annual reserve allocation of 1½ percent of its savings. In order to maintain the same reserve allocation of 1½ percent, it would be limited to not more than a 1-percent dividend paying a tax of slightly more than 1½ percent of savings. (2) The second alternative is that the institutions would continue to pay the same dividend rates as formerly. In this case the loss reserves would not be sufficient, and our supervisory and insurance loss problems would be increased tremendously. For example, the average insured institution in 1950, due to growth, barely maintained its ratio of reserves to savings, notwithstanding that it allocated one-third of its net income to reserves instead of paying it out in dividends. If this average institution reduced its allocation to reserves by a half, its reserve ratio would decline steadily to a dangerous point.

We would like to emphasize that the staff of the Committee on Finance has never called upon our Board for an expression of its views on the proposed tax or related matters, and this is the first time our Board has submitted its views to your committee.

We hope you will reconsider your tentative decision in the light of the effects it may have upon these institutions which have almost 30,000,000 savers.

Time has not permitted an exhaustive study of this matter. We are enclosing a memorandum from our general counsel setting forth additional considerations. We will, of course, be glad to have further studies made for your committee and to cooperate in any way which you deem desirable.

Sincerely yours,

WILLIAM K. DIVERS,
Chairman.

HOME LOAN BANK BOARD,
September 4, 1951.

From office of the general counsel.

To Mr. William K. Divers, chairman.

You have requested that a study be made of the effect which the adoption of the amendments to H. R. 4473 taxing mutual-savings banks, savings and loan associations, and similar institutions would have on these institutions. The proposed amendments would tax these institutions as ordinary corporations allowing a deduction for dividends or interest paid to depositors and allowing a special deduction for amounts placed in bad-debt reserves based upon experience over a period of time.

Time has not permitted us to make as complete a study, including case histories on institutions in the various reserve categories, as we would like. However, from the figures readily available we have obtained the following:

1. If these institutions are taxed as proposed, the figures indicate that these institutions could not pay reasonable dividends and at the same time make required allocations to their reserves for losses. In 1950 the dividends paid by institutions insured by the Federal Savings and Loan Insurance Corporation were at an average rate of 2.55 percent. The over-all average of reserves to as-

sets for all associations was substantially the same at the end of the year as it was at the beginning. In other words, though supervisory authorities were diligent in their efforts to increase the over-all reserves, they remained virtually static during the year.

Had the 52-percent tax been applied in 1950 to the total amounts remaining after dividends and the same dividend been paid, the average reserve position of all insured associations would have decreased during the years one-half of 1 percent. On the other hand, had the 52-percent tax been applied in 1950 and had the same credits been made to reserves by all insured associations that were made, the average dividend paid would have been 1 percent. It is quite evident that these institutions cannot retain their capital if they pay dividends of only 1 percent, and it is questionable whether they can retain their capital if dividends are decreased to any substantial extent. On the other hand, it would appear to be unsafe to permit a decline in the reserves. These figures are alarming and would appear to indicate that a tax such as proposed would be disastrous for the savings and loan industry.

Should the tax be imposed, the normal thing for the management of an association to do would be to make every effort to maintain the capital in the association, and it is fearful that the reserves would first suffer.

The disastrous effect would work slower on associations which have been long established and have strong reserve positions as they may be able to remain in a relatively safe position for a while, though their reserves will be gradually lowered percentage-wise. However, it appears clear that many comparatively new associations which have not had time to build strong reserves and probably some other associations with low reserve positions could not be permitted to continue operation by supervisory authorities because of the low reserves and the inevitable fact that reserves could not be built up as required by law or regulations. New associations could not be organized under such conditions.

2. All of the 6,000 associations in the United States, except approximately 200, are mutual institutions whose earnings are distributed on a pro rata basis to shareholders after allocations to necessary reserves for losses. In these institutions the reserve which the association is able to build is the only cushion which protects the shareholders or the Federal Savings and Loan Insurance Corporation from losses. There are no stockholders who have a liability to shareholders or depositors and there is no capital except that placed with the institution by the shareholders. Congress and the supervisory authorities have recognized this in requiring the building of adequate reserves.

Congress, in passing title IV of the National Housing Act creating the Federal Savings and Loan Insurance Corporation, required that each member institution within a reasonable time not exceeding 20 years, build its reserve to at least 5 percent. The Insurance Corporation by regulation requires that three-tenths of 1 percent of each insured account in the institutions be placed in reserve annually until the reserve reaches 5 percent of all insured accounts. The charter of each Federal savings and loan association requires semiannual credits to reserve accounts until the reserves equal 10 percent of the share capital of the association. The Insurance Corporation has required as a condition of insurance in many instances that the applying association agree to set aside a minimum of 25 percent of net income to reserves whenever the reserves fall below 5 percent of assets. These represent the minimum requirements which Congress and the supervisory authorities consider necessary.

3. The special deduction proposed in connection with the taxing of these institutions would be allowed from amounts placed in bad-debt reserves based on experience over a

period of years. Title IV of the National Housing Act creating the Federal Savings and Loan Insurance Corporation was passed in 1934, and the Home Owners' Loan Act providing for the creation of Federal savings and loan associations was passed in 1933. Thirty percent of all insured associations were incorporated during the period of rising prices since 1933, and almost all of the \$14,000,000,000 of home mortgages held by savings and loan associations was acquired by savings and loan associations during this period of rising prices. Consequently, these institutions have had virtually no losses and therefore a tax deduction based on losses over this period would be inconsequential. Reserves in these institutions are created to take care of losses that may occur in times of stress. The long rise in real estate prices and the present sharp inflationary trend have given those responsible for supervision of institutions of these types much concern. The inflationary condition which we face today makes necessary the building of even larger reserves to meet future contingencies.

As accounts up to \$10,000 in 2,860 of these institutions are insured by the Federal Savings and Loan Insurance Corporation, the Corporation would be called upon to pay heavy losses in times of stress. The Insurance Corporation risks would increase if the reserve ratio of insured institutions would decrease.

We would be glad to go further into this matter and obtain additional information if time permits.

T. WADE HARRISON.

Mr. HOLLAND. Mr. President, will the distinguished Senator from Montana yield, in order that I may address certain questions to the distinguished chairman of the committee, without his losing the floor?

Mr. MURRAY. Mr. President, I ask unanimous consent that I may yield to the Senator from Florida for that purpose, without prejudice to my rights to the floor.

The PRESIDING OFFICER. Is there objection? The Chair hears none, and it is so ordered.

Mr. HOLLAND. In the first place, I should like to commend the distinguished chairman of the committee for his announced willingness to accept an amendment which would fix a minimum of 10 percent of the deposits in these savings organizations as a reserve which could be attained under the procedure which would be outlined in such an amendment, by the payment of a percentage.

Mr. GEORGE. Of each annual earning.

Mr. HOLLAND. Of the annual earning, up until that reserve was reached.

Mr. GEORGE. Until it reached 10 percent, and that it could be kept up to 10 percent; which, of course, would naturally follow.

Mr. HOLLAND. It would seem to the Senator from Florida that that ought to remove every objection of every Senator to the enactment of this legislation.

The first question I would ask the distinguished Senator from Georgia is this: Is it not true that if that 10-percent limitation were fixed, it would in no sense prevent any savings institution from creating a larger reserve than that if it desired to do so, or if it were required by its State law to do so?

Mr. GEORGE. Exactly.

Mr. HOLLAND. Subject only to the condition that contributions made from

year to year to increase the reserve beyond 10 percent would have to be made after the payment of income tax to the Federal Government?

Mr. GEORGE. That is exactly correct. The Senator will recall that State banks are required to set up certain reserves, and are subjected to a Federal tax on their incomes; but they can set up a reserve in excess of the reserve required. The only thing is that when they set up a reserve in excess of that which is required, ordinarily they are not able to take the reduction for the full amount, but only for the amount which the Comptroller allows as a reserve. The Senator is quite right. It seems to me, and I frankly say, that the Commissioner, with full advice, would be able to do a better job, but I would have no hesitancy in saying—and if it would end this controversy, I will say it—that each of these institutions should set aside from its net earnings, say one-half of 1 percent of such net earnings annually until the total reserve equaled 10 percent of its liabilities or of its deposits.

Mr. MURRAY. I am not sure that 10 percent would be sufficient. I think the subject should be given more study.

Mr. GEORGE. I think it would be sufficient; but what the Senator from Florida is saying is that if the association were given the privilege and desired to carry the reserves up to 15 percent, it could do so; but of course it would be liable for a tax on the amount above 10 percent, that is all.

Mr. HOLLAND. Mr. President, to continue my question—and I thank the distinguished Senator from Montana for his courtesy, and the distinguished chairman of the committee—does the Senator from Florida correctly understand the proposal now made by the distinguished chairman of the committee, that he is agreeable to the inclusion of an amendment to the effect that one-half of one percent of the net earnings of the bank may be placed each year into the reserve until the time the reserve has attained a total of 10 percent, without subjecting those annual payments to the payment of the income tax?

Mr. GEORGE. Substantially I think the Senator has in mind what I had in mind, that is to say, that from the net earnings there would be a percentage placed in the reserve, until the reserve equaled at least 10 percent of the deposits, and so long as the reserves did not equal 10 percent of the deposits. I believe the institutions themselves would prefer that a percentage of their annual net earnings be carried to the reserve until the reserve itself has reached a total of 10 percent of the deposits.

Mr. HOLLAND. My next question is this: In the case of States which have as a legal requirement a smaller percentage than 10 percent for fixing the reserve, let us say a requirement of a 5 percent reserve, there would be no ban at all upon the institution in that State continuing to raise its reserve up to the 10 percent figure by annual payments without subjecting itself to any Federal income tax?

Mr. GEORGE. Or to any tax whatever. In the case of a newly organized concern it would have a right to build up its reserve before any tax could apply to it at all.

Mr. HOLLAND. The next question is this: Assuming that a bank has reached the point where its reserve is 10 percent, and assuming that all the earnings each year are paid over to the depositors, there is, under the bill, no income tax liability asserted against the corporation as such, is there?

Mr. GEORGE. None whatsoever. It is not intended to subject the corporation as such to any further tax.

Mr. HOLLAND. I should like to ask this general question: Is the Senator from Florida correct in his understanding and belief that what was intended by the committee was to see that the earnings of these institutions over and above what may be properly paid to create a reasonable reserve shall be placed into the tax-paying stream of the economy of the Nation, and that that is the sole purpose?

Mr. GEORGE. That is the sole purpose, the purpose is not to destroy them at all.

I should think that any well-organized and well-managed mutual insurance company or building and loan association would be satisfied to set aside not too great a percentage in the first years of its earnings, because otherwise it would too drastically cut down upon what it would be able to pay to its depositors. But it would be better business to pay a reasonably small percentage until the total contributions to the reserve equaled 10 percent of the deposits. In some States they are required to set aside one-eighth percent. In other words, we would not want these organizations to carry the reserve up too rapidly, because that would then probably begin to affect their depositors too severely. But certainly there is no immediate danger that these institutions, during the next few years as we can now foresee them, will not be able to set aside a part of their annual net earnings, a percentage of them, until their total reserve has equaled, or is not less than, 10 percent of their deposits. That ought to give them ample protection under ordinary circumstances.

Mr. HOLLAND. My next question to the distinguished chairman is this: Is it not true that the bill wholly exempts the mutual banks and the building and loan associations and the cooperative associations as well from the dual taxation which is levied under our income tax structure against commercial corporations, in that such a corporation has to pay tax upon its net income, and the dividends paid to its stockholders or shareholders also have to be reported as income by the stockholders and shareholders and subjected to the payment of income tax by them?

Mr. GEORGE. That is true. They are in the same category as that of ordinary corporations in that regard. The Senator is correct about that.

Mr. HOLLAND. The sole purpose of the committee has been, then, to see that

all the net earnings of these protected and preferred corporations be subjected to one levy by requiring the distribution of those net earnings to a place where such one levy can be applied. Is that correct?

Mr. GEORGE. The Senator is quite correct. That is the sole purpose.

Mr. HOLLAND. I thank the distinguished Senator from Georgia and the distinguished Senator from Montana.

Mr. MURRAY. Mr. President, I yield the floor.

Mr. IVES. Mr. President, as a cosponsor of the amendment offered by the junior Senator from Vermont [Mr. FLANDERS] to strike from the pending bill section 313, which would tax mutual savings banks and savings and loan associations and similar financial institutions, I endorse heartily all that he and the junior Senator from Ohio [Mr. BRICKER] have stated concerning this amendment. I do not wish to be repetitious and, therefore, I shall not go into detail in my remarks.

However, there are certain important matters where section 313 is concerned which I feel cannot be emphasized too much or too often. There is the devastating effect which the enactment of section 313 very likely would have, first, on savings and thrift among the American people, and, second, on the happy and sound medium for financing home building and other private construction which the mutual institutions affected by this section have provided and are providing so effectively.

I doubt that many realize the favorable influence on the public purchase of United States savings bonds, whether issued in wartime or in peacetime, which has been brought about by the habit, possessed by so many hundreds of thousands of American people, of making regular deposits in savings institutions. The junior Senator from Vermont has given eloquent statistics in this connection.

Based on information I have received from the superintendent of banks of the State of New York, I am convinced that the consequences of section 313, if enacted, are likely to be far-reaching and demoralizing from the standpoint of conflict with State statutes governing the operations of State-chartered savings institutions, the impairment of reserves against loss, and the substantial reduction in interest or other return on deposits which is paid to depositors. Presumably the same kind of problem would present itself with respect to Federal savings institutions.

Mr. President, I ask unanimous consent to have inserted in the RECORD at this point in my remarks, the text of a letter under date of September 15, to which I referred yesterday, which was sent by the superintendent of banks of the State of New York to the distinguished chairman of the Finance Committee of the Senate, in which he gives a great deal of information concerning the situation pertaining to savings banks and building and loan associations in the State of New York.

The PRESIDING OFFICER (Mr. CLEMENTS in the chair). Without objection, it is so ordered.

The letter referred to is as follows:

STATE OF NEW YORK
BANKING DEPARTMENT,
New York, N. Y., September 15, 1951.
Hon. WALTER F. GEORGE,
Chairman, Senate Finance Committee,
Senate Office Building,
Washington, D. C.

DEAR SENATOR: While my views on the proposal to apply the corporate income-tax rate to the undistributed earnings of mutual-savings banks and savings and loan associations have not been sought by the congressional committees directly concerned I feel that the effect of this tax in its present form raises grave problems as applied to the mutual institutions under the supervisory jurisdiction of the banking department. I consider it necessary, therefore, to lay before you, unsolicited, facts from which the broad implications of this tax can be judged.

The Legislature of New York State has established two types of mutual-savings institutions—the savings bank and the savings and loan association—designed to bring together, without promoter's profit, a pool of the savings of individuals of modest means. The twin purposes achieved are the encouragement of thrift and the filling of the need for home financing. The legislature has accommodated these purposes by permitting and encouraging the investment of these funds in fields where, because of their longer term, the yield is greater and the consequent dividend to the depositor larger.

The most disturbing aspect of the tax for our New York State mutual thrift and home-financing institutions is that it would upset the long-standing safeguards which New York State has maintained for the protection of the public's funds. The legislature of this State realized a good many years ago that it was necessary to be specific about holding back of earnings by the mutual banking organizations. Since this type of institution cannot appeal to stockholders in a time of severe losses as a means of replenishing capital, it has no place to turn to strengthen surplus but to retained earnings. Commercial banks, which have their stockholders to look to for repairing losses and for additional capital when deposit growth is rapid, are required to plow back earnings only until surplus equals 60 percent of capital. There is no statutory deposit ratio for commercial banks. With mutuals it is different.

Under the savings bank article of the banking law 10 percent of net earnings each year must be retained for enlargement of surplus if the surplus fund is less than 10 percent. As a further measure of safety this department has for some years had in effect a policy of urging savings banks to set aside out of earnings a reserve against the mortgage portfolio amounting to 10 percent of all conventional mortgages, 5 percent for VA mortgages, and 1 percent against FHA mortgages.

The 10-percent-surplus ratio requirement has not yet been complied with by 45 of the 130 savings banks under the supervision of this department. Fourteen of these institutions have surplus ratios below 8 percent and in one instance the ratio is below 5 percent. The total mortgage reserve necessary under our policy is \$442,000,000, or about 7½ percent of the mortgage portfolio. Up to now, only \$195,000,000 of mortgage reserves have actually been established, leaving \$247,000,000 yet to be provided for. With full retention of earnings permitted, a number of years would be required to realize the standards of safety which this department believes to be necessary if savings banking is to remain strong and is to extend the record of

freedom from failure which goes back far more than a generation.

There are 169 savings and loan associations operating in New York under State charter. Our law says that savings and loans must set aside 5 percent of net profits when surplus is less than 10 percent of share capital. In addition, the banking department policy calls for the setting up of a mortgage reserve of one-half of 1 percent of the mortgage portfolio every year until a 10-percent reserve is established. Seventy of the associations have surplus ratios below 10 percent. Twenty-one have ratios under 6 percent; in seven cases the ratio is below 4 percent; two of the newer associations have less than 2 percent surplus. Because of their rapid growth savings and loans have been retaining one-third of their earnings. Even so the over-all surplus ratio has been falling. I very much fear that the chartering of new savings and loan associations would have to cease in our State, for it would be virtually impossible to build up a satisfactory surplus out of earnings from scratch.

Mutual institutions are faced with a hard dilemma if their retained earnings are to be heavily taxed. They can cut their dividend rates drastically and so lose much of their efficiency as promoters of thrift at a time when a high level of personal savings is a bulwark against inflation. Or they can see their surpluses become thinner and thinner, thereby forcing the public to look for the safety of its funds, not to the institution's inner strength, but to the Government sponsored insurance funds.

I respectfully suggest that more time be given to study the taxation of mutual banking institutions so that the minimum injury can be done to their usefulness and strength. If the traditional tax immunity is now to be denied these institutions, wisdom dictates that the move be undertaken in such a way that their sturdiness is not undermined. A hasty, ill-considered tax applied to mutuals now may take from them earnings that will have to be restored later in the form of Government support.

Very truly yours,

Superintendent of Banks.

Mr. IVES. Mr. President, I should like to quote briefly a certain portion of that letter:

Under the savings bank article of the banking law—

Referring, of course, to the New York State banking law—

10 percent of net earnings each year must be retained for enlargement of surplus if the surplus fund is less than 10 percent. As a further measure of safety this department has for some years had in effect a policy of urging savings banks to set aside out of earnings a reserve against the mortgage portfolio amounting to 10 percent of all conventional mortgages, 5 percent for VA mortgages and 1 percent against FHA mortgages.

This, Mr. President, I point out, is in addition to the 10 percent of net earnings which must be retained for the enlargement of the surplus if the surplus itself is less than 10 percent.

To continue this portion of the superintendent's letter, I read:

The 10-percent surplus ratio requirement has not yet been complied with by 45 of the 130 savings banks under the supervision of this department. Fourteen of these institutions have surplus ratios below 8 percent, and in one instance the ratio is below 5 percent. The total mortgage reserve necessary under our policy is \$442,000,000, or about 7½ percent of the mortgage portfolio. Up to now only \$195,000,000 of mort-

gage reserves have actually been established, leaving \$247,000,000 yet to be provided for.

In other words, considerably less than one-half of the required reserves of this nature have been established.

With full retention of earnings permitted, a number of years would be required to realize the standards of safety which this department believes to be necessary if savings banking is to remain strong and is to extend the record of freedom from failure which goes back far more than a generation.

In this connection, Mr. President, I should like to point out that for the reasons I have read, which were given by the superintendent of banks of the State of New York—I would be forced to oppose the proposal of the distinguished Senator from Florida that a 10-percent limitation be placed for reserves at this time. I do not think anyone knows exactly what that limitation should be, insofar as any exemption from tax is concerned.

The time may be coming, Mr. President—indeed, it may be here—when the habit of saving or thrift will no longer be regarded as an American virtue. Certainly section 313 would appear to go a long way in discouraging, or even destroying, this habit. I will not be a party to any action which threatens so definitely to violate basic principles on which our country has developed and expanded and grown economically great.

Add to the deplorable possibilities that I have indicated, the ensuing disrupting effect on home owners or prospective home owners who look to private sources for the financing of home construction, and we can begin to grasp the potential danger in the section under discussion. I can envision easily a situation arising under this section when savings institutions, whose function has been largely to obtain funds at a fair rate of return to depositors and to use them for the kind of private financing to which I refer, no longer would be able to exist, and when the Government itself, either Federal or State—and in many instances the financial condition of the States may not permit them to engage in such an undertaking—would be the sole agency from which funds for home-building purposes, and in fact all building purposes, could be obtained. Yes, I can envision a condition which section 313 might ultimately provoke when all construction would perforce be financed by Government itself, and exclusively through the use of public funds.

I know there are some who may insist that I exaggerate, but I do not. Every one of the circumstances which I have mentioned as possibilities is a certain possibility and can occur if section 313 becomes enacted into law.

I feel that I would be derelict in my duty as a Member of the United States Senate if I failed to point out these dangerous implications in section 313. And so, Mr. President, I respectfully urge the distinguished chairman of the Finance Committee to agree to strike out section 313 and to have his distinguished committee engage more fully than they have had an opportunity thus far to do in the

study of the general question of taxing mutual financial institutions. I respectfully suggest to him that he call before his committee the supervisory authorities in charge of State chartered financial institutions for the purpose of obtaining even more complete and definite information regarding the consequences of such legislation than any of us who favor the elimination from the bill of section 313 have been able to furnish in the limited time of this debate.

Again I beseech the distinguished chairman of the Finance Committee to agree to have stricken from the bill section 313.

Before I close, I desire to point out two things which have occurred in the State of New York this morning on which I should like to comment.

Mr. CARLSON. Mr. President, will the Senator yield?

Mr. IVES. I yield to the Senator from Kansas, if I can do so without losing the floor.

Mr. CARLSON. Mr. President, the distinguished Senator from New York has drawn attention to a letter which he received from the commissioner of the savings institutions of New York State. I have received a letter from Forest J. Henney, who is commissioner of the savings and loan department of the State of Kansas. He is an appointed official, and has been in that service for many years, and I believe is thoroughly familiar with the problems of the building and loan institutions of Kansas. If the Senator from New York will permit, I should like to read one paragraph from this letter.

Mr. IVES. That is quite all right with me, Mr. President, if I can still retain the floor.

Mr. CARLSON. The paragraph reads as follows:

Institutions of this character—

Having reference, of course, to savings banks and building and loan associations—

being in a home mortgage lending operation, must of necessity build reserves against future losses. Our State statute provides that not less than 5 percent of net earnings each year must be placed in reserve for losses fund, until the reserve for losses has reached 5 percent of share capital. Our National organization of supervisors has concluded long ago that this 5-percent goal is not enough, and has been urging a 10 percent of share capital as the end to be gained. With the upward surge in the cost of operations, many of our associations have very small margin of profits left after paying a dividend necessary to attract capital and assigning the amount required by statute to the reserve for losses fund.

I wish to comment very briefly on that. I think it is most important that we protect and keep these savings and loan institutions financially sound for the purpose for which they were established, namely, to furnish loans for building. During the past 25 or 30 years the values of buildings which have been built by loans from these institutions have increased; therefore, these institutions have been very sound financially and have been solvent. But we may face a period when it might be necessary to have a greater reserve than we have at present.

I hope, too, that it will be kept in mind that my State has suffered a very serious flood loss in many areas. Many of the building and loan institutions have suffered great losses because of the flood. I have, for instance, the statistics of one building and loan association at Ottawa, Kans., the Home Savings and Loan Association. I have the figures here which were submitted to me. I think it is important to mention that this association had loans on 70 properties in the flood area totaling \$135,602.

Of those properties 39 of the 70 were completely washed away. Eight others were damaged beyond rehabilitation.

Those are some of the contingencies which I think we must keep in mind when we are dealing with this important subject.

I appreciate very much the kindness of the Senator from New York, and I ask permission to insert this letter and statement in the RECORD.

There being no objection, the letter and statement were ordered to be printed in the RECORD, as follows:

STATE OF KANSAS,
SAVINGS AND LOAN DEPARTMENT,
Topeka, September 18, 1951.

Hon. FRANK CARLSON,
United States Senator From Kansas,
Senate Office Building, Washington,
D. C.

DEAR SENATOR CARLSON: We are deeply concerned over the present tax proposal which has been, or will this week, be submitted by the Finance Committee to the entire Senate as an amendment to House Resolution 4473.

At the present time we have 75 State-chartered savings and loan associations in Kansas, and one of the duties of this department is to safeguard the funds in these institutions in order that, so far as is humanly possible, they will be solvent and be able to pay a fair return on the investment, as well as the principal, to their investing members.

Institutions of this character being in a home-mortgage lending operation, must of necessity build reserves against future losses. Our State statute provides that not less than 5 percent of net earnings each year must be placed in reserve-for-losses fund, until the reserve for losses has reached 5-percent-of-share capital. Our national organization of supervisors has concluded long ago that this 5-percent goal is not enough, and has been urging a 10-percent-of-share capital as end to be gained. With the upward surge in the cost of operations, many of our associations have very small margin of profits left after paying a dividend necessary to attract capital and assigning the amount required by statute to the reserve-for-losses fund.

For instance, in 1950 the records show a dividend to members of about 2.5 percent in Kansas. If 45 percent of the remaining profit (and in some cases proposed 52 percent) were taken for income-tax purposes, many associations could not accumulate sufficient reserve position to survive even a small decline in real-estate values.

Either they would be compelled to reduce the rate of distribution of dividends, thus causing widespread withdrawals, or increase the costs to the borrower. Either of these eventualities is undesirable. This proposed amendment gives no consideration to reserve requirements of our State laws and has very dangerous implications. At the present time our associations are experiencing difficulty in obtaining sufficient funds to contribute to the home-building needs, and to take out of the return to the investor an additional tax would add to their difficulty. Congress

surely does not care to add to the burden of home owners by increase of interest rate as a contribution to taxes.

It is just impossible to treat mutual savings and loan associations like ordinary corporations organized for profit of the stockholders. Income received by a savings and loan association is entirely used for the payment of operating costs, allocation to necessary loss reserves, and dividends. Therefore all earnings beyond those used for expenses and necessary reserves are taxable in the hands of the members who mutually own the institutions. The earnings are all taxed ultimately, one way or another.

To conclude, if a direct Federal tax is placed on savings and loan income, it would mean either sharp reduction in dividends in order to provide adequate reserves, then resulting in diminished funds available for lending, or result in more demand for further direct Government lending and financing for the home owner.

This same analysis of effect on State-chartered associations may also be said of the 28 Federal associations operating in Kansas.

Then this proposed formula for taxing savings and loan associations has a provision to let the Commissioner of Internal Revenue prescribe a "loss formula" based on 25 years' experience. What about the new association which has no loss experience? We do not want the Commissioner of Internal Revenue, who is a tax collector and unconcerned about the future economic problems of our institutions, voiding our State statute by his "loss formula." He is a tax collector, is interested in taxing this year, has no interest in future losses of any institution.

I shall appreciate your consideration and urge your support in opposition to the proposed amendment to House Resolution 4473 regarding this tax on savings and loan association income.

Respectfully yours,
FOREST J. HENNEY,
Commissioner.

HOME SAVINGS AND LOAN ASSOCIATION, OTTAWA,
S. W. HUMPHREYS, PRESIDENT

Present assets, \$5,513,402.

Reserves \$352,371, which is 6.4 percent of assets. The average reserve for associations of the Topeka Federal Home Loan Bank district is 8.13 percent.

1950 earnings were approximately \$221,000.

Expenses, \$82,635.

Dividends, \$91,143.

Net earnings, \$48,052.

Transferred to reserves, \$38,495 and to undivided profits, approximately \$9,000. Under present proposal this means a tax of something like \$18,000. Average yearly loss from 1931 to 1950, inclusive, \$3,200.

This association had loans on 70 properties in the flood area, totaling \$135,602.

Thirty-nine of these properties out of the 70 were washed away. Eight others were damaged almost beyond rehabilitation.

Mr. IVES. Mr. President, I appreciate very much the contribution which the distinguished Senator from Kansas has made to this subject.

I started in concluding my remarks to comment regarding a recommendation which was made on the floor this morning to the effect that it would be possible, after setting a certain reserve figure, say 10 percent, to increase the reserves by adding to them such of the earnings as might remain—if there were any earnings at all—after a Federal tax had been deducted.

I realize that that could be done; but it could be done, very likely, only at the sacrifice of interest paid to depositors. We all know that we can levy almost any

kind of tax on savings institutions if we want to do it—that is, any tax which is not confiscatory—and still those institutions can presumably set aside, by degrees, certain amounts for reserves, even though the reserves may be inadequate. But in so doing, were we to go to that extreme, the depositors, the people whose attitude, whose purpose, and whose desire with regard to thrift and savings we want to encourage, would be the ones who would suffer. That is why I would be opposed to any program or policy of that kind.

I again return to my contention that we should not be writing banking legislation of this type in a tax bill, until a thorough study of the subject has been made, or at least until the supervisory officials in the States themselves have been consulted in one way or another.

Mr. LEHMAN. Mr. President, will my colleague yield to me?

Mr. IVES. Certainly.

Mr. LEHMAN. Supporting wholly the statements made by my distinguished colleague the senior Senator from New York, and also in support of statements which I made on the floor yesterday and today in connection with this bill, I wish to read one paragraph from a letter which I have received from the president of the Ninth Federal Savings and Loan Association, of New York City, as follows:

The effect of the proposed tax would be far-reaching. Savings and loan associations are the most important single source of home finance funds in the country. In many communities savings and loan associations are almost the only source of such funds and the records will show that about one-third of all the home financing has been done by savings and loan associations. If this source of money for private home financing is shut off, either immediately or eventually, as this tax would undoubtedly do, how many people in your community would be affected? It could only result in partial or complete paralysis of home financing and therefore home building and home buying.

I have read this for the purpose of emphasizing the statement made by my distinguished colleague, that if we shut off this source of private financial support—as would be the result, I believe, of the enactment of section 313—then the whole burden, the whole responsibility, of financing home building will be placed on the Federal Government, something which, of course, would not be in the interest of the country, because I believe we all agree that the more we can encourage private financing of home building or private financing of any undertaking, so far as that is concerned, the better off we shall be.

Mr. IVES. Mr. President, I thank my colleague for his contribution to my remarks.

Mr. LEHMAN. There is one further point, if my colleague will yield.

Mr. IVES. I yield.

Mr. LEHMAN. We have been talking about building up reserves. A few minutes ago I emphasized the situation which existed in 1933, when the banks had to be closed. We found that the savings banks were in a somewhat vulnerable position by reason of the fact that reserves of an insufficient and inadequate size had been built up.

I made the statement in connection with my remarks that the situation had now improved, because the reserves are larger than they were at that time. Apparently I was in error in making that statement. I quote now from the testimony of Mr. Schwulst, who, I believe, is the head of the Association of Mutual Savings Banks in the State of New York. He made the following statement, which will be found on page 718 of part 2 of the hearings before the Committee on Finance, in connection with House bill 4473:

In 1930 their average ratio of general reserve to deposits was 11.65 percent. This ratio proved to be inadequate. Depression losses from 1931 to 1944, after all profits and recoveries, were so large that they would have wiped out 90 percent of the banks' reserves accumulated up to that time. In order to restore their reserves, the banks were compelled to cut drastically interest payments to their depositors. At the end of 1950, the ratio of general reserves to deposit was 11.4 percent, which is less than the ratio of 1930.

You can understand our concern at the prospect of any legislation which might run counter to a sound reserve policy or interfere with the independent and prudent supervision of these banks by the States.

In New York State, both the governors and the legislature have been very determined to protect the interests of the depositors in the various savings institutions of our State. Therefore legislation was enacted making mandatory a reserve which is substantially in excess of the reserves which have been mentioned on the floor of the Senate. The reserves today in New York State—not in all banks, but speaking generally—would average very considerably more than 10 percent—probably in the neighborhood of 15 percent, although I cannot give any authoritative figures.

Mr. IVES. Mr. President, I think I covered that to some extent in my preliminary remarks, when I pointed out the fact that, of the 130 savings banks under supervision of the State department, 45 had not yet complied with the 10-percent surplus-ratio requirement, so we had not yet reached that point in New York State. In addition, there is the requirement with respect to the mortgage portfolio. Far less than half of the institutions have complied with that requirement.

Mr. LEHMAN. For as long as the memory of anyone can take us back, it has been the policy of the country, the Government, and the people to encourage savings and to make those savings just as safe as human ingenuity and care could possibly make them. It seems to me that this section is definitely a step backward. The savings banks and savings and loan associations would be inevitably compelled to face one of two alternatives—or possibly both of them—to cut their interest or dividend rate, or to allow their reserves to sink to a level which would place the interests of their depositors in jeopardy. Therefore I certainly will not support section 313 of the bill.

Mr. IVES. I thank my colleague for his valuable contribution. I also point out that if some of the things which he has indicated were to happen there would be a direct violation of the New

York State banking law brought about by a situation to which we directed remarks this morning.

Mr. FLANDERS. Mr. President, will the Senator yield?

Mr. IVES. I am glad to yield.

Mr. FLANDERS. One point which the Senator from New York mentioned interested me very much. On one or two occasions he called attention to the fact that besides legal reserves there were requirements against loss.

Mr. IVES. With respect to mortgage portfolios.

Mr. FLANDERS. The requirements exist not merely in State law and State decisions, but they exist also in FDIC examinations of portfolios. They exist, at least in the form of advice, in the RFC requirement with respect to conditions of banks before the banks are allowed to begin to return capital to the RFC. Therefore any formula for reserves must also contain, either separately or incorporated, elements of reserves against losses in portfolios. It should be noted that State laws for the most part set up minimums. Some of them set up maximums, beyond which earnings must go into dividends. That is not a bad idea. However, the minimums are insufficient unless they contain an additional amount for reserves against losses in the portfolios.

Mr. IVES. I thank the Senator from Vermont.

Mr. SCHOEPPPEL. Mr. President, will the Senator yield?

Mr. IVES. Yes.

Mr. SCHOEPPPEL. I should like to say to the Senator from New York that some of the fears which he has expressed, not only in his prepared statement, but in the colloquy, are shared very generally in the building and loan field in the State of Kansas. It has been only a few years ago that my State undertook to write a new building and loan code. At the time provisions were inserted which fitted the economic picture as it then existed. Of course, the picture has materially changed since then. Great fear has been expressed, not only by building and loan association representatives from my State, but by citizens of the State who are cognizant of the fine service rendered by such organizations, as organizations and as individual units, because of the provision in the bill to which the Senator from New York has referred.

I wish to say to the distinguished Senator from New York and the distinguished Senator from Vermont that I am seriously concerned about the extent to which the pending legislation might go in weakening the structure of our savings and loan institutions, particularly since not sufficient time would be given to permit them to readjust to the new requirements which are likely to be made in a restricted way by the Internal Revenue Bureau. I leave the suggestion with the Senator from New York that I believe it is well to point out the alarm which exists back in the respective States, and which is shared very greatly by a great many people in the State of Kansas.

Mr. IVES. I thank the Senator from Kansas for his contribution. I am very

glad that he has called attention to that important point.

Mr. LEHMAN. Mr. President, will the Senator yield?

Mr. IVES. Yes.

Mr. LEHMAN. I am very glad to hear the remarks of the Senator from Kansas. He brought out a very important point, namely, that the concern expressed on the floor of the Senate is shared by the people in the States. I want to state again, as I have previously stated, that if the 15,000,000 people living in the State of New York, approximately 9,000,000 are directly affected by section 313, either as depositors in mutual savings banks or as members of savings and loan associations and building and loan associations. They represent nearly two-thirds of all the people living in the State of New York. No doubt the proportion is nearly as great in many other States.

Mr. BUTLER of Nebraska. Mr. President, I wish to endorse thoroughly the statements which have been made by the distinguished senior Senator from New York [Mr. IVES] on this subject, as well as the statements which have been made by a number of other Senators who spoke on the subject yesterday and today.

Like every other Member of this body, I have the highest respect for the integrity and ability of the most distinguished chairman of the Committee on Finance. He has made a statement this morning, with which I believe we are all very sympathetic, to the effect that there should be no strictly tax exemptions. However, the committee found it necessary or advisable to make a decision with reference to one group of tax exemptions, not to amend existing legislation with reference to them until the committee had sufficient time to make a more thorough study of the subject through the staff of the committee, and it limited the time for a report to April 1 next. It occurs to me that it would be very wise perhaps to adopt the same plan with reference to savings and loan associations and building and loan associations, because from the testimony and from the speeches which have been made in the past 2 days it is plainly evident that the committee does not have sufficient information on which to write a final law at this time.

I have a very short statement on the subject which I should like to insert in the RECORD at this time. It is not my intention to offer an amendment with reference to the study which I propose should be made of the subject. I hope that before we have completed consideration of the bill, we will include building and loans associations and savings and loan associations in the same action that was taken with reference to the other group of tax exemptions.

I ask unanimous consent to have printed in the RECORD at this point, as a part of my remarks, the statement to which I have referred.

There being no objection, the statement was ordered to be printed in the RECORD, as follows:

STATEMENT BY SENATOR BUTLER OF NEBRASKA

Mr. President, after a rather careful study of the proposal to subject savings and loan

associations and building and loan associations to Federal corporation income taxation, I have come to the conclusion that it would not be advisable to tax these institutions at this time.

Associations of this type were specifically and solely created in order to encourage and promote home ownership through the thrift of those families who desire to build or purchase homes of their own on the basis of their own savings. Typically, they are non-stock corporations. They secure their funds through the deposits of those who plan eventually to borrow enough to finance their homes. In other words, they are true mutual organizations for the purpose of fostering home ownership. They have no other purpose and they have no earnings other than the money which is distributed to their depositors or which is held as a reserve against losses.

We can all agree that the ownership of its own home by each family is one of the strongest elements for stability in our social system. I believe that the institution of private property will always be safe so long as the majority of families in this country have a stake in it through ownership of their own homes.

Although these institutions have grown rapidly, particularly during the last 20 years, they have run up against one very difficult problem in these inflated times. That is the problem of building up and maintaining adequate reserves against loss or other contingencies. It was a shock to me to learn that the ratio of reserves to saving deposits for these institutions is on the average only about 7 percent. Federal and State supervisory officials agree generally that such reserves should be maintained at from 10 percent to 15 percent of the savings deposits or savings shares.

In my judgment, it is all-important that we permit savings and loan associations to build up sufficient reserves so that they will be able to withstand any temporary shock or disturbance in the economy system. It would be tragic if losses on their mortgages resulted in a general inability to pay out on savings accounts or even to maintain dividend payments. If that should happen, it might destroy public confidence in this type of institution generally and make it exceedingly difficult for many families to acquire their own homes.

This low ratio of reserves is apparently due largely to the inflation we experienced during the war and since the war. During such an inflationary period, the volume of savings deposits increases rapidly. Reserves which were formerly sufficient decline percentage-wise. No matter how carefully managed such an institution may be, it is impossible during such a period to keep piling up reserves fast enough to adequately provide a sufficient reserve against possible losses. If we should head into another period of serious inflation, I am afraid the reserve ratio of such institutions might fall even farther.

For these reasons, Mr. President, I do not believe we should tax savings and loan or building and loan associations just yet, at least. I believe we should give them time to build up an adequate reserve against loss so as to maintain their stability as a means of helping any family acquire its own home.

Mr. DIRKSEN. Mr. President, I suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The legislative clerk called the roll, and the following Senators answered to their names:

Alken	Cain	Connally
Benton	Capehart	Cordon
Brewster	Carlson	Dirksen
Butler, Md.	Case	Douglas
Butler, Nebr.	Clements	Duff

Dworshak	Johnson, Tex.	Mundt
Eastland	Johnston, S. C.	Murray
Eaton	Kefauver	Nixon
Ellender	Kem	O'Connor
Ferguson	Kerr	O'Mahoney
Flanders	Kilgore	Robertson
Frear	Knowland	Russell
Fulbright	Langer	Saltonstall
George	Lehman	Schoeppel
Gillette	Lodge	Smathers
Hayden	Long	Smith, Maine
Hendrickson	Magnuson	Smith, N. J.
Hennings	Malone	Smith, N. C.
Hickenlooper	Maybank	Sparkman
Hill	McCarran	Stennis
Hoey	McCarthy	Thye
Holland	McFarland	Underwood
Humphrey	McKellar	Watkins
Hunt	McMahon	Wiley
Ives	Millikin	Williams
Jenner	Monroney	
Johnson, Colo.	Morse	

Mr. JOHNSON of Texas. I announce that the Senator from New Mexico [Mr. ANDERSON] and the Senator from Arkansas [Mr. McCLELLAN] are absent by leave of the Senate.

The Senator from Virginia [Mr. BYRD], the Senator from New Mexico [Mr. CHAVEZ], the Senators from Rhode Island [Mr. GREEN and Mr. PASTORE], the Senator from Michigan [Mr. MOODY], and the Senator from West Virginia [Mr. NEELY] are absent on official business.

Mr. SALTONSTALL. I announce that the Senator from Utah [Mr. BENNETT], the Senator from Pennsylvania [Mr. MARTIN], and the Senator from North Dakota [Mr. YOUNG] are absent by leave of the Senate.

The junior Senator from Ohio [Mr. BRICKER], the senior Senator from Ohio [Mr. TAFT], and the Senator from Nebraska [Mr. WHERRY] are necessarily absent.

The Senator from New Hampshire [Mr. TOBEY] is absent because of illness.

The Senator from New Hampshire [Mr. BRIDGES] is absent because of illness in his immediate family.

The Senator from Idaho [Mr. WELKER] is absent on official business.

The PRESIDING OFFICER. A quorum is present. The question is on the motion of the Senator from Vermont to strike from the bill section 313.

Mr. FLANDERS obtained the floor.

Mr. GEORGE. Mr. President, will the Senator yield?

Mr. FLANDERS. I yield to the Senator from Georgia.

Mr. GEORGE. I was going to offer a substitute. I should like to perfect this section before the vote is taken. That is all I wished to be heard on.

The PRESIDING OFFICER. A perfecting amendment is in order.

Mr. FLANDERS. Mr. President, I should like to speak, not too long, but rather briefly, on the amendment to strike out section 313.

This section of the bill reflects good intentions but a poor understanding of the situation. The good intentions should not carry through the lack of comprehension of the situation. In moving to strike the section out, it has not been at any time my thought that that should end once for all the possibility, because it does not end the desirability, of looking to some equitable form of taxation of mutual savings institutions of various sorts. My thought is simply that taxes must not be destruc-

tive, but on the contrary, must be constructive.

In my opinion it is most unfortunate that the bill contains section 313 in its present wording, because there are so many things wrong with it. I must say that it seems to me the staff, I do not want to say it fell down, but the staff was somewhat misguided in this matter; and I say that with regret, because I am firmly of the belief that the Finance Committee of the Senate and the Ways and Means Committee of the House have the finest set-up to be found under the Capitol dome, and we must allow them some measure of excuse owing to the complication of the subject and the somewhat severe limitation of time under which they work.

Some of the difficulties came from trying to put these institutions into some category, into some pigeonhole, which would furnish a guide as to how they should be taxed. Two pigeonholes have been employed. In fact, the bill splits the problem into two parts, putting one part of the problem into the pigeonhole of the commercial banks, and putting the other part of the problem into the pigeonhole of the commercial co-ops. As a matter of fact, these savings and loan institutions do not belong in either pigeonhole but must be considered as being institutions of their own kind, bearing little relationship to any other kind.

They do not fit into the pigeonhole of the commercial banks, for more than one reason. The commercial banks are organized business institutions, with stock and stockholders, and they are conducted for profit. The mutual institutions which section 313 seeks to tax are fiduciary institutions, not commercial institutions operated for the profit of the stockholders.

There is also a very marked difference in the way in which the two types of institutions work. This is particularly visible in the case of the comparison between the mutual savings banks and the commercial banks. The commercial banks have what always strikes the observer who comes to understand it for the first time as an astonishing privilege. They have the privilege of making the money with which the business of the country is done. They make the country's money by setting up deposits against loans. The loan comes first. If I go to the commercial bank to negotiate a loan, the piece of paper on which I sign my name obligating myself to repay that loan within a given length of time is placed on the books of the banks as an asset. Against that there is placed, in making a loan, a deposit to my credit. That is the tax liability. In that way the vast billions upon billions of dollars with which the business of the country is done are manufactured largely as a result of loans, to a lesser degree as a result of purchasing of securities by the banks, but which in the same way set up a deposit account against the purchase of the securities.

Furthermore, the assets are of a different nature. The building and loan associations and the mutual banks carry long-term paper in the form of mort-

gages. They have some other assets, but it is typically a mortgage-asset business. The banks, on the other hand, aside from their security purchases, except in the case of United States securities, which are a minor percentage of their assets, have for the most part short-term paper, anywhere from 30 to 90 days and sometimes somewhat longer.

These three differences have their effect on the way in which tax policies should be considered as between commercial banks and savings institutions. While the commercial banks are operated for profit and make profits for their stockholders, and, therefore, come rather closely within the category of ordinary business institutions, that is not the case so far as the savings banks are concerned which are purely fiduciary. They hold the savings of the depositors and invest them for the depositors. Instead of making deposits as a result of loans, the savings bank makes loans as a result of deposits. The process is exactly reversed. They cannot loan until the deposits have come in. The commercial banks owe some responsibility to the Government which establishes them and establishes their rules, and the great advantage which the commercial banks have of being able to manufacture money is denied to the savings banks. When it comes, as it does in the bill, or in the report on the bill, to setting up rules for reserves against losses on the basis that reserves against losses are set up for commercial savings banks, the conditions are absolutely different, and there is no comparison between the two.

Furthermore, the mutual savings banks and other savings associations do not fall entirely into the same pigeonhole as do the commercial cooperatives. There is no membership as such; there are depositors, but the depositors come and go. The size of their deposits in the case of any individual depositor fluctuates; it goes up and down. There is no possibility of applying to the savings bank depositors any rule or Executive action or legal provision similar to that of the allocation of profits which is provided for in the bill with reference to the taxing of cooperatives. There can be no allocations of that sort.

Furthermore, the cooperatives are not so tightly constrained—so far as I know, they are not constrained at all—by State laws. The savings institutions referred to in title 313 are under the close and tight supervision of State laws, and the State laws must be recognized in any Federal legislation if we are to be fair to these savings institutions. What the bill does is to use rather vague language to indicate that due regard shall be paid to the necessity for reserves and surpluses required by State laws.

This presents to my mind a quandary. The desire to tax has gone to the point where it has exceeded a careful and proper consideration of the means of taxation. I desire to say that the pending amendment to strike out section 313 is not for the purpose of completely removing all these institutions from any tax liability; it is offered to make it possible to have a better study than has

been given to these institutions, to see to what extent and how, in relation to their present responsibilities to other governing bodies, it is wise or possible to tax them.

With relation to the other supervisory bodies, their surpluses are at present under restrictions and requirements of State law, of the FDIC, and of the RFC. Under State law the reserve requirements vary, but they are mandatory; and to the extent that State law may exceed the arbitrary judgment of an official of the Bureau of Internal Revenue, to that extent will the institution be penalized for obeying, as obey it must, the State law.

As stated yesterday, the proposal of the committee is going to be most serious to those banks which are in a weakened condition and are required to set aside their surpluses. If the judgment of the Bureau of Internal Revenue disagrees with State law and State administrative action, that weak bank will have to pay taxes, and to the extent that the payment of taxes lowers its possible interest rate to its depositors it is going to lose depositors and is going to be still weaker.

It would seem to be so simple, as I proposed in the committee, to say that the requirements of State law and State administration should be met before any profits are taxable. That would have been so simple that very much of the necessity for the amendment would have been avoided. But that idea was turned down. It was turned down in favor of leaving the matter to some official in the Bureau of Internal Revenue to see whether banks should be penalized for following State laws. I submit, Mr. President, that that is an astonishing legislative provision to write into a statute of the Government of the United States.

The RFC's interest in reserves comes into action in the case of banks which have borrowed from the RFC in order to build up depleted capital. The RFC does not allow banks to pay back depleted capital unless and until they have brought their reserves up to a figure satisfactory to the RFC. While provision is made for repaying the RFC with tax-free money, no provision is made in the bill for building up reserves with which to repay the RFC with tax-free money.

Furthermore, there are certain State pools of funds set up by the mutual-savings banks of Massachusetts, New York, and, I believe, Connecticut, which use their own money in order to build up impaired capital. Yet, although the attention of the committee was called to the fact that they were exempting from taxation funds required to pay the RFC, the committee refused—I should like to say again, it refused—Mr. President, I will say again, the committee refused—Mr. President, no one is paying attention to what I am saying, but what I am saying is that the committee refused—and I am astonished at the committee of which I am a member for doing so—the committee refused to make tax free these comparable payments into the private pool of funds for replenishing impaired capital. Thus the committee places it-

self on record as penalizing those who try, by their own cooperative action, and out of their own funds, to replenish their capital, and says, "If you run to Uncle Sam we will take care of you, but if you try to do this thing yourself, look out; you will have to pay taxes."

Mr. HENDRICKSON. Mr. President, will the Senator yield?

Mr. FLANDERS. I yield.

Mr. HENDRICKSON. I should like to say to the distinguished Senator from Vermont that the Senator from New Jersey was listening attentively to what the Senator from Vermont was saying, because the Senator from New Jersey agrees with all the arguments advanced by the Senator from Vermont on this important issue.

Mr. FLANDERS. I thank the Senator from New Jersey.

Mr. President, as I have before remarked, section 313 would set up a new regulatory body on top of all the State regulatory bodies, on top of the FDIC—on top of the RFC, and on top of the cooperative operations of the State pools; and Maple Harl, by the way, has stated that the minimum for surplus should be 10 percent. This new regulatory body will have the power to determine the tax-free reserves and additions to reserves, and will have complete control, irrespective of State bodies, to determine whether a mutual savings institution shall have to decrease its interest payments, lose its position by the loss of depositors, and go down hill.

The power to destroy is likewise to be noted in the fact that the committee paid no attention to the insurance departments in the savings banks of the States of Massachusetts and New York, which are set up by law; and proposes to tax the insurance departments of these banks in the same way it would tax a corporation, and on the same basis, instead of applying to these branches of the savings bank business the law by which it proposes to tax the insurance companies.

Such action would destroy the insurance businesses of these banks, which are over-the-counter-insurance departments set up under the advice and with the long-continued effort of the late Mr. Justice Brandeis, when he was in practice in Massachusetts. These insurance departments are mandatory by law, but would be destroyed under the proposed law.

It is not so much the power, but the exercise of the power, as outlined in the bill, which makes those of us who are supporting the amendment feel called upon to ask that the provision be lifted out of the bill, and that more thought be given to the nature of taxation which is equitable for these institutions, instead of being destructive to them.

What I have stated, Mr. President, summarizes the reasons why we have asked to have this section stricken out. It is faulty in so many ways that it is incredible that it should have been reported to the Senate. It shows lack of understanding, lack of sufficient consideration. It shows hasty action. It shows inequities. It shows impossibilities. It

involves the danger of destruction of useful institutions, and therefore, Mr. President, we have presented to the Senate this amendment to strike out section 313.

Mr. CAPEHART. Mr. President, I send to the desk a substitute for the pending amendment, which I ask to have stated.

The PRESIDING OFFICER (Mr. MONROE in the chair). The amendment to the amendment will be stated.

The CHIEF CLERK. On page 143, line 14, after the period, it is proposed to insert the following:

In no case shall the reasonable addition to a reserve for bad debts determined under the preceding sentence be less for any taxable year than 15 percent of the taxpayer's net earnings during such taxable year (computed without the deduction of such addition to reserves), except that such an addition to a reserve shall not be deductible under this sentence if the total amount of the taxpayer's surplus and undivided profits (computed without the amount of the addition) equals or exceeds 10 percent of the taxpayer's total deposits or accounts on the last day of its taxable year.

Mr. CAPEHART. Mr. President, the chief interest I have in this whole matter is to protect in respect to bad debt reserves the building and loan associations and the industrial banks which come under paragraph (d) of section 313, on page 143 of the bill. The only interest I have is to make certain that the institutions have sufficient reserves. I do not think any are being taxed on amounts which they might care to reserve or keep, which they do not pay to their depositors. Not one of those with whom I have talked has any objection to paying taxes, just as commercial banks do, on excessive amounts they might retain in their business. However, those with whom I have talked from my home State were apprehensive that under this particular paragraph, paragraph (d) on page 143, they might not be permitted to retain sufficient reserves in case a depression should come upon the country, or in case they should get into trouble in the future. I know there is no intention on the part of any Senator to do anything which would do injury to these many great associations and organizations in the United States about which we are talking. I believe that in my State there are 236 of them. They have been there for many years. They have been operating under State and Federal laws. They have thousands of depositors. They have hundreds of employees, and they have millions of dollars of the people's money on deposit. They have made literally hundreds of millions of dollars' worth of loans. I do not want to do anything that would place them in jeopardy in case of a depression in the future. Those operating such institutions in Indiana who came to see me agreed that they were not entitled to build up vast reserves far beyond any need they might have in the future, in order to avoid taxes. They are just as frank and honest in that respect as they can be.

The provision which we seek to amend is paragraph (d) on page 143, relating

to a reasonable addition to reserves for bad debts, and so forth. The amendment which I have offered is very simple, in that it permits the institutions in question to maintain at all times 10 percent of their deposits and surplus in reserves, or it enables them to add to their reserves each year 15 percent of their net profits, whichever is the greater. They are given two choices. If 15 percent of their net profits is greater than 10 percent of their reserves on the last day of their taxable year, they may elect to adopt that system. If 10 percent of their deposits and surplus is greater, they may adopt that.

I presume one might well argue that 15 percent is either too much or too little. I am frank to say that I am not positive that it is too large, and I am not positive that it is too small. It seems to me that if the chairman of the committee would accept this amendment and take it to conference, the conferees might arrive at a determination as to whether or not 15 percent is entirely too much. It might well develop that it is too little.

Mr. KERR. Mr. President, will the Senator yield for a question?

Mr. CAPEHART. I am very happy to yield.

Mr. KERR. I think I understand the Senator's amendment. If I do, I think it is entirely in keeping with what the committee had in mind. I should like to see if I do understand his amendment.

It reads:

In no case shall the reasonable addition to a reserve for bad debts determined under the preceding sentence be less for any taxable year than 15 percent of the taxpayer's net earnings during such taxable year (computed without the deduction of such addition to reserves), except that such an addition to a reserve shall not be deductible under this sentence if the total amount of the taxpayer's surplus and undivided profits (computed without the amount of the addition) equals or exceeds 10 percent of the taxpayer's total deposits or accounts on the last day of its taxable year.

If I read the amendment correctly, it provides that in no event shall the reasonable provision of the statute be interpreted to permit a deduction of less than 15 percent of the net profits of the institution, but that, aside from the provisions in the law with reference to a reasonable amount, it shall not exceed that figure in any taxable year, and it shall not be a deductible item if the reserves of the institution already equal 10 percent of the deposits or accounts.

Mr. CAPEHART. I think that is the way it is written.

Mr. HOLLAND. Mr. President, will the Senator yield for a question?

Mr. CAPEHART. I yield.

Mr. HOLLAND. The Senator from Florida wishes to discover for the RECORD whether the words "surplus and undivided profits," which are the last words in the sixth line of the Senator's type-written amendment, are to be understood as meaning the same as the words "reserve for bad debts" appearing in the first line of the Senator's amendment.

Mr. CAPEHART. The reserve for bad debts, in most bookkeeping, is not considered as a part of the surplus and undivided profits.

Mr. HOLLAND. It seems to the Senator from Florida that the words "reserve for bad debts" in the first line and the words "surplus and undivided profits" in the third line from the bottom, refer to exactly the same item. If that be the case, the Senator from Florida feels that the latter words should have substituted for them the earlier words. Otherwise we shall have confusion as to the meaning of the amendment.

Mr. CAPEHART. How does the Senator suggest that it be changed?

Mr. HOLLAND. If it is the meaning of the distinguished Senator from Indiana, under his amendment, that the limitation of 10 percent of the taxpayer's total deposits or accounts shall be the reserve for bad debts, and that that limitation shall apply to the reserve for bad debts, he suggests that the words "surplus and undivided profits" in the third from the last line of the Senator's amendment should read "reserve for bad debts" instead of "surplus and undivided profits."

Mr. CAPEHART. It now reads "if the total amount of the taxpayer's surplus and undivided profits equals or exceeds 10 percent." Does the Senator from Florida want to substitute for "surplus and undivided profits" the words "reserve for bad debts"? Is that the idea?

Mr. HOLLAND. The suggestion of the Senator from Florida is that the Senator from Indiana must have used "reserve for bad debts" where it appears earlier in the amendment, and "surplus and undivided profits" in the place indicated, as synonymous terms, because immediately after the words "surplus and undivided profits" there follow, in parentheses, the words "(computed without the amount of the addition)."

Mr. CAPEHART. The 10 percent applies to the surplus and undivided profits. If an institution had \$1,000,000 of surplus and undivided profits, its reserve could be \$100,000. It may have other reserves for other purposes. Under this amendment we would look at all of them. The 10 percent would apply to all of them.

Mr. HOLLAND. The Senator from Florida would not be in accord with this amendment, because his understanding is that what the Senate is in reasonable agreement upon is fixing the limitation of 10 percent as the amount of the reserve for bad debts, and not any other amount in the statement of the concern.

Mr. CAPEHART. What we intended to have this amendment do was to give these institutions a reserve of 10 percent of their surplus and undivided profits in all their reserves; but if that were less than 15 percent of their net earnings, they could use 15 percent of their net earnings. If that figure were more than 15 percent of their net earnings they could use the larger figure, but if it were less, they could set aside each year 15 percent of their net earnings. I may say, if I am correct, as I believe I am, that it gives a more liberal allowance for reserves than those specified in the committee bill. I believe Senators will agree with that statement. That is my

chief concern. That was the chief concern of my constituents in Indiana. They were fearful that paragraph (d) on page 143 of the bill did not permit them to maintain sufficient reserves.

Mr. HOLLAND. Mr. President, will the Senator yield for a question?

Mr. CAPEHART. We are endeavoring to give them more reserves, in the event they should need them in the future.

I yield to the Senator from Florida.

Mr. HOLLAND. Is it the intention of the Senator from Indiana by his amendment to limit the reserves to 10 percent; that is, after the reserve reached 10 percent, would payments of income tax be required before additions to that 10 percent could be made?

Mr. CAPEHART. If the institutions pay the money to the depositors, of course, no income tax is paid on it. However, if they keep it in reserve, they must pay a tax on it. They can keep in reserve any amount they care to keep, under the bill, but they must pay a tax on it. The amendment would establish a ceiling under which they would not have to pay a tax on their reserves. Perhaps I failed to provide what I should have included in that respect.

Perhaps I did something unintentionally. What I am trying to do is to give the banks and associations a more liberal reserve position than the committee bill gives them.

Mr. HOLLAND. Mr. President, will the Senator further yield?

Mr. CAPEHART. Yes.

Mr. HOLLAND. Does the Senator from Indiana intend to provide that a 10-percent reserve for bad debts can be created without incurring any income-tax liability?

Mr. CAPEHART. Yes; and the money could be put into different reserves without labeling the reserve a reserve for bad debts. The amendment permits the institutions to keep 10 percent of their surplus in reserve without paying taxes on it. That is the intention of the amendment. If it is not written so as to accomplish that, it should be changed. I may say that I discussed the principle of the amendment with the experts on the joint staff, and they prepared the text of the amendment.

Mr. HOLLAND. I dislike to be critical of the Senator's amendment, and I am not critical of it.

Mr. CAPEHART. I appreciate that.

Mr. HOLLAND. However, it seems to me that the amendment might be construed as setting up two separate reserves, a reserve for bad debts, and some other kind of reserve, which the Senator describes as surplus and undivided profits. It has been the understanding of the Senator from Florida that we had reached general agreement that a reserve for bad debts of 10 percent might be set up without incurring an income-tax liability, provided the rate at which it was set up was within the wording of the amendment.

Mr. CAPEHART. Mr. President, I modify my amendment in line 6 by striking out the word "and," and after the words "undivided profits" inserting the words "and reserves", so as to make the

line read: "if the total amount of the taxpayer's surplus, undivided profits, and reserves."

The PRESIDING OFFICER. The Senator modifies his amendment accordingly.

Mr. HOLLAND. The Senator adds "reserves for bad debts"?

Mr. CAPEHART. I was of the opinion that the word "reserves" covered reserves for bad debts and other reserves.

Mr. GEORGE. Mr. President, as I understand the amendment, it leaves the committee amendment as it is, but it puts an absolute floor under the percentage, so that in no way shall the reserves be less than the figures stated in the Senator's amendment, and in no case shall the reasonable addition to a reserve for bad debts determined under the preceding paragraph—and section 23 (k) relates to deductions from gross income of bad debts—in no case shall the reasonable addition to a reserve for bad debts determined under the preceding sentence be less for any taxable year than 15 percent of the taxpayer's net earnings during such taxable year—computed without the deduction of such addition to reserve.

It means that it would be possible to step up the reserve a bit faster than under the 10-percent limitation, as I first suggested. In other words, it would be possible to add 15 percent of the net earnings during the taxable year. Of course, it would be possible to build up the reserves to 10 percent of all deposits much faster.

Then the limitation is: "Except that such an addition to a reserve shall not be deductible under this sentence if the total amount of the taxpayer's surplus and undivided profits—computed without the amount of the addition—equals or exceeds 10 percent of the taxpayer's total deposits or accounts on the last day of its taxable year." I believe the suggestion was that a change be made in the sixth line by making the phrase read: "Surplus, undivided profits, and reserves."

In either event, I believe the amendment is reasonably clear. Certainly in conference it can be worked out if it is not clear. I would have no objection to accepting the amendment, so far as I am able to speak for the committee. It meets every legitimate objection that could possibly be made. It still leaves in the bill all the committee has done, and the Commissioner might allow the institutions a higher percentage. I do not say he would. I do not know what he would do. However, in no way could he go below the floor which the Senator places in the amendment.

Mr. CAPEHART. He could allow them more.

Mr. GEORGE. Yes.

Mr. CAPEHART. He could not allow them less.

Mr. GEORGE. If he were in a situation in which he ought to allow them a higher percentage, he could do it, and should do it, of course; but, in no event, could he go below the floor.

Mr. MILLIKIN. Mr. President, will the Senator yield.

Mr. CAPEHART. Yes.

Mr. MILLIKIN. Perhaps the questions I am about to ask have been answered in the colloquy between the distinguished senior Senator from Georgia and the distinguished senior Senator from Indiana.

I invite attention to the words, "In no case shall the reasonable addition to a reserve for bad debts determined under the preceding sentence be less for any taxable year than 15 percent of the taxpayer's net earnings during such taxable year." Is it correct to say that under this amendment an institution of the kind we are talking about could dedicate all of its net earnings in one taxable year to the purpose contemplated?

Mr. CAPEHART. It could do so if it were necessary to bring up to 10 percent its surplus, undivided profits, and reserves.

Mr. MILLIKIN. In order to build up to 10 percent it could dedicate in 1 year to that purpose all of its net earnings? Would there be any prohibition against its doing so?

Mr. CAPEHART. It was my intention to permit the institutions to maintain 10 percent in reserves, surplus, and undivided profits.

Mr. MILLIKIN. But the part of the amendment I am discussing entails the mechanics of building up to that point.

I suggest to the Senator that I see no reason why, if the institution wishes to do so, it should not be permitted to use in excess of 15 percent of its net earnings to build up to the 10 percent ceiling on reserves.

Mr. GEORGE. Mr. President, if the Senator from Indiana will permit me to do so—

Mr. CAPEHART. I yield.

Mr. GEORGE. I should like to say that I think the amendment does what the Senator from Colorado has suggested. It might be said, "We find this institution in a bad way, and there will be a great many losses." Under such circumstances, this amendment would permit the reserves to be built up in 1 year's time.

Mr. MILLIKIN. The authorities might suggest that the bank would have to build up its reserves, and would have to do so quickly.

Mr. GEORGE. Yes; the authorities might require the institution to do so.

Mr. CAPEHART. This amendment would require that the Commissioner's ruling must provide for no less than the percentage set forth in the amendment.

Mr. MILLIKIN. I believe the Senator from Georgia, the distinguished chairman of the committee, has already answered on the point I am about to mention; but let us assume that the condition of an institution is such that more than a 10-percent reserve is required or indicated. This amendment does not modify in any way the other authority provided in the bill for the Federal authorities in such a case to authorize more than a 10-percent reserve, does it?

Mr. CAPEHART. That is the intention.

Mr. MILLIKIN. Is not that as clear as a bell?

Mr. CAPEHART. It is clear, and it is the intention. I shall ask the able Senator from Georgia if that is not true.

Mr. MILLIKIN. Will the Senator from Indiana yield to me, to permit me to ask that question of the Senator from Georgia?

Mr. CAPEHART. Yes; I am glad to yield for that purpose.

Mr. MILLIKIN. I have just stated to the Senator from Indiana, let me say to the Senator from Georgia, that there might be a situation in which more than a 10-percent reserve would be necessary or would be considered so, in order to protect the solvency of the institution. In such a case, is there any limitation in the language of this amendment which would prohibit the Federal authorities from granting permission to the institution to increase its reserves by as much as might be thought necessary?

Mr. GEORGE. None whatever, because this amendment simply provides a floor, and says, in effect, "You cannot go lower than this."

Mr. LEHMAN. Mr. President, will the Senator from Indiana yield to me?

Mr. CAPEHART. I am glad to yield to the Senator from New York.

Mr. LEHMAN. I believe I understand and appreciate the purpose of the Senator's amendment; but I believe the proposed limitation stated by the distinguished chairman of the committee and the Senator from Florida, and, I believe, by the Senator from Oklahoma, namely, the proposal for a 10-percent reserve, would work a hardship at least in the State of New York, for such a provision disregards entirely the statutory reserve requirements of the State. Today in New York we have requirements by statute for considerably in excess of a 10-percent reserve. As a matter of fact, our reserves in the aggregate are more than 10 percent today. So we really would be handicapped affirmatively by such an amendment, if it were adopted.

I would suggest to the distinguished chairman of the Finance Committee that it appears to me that a fair formula would be 10 percent of the reserves or the statutory reserve, whichever is higher.

Mr. CAPEHART. What is the statutory reserve in the State of New York?

Mr. LEHMAN. I do not know exactly what it is.

Mr. KERR. Mr. President, will the Senator from Indiana yield to me, to permit me to state what that reserve is, if the Senator from New York would like to know what it is?

Mr. LEHMAN. I would be very glad to have that done.

Mr. CAPEHART. I yield.

Mr. KERR. For the State of New York, it is 5 percent of the net profits—

Mr. LEHMAN. No, no.

Mr. KERR. As I was saying, for the State of New York, it is 5 percent of the net profits until the reserve is 10 percent of the capital and 50 percent of the book value of real estate held by the association.

Mr. LEHMAN. In response to the inquiry of the Senator from Indiana, let me say that I do not know the exact detail of the requirement.

Mr. KERR. Mr. President, if the Senator from New York would like to know—

Mr. LEHMAN. I would like to complete my remark, please.

In New York the statutory requirements are of two kinds: One is a 10 percent legal requirement; and, in addition, there is required by the regulations of the superintendent of banks an additional reserve of 5 percent on mortgages. Therefore, the aggregate of the reserves today is considerably in excess of 10 percent.

It has been testified, and I read the testimony here a little while ago, that the actual reserve which exists in the State of New York today is approximately 11.4 percent. In the case of some banks, that amount of reserve has not been reached. However, other banks have reached a figure somewhat in excess of 11.4 percent.

It seems to me that in connection with any legislative measure, we cannot disregard the statutory requirements of any State. I think the necessity is a little more apparent in the case of a State such as the State of New York, two-thirds of whose people are depositors in savings banks and institutions.

Mr. CAPEHART. I was informed that the 10 percent reserve provided for by the amendment would more than amply cover the statutory requirements in the State of New York.

Mr. KERR. Mr. President, will the Senator from Indiana yield to me, for a question?

Mr. CAPEHART. Yes; I am glad to yield; let us see if what I have stated is the case.

Mr. KERR. For savings banks, the New York requirement is 10 percent of the annual earnings until the reserve equals 10 percent of the deposits; and in the case of savings and loan associations the reserve requirement is 5 percent of the net profits until the reserve is 10 percent of the capital and 50 percent of the book value of the real estate held by the association.

So the amendment of the Senator from Indiana is 50 percent more liberal than are the requirements of the State of New York with reference to its savings banks, and three times as liberal as the requirements of the State of New York with reference to its building and loan associations.

Mr. LEHMAN and Mr. IVES addressed the Chair.

The PRESIDING OFFICER. Does the Senator from Indiana yield; and if so, to whom?

Mr. CAPEHART. I yield first to the junior Senator from New York [Mr. LEHMAN], and then I shall yield to the senior Senator from New York [Mr. IVES].

Mr. LEHMAN. I thank the Senator for yielding.

Mr. President, as I interpret the amendment submitted by the distinguished Senator from Indiana, it does

not provide for a 15-percent reserve, but provides for a 10-percent ceiling, which might be increased by the use of some of the earnings until it reached 15 percent.

In New York State we have a 10-percent-reserve requirement in the case of savings deposits in the mutual banks; but, in addition, my colleague, the senior Senator from New York [Mr. Ives], has stated within the last hour that there is also a reserve requirement of 5 percent on mortgages, making the total of the reserves considerably in excess of 10 percent.

Mr. IVES. Mr. President, will the Senator from Indiana yield to me?

Mr. CAPEHART. First, Mr. President, I wish to state that I thought I was reliably informed—Senators realize that I am not a member of the Finance Committee—that my amendment would accomplish my intention, which was to make this 10-percent requirement more liberal than the statutory requirements of any of the States.

Mr. IVES. Mr. President, will the Senator from Indiana yield to me?

Mr. CAPEHART. I yield.

Mr. IVES. The New York situation, insofar as the law is concerned, is as the distinguished Senator from Oklahoma has stated it to be.

However, I wish to join my colleague from New York [Mr. LEHMAN] in stating that in addition to that, the superintendent of banks of New York and the State banking department have been endeavoring to have the savings banks set aside 10 percent of the conventional mortgages in their mortgage portfolios, 5 percent of the Veterans' Administration mortgages, and 1 percent of the FHA mortgages; so they have an additional reserve, on top of the 10-percent legal requirement.

I point out that the 10-percent legal requirement has not been reached by more than one-third of savings banks in the State of New York, or, at least, by approximately that number, even though the average figure is 11.4 percent.

In other words, inasmuch as New York is trying to build up a condition in which the legal requirement would be higher, a 10-percent requirement would be too low.

Mr. CAPEHART. Of course, the Commissioner could do what the Senator has suggested, if he wished to do so.

Mr. IVES. No; not according to the legal requirements.

Mr. CAPEHART. No doubt he would endeavor to do so. What we are endeavoring to do is to impose a limit on how low a figure the Commissioner may fix, because, as I have said, my folks in Indiana are fearful that the Commissioner might unintentionally adopt rules and regulations which might prove disastrous, and their request is that we designate a floor below which the Commissioner may not go. He could go as much higher as he pleased, but there would be a floor beneath which he could not go.

I know all Senators are interested in protecting the solvency of the savings banks and the loan institutions. By the same token, I do not think we want to

permit the institutions to grow and grow and grow and maintain reserves for which they have no need, and not pay taxes upon them, while their competitors, the commercial banks, pay taxes. I do not believe there is any Senator in this Chamber who would approve such a condition.

Mr. CAIN and Mr. SALTONSTALL addressed the Chair.

The PRESIDING OFFICER. Does the Senator from Indiana yield; and if so, to whom?

Mr. CAPEHART. I yield first to the Senator from Washington, after which I shall be pleased to yield to the Senator from Massachusetts.

Mr. CAIN. If the amendment of the Senator from Indiana becomes law, what will then become taxable within the mutual savings system and the savings and loan associations?

Mr. CAPEHART. If this amendment is adopted the associations will be taxed at the ordinary rates on their corporate earnings, after deductions, I emphasize, of interest on deposits, dividends, expenses, and allowable additions to reserve. What I mean is that they will not be taxed upon whatever they retain for reserves. They will not be taxed upon their expenses, on interest on their deposits, or on their dividends.

Mr. CAIN. Would it then be a fact that neither the mutual savings banks nor the savings and loan associations would have imposed upon them any corporate income tax, until their reserves were at least 10 percent, which in the discretion of the Treasury could become from 10 percent to 15 percent?

Mr. CAPEHART. The Treasury, of course, if it wants to do so, under the law as written may permit any reserves in any amounts it may choose.

Mr. CAIN. But the Senator from Indiana is endeavoring to make certain that there will be no tax liability until the reserves have reached 10 percent, is he?

Mr. CAPEHART. Ten percent of their surplus, undivided profits, and reserves.

Mr. CAIN. I thank the Senator.

Mr. CASE. Mr. President, I wonder whether the amendment says quite that. Whenever the addition to the reserve exceeds 15 percent of the earnings in the taxable year, they would become taxable, would they not?

Mr. GEORGE. Oh, no; oh, no.

Mr. CAPEHART. No.

Mr. GEORGE. Not if they are under the floor fixed in the amendment.

I wish to make a statement in connection with the inquiry of the distinguished Senator from Washington. I think the provision may become clear if looked at as I shall explain it. The Senator from Washington has exactly the right idea, but it is a bit clearer if looked at in the way I suggest. Under the provisions already in the bill the Commissioner must allow a reserve, a reasonable reserve, whatever he decides, it should be based on the facts, after a study of the institution, over a long period of time. Then the floor provision comes into play, under the amendment offered by the distinguished Senator from Indiana, which we are willing to

accept. The floor then comes into play and places a limitation on what is reasonable by saying that so long as the association is not setting aside more than 15 percent of its annual profits in any taxable year, so long as the total amount set aside is not more than 10 percent of all of its accounts and deposits, the reasonableness required of the Commissioner in the first instance is specified by this particular amendment, or is superseded by this amendment; that is to say, no tax could be imposed so long as the floor proposed was effective.

Mr. SALTONSTALL. Mr. President, will the Senator yield?

Mr. CAIN. The distinguished chairman has confirmed my understanding of the amendment, and I am most grateful.

Mr. GEORGE. The Senator has the correct idea, but I call attention to the fact that in the first instance the Commissioner must provide for a reasonable reserve, and then the amendment of the Senator from Indiana comes into effect to place a limitation on what is reasonable.

Mr. CAPEHART. I now yield to the Senator from Massachusetts.

Mr. SALTONSTALL. I should like to ask either the Senator from Indiana or the Senator from Georgia two questions, if I may. I have listened to the Senator from Indiana stating to the Senator from Washington his interpretation of the term "net earnings." Does "net earnings" mean after expenses and before dividends; or did I understand the Senator from Indiana correctly to say it means after dividends?

Mr. GEORGE. No.

Mr. CAPEHART. No.

Mr. SALTONSTALL. It means before dividends, does it?

Mr. CAPEHART. That is correct.

Mr. GEORGE. Before dividends, but after expenses.

Mr. CAPEHART. It is the net of the total earnings.

Mr. SALTONSTALL. At the end of the year, before they pay any dividends.

Mr. CAPEHART. That is my intention in proposing the amendment.

Mr. SALTONSTALL. If I may ask the Senator another question, does the amendment provide for a so-called growth factor? In other words, if there is a 10-percent reserve, is the 10 percent recalculated each year, if a bank increases its deposits?

Mr. GEORGE. Oh, beyond all doubt. It is what is called a moving reserve, if I correctly understand what is meant by that term. Beyond all doubt that is true, because the institution might have deposits of \$100,000,000 this year, and it might have \$200,000,000 next year, or they might go up to \$500,000,000, and then of course it would have the right to build up until its reserves equaled 10 percent of its total deposits or accounts.

Mr. SALTONSTALL. For example, in Massachusetts, where I know a little about the savings banks, though I shall not say that I know too much about them, there are undivided profits and surplus. By our laws, as I understand, the bank commissioner requires that the reserves of at least 10 percent be main-

tained. Actually at the present time they are a little over 11 percent. I believe the figures in the report so show.

In addition to that, we have a bad-debt reserve requirement. In other words, if bad loans are made, there is permitted a reserve upward of another 5 percent to take care of bad debts. The institution is authorized to maintain its surplus and undivided profits status of 10 percent above the deposits. Do I correctly understand that any bank with, let us say, a 13-percent reserve, would not be allowed, under the amendment, to set aside anything for bad debts, because it would be above the 10 percent?

Mr. GEORGE. I could not say what the Commissioner would do in the first instance. He must allow reasonable reserves, and he might take into account bad debts as well as a reasonable running reserve, or the so-called moving reserve, to take care of bad debts and to make sure that the depositors would be paid, but he could not do less than the Senator from Indiana is requiring.

Mr. SALTONSTALL. In other words, under section 143 (d) he would be required to permit an institution a reasonable reserve.

Mr. GEORGE. That is correct.

Mr. SALTONSTALL. And that reasonable reserve would be not less than 10 percent, or 15 percent of the net earnings after expenses and before dividends.

Mr. GEORGE. Each year.

Mr. SALTONSTALL. Each year.

Mr. GEORGE. But after no other deductions. That is correct.

Mr. SALTONSTALL. And would the growth factor be taken care of annually, semiannually, or from month to month, under the regulation? How would that be worked out?

Mr. GEORGE. That would be taken care of at the end of the year. The regulation would follow the amendment, and the institution would be required to set aside an amount for reserves at the end of each year.

Mr. SALTONSTALL. I thank the Senator.

Mr. CASE. Mr. President, will the Senator yield for a question?

Mr. CAPEHART. I am very happy to yield.

Mr. CASE. Suppose there were a situation involving a building and loan association which did not have a reserve up to 10 percent of its total accounts, and the determination of the Commissioner were that there should be a 15-percent floor, and the particular association wanted to set aside 30 percent of its earnings: Would the second 15 percent be taxable?

Mr. CAPEHART. The commissioner has a right, under the law, to make the reserve 15 percent, 30 percent, or 60 percent.

Mr. CASE. Suppose he makes it 15 percent and the association wants to set aside 30 percent.

Mr. CAPEHART. If 30 percent brings the amount up to 10 percent of the surplus and undivided profits and reserve, it would not be taxable.

Mr. CASE. The second 15 percent would not be taxable.

Mr. CAPEHART. If the institution's reserve were less than 10 percent of its surplus and undivided profits and reserves, it could come up to 10 percent.

Mr. CASE. Then we are giving them two floors.

Mr. GEORGE. Mr. President, will the Senator from Indiana yield?

Mr. CAPEHART. I yield.

Mr. GEORGE. Suppose a building and loan association which has reserves of only 5 percent in any one year should say, "We want to set aside 40 percent, or 30 percent." So long as the amount set aside does not bring the total reserve above 10 percent of the accounts it is not taxable, under the amendment.

Mr. CAPEHART. Unless the commissioner wants to issue regulations which are more liberal, which he has a right to do.

Mr. GEORGE. Oh, yes.

Mr. CAPEHART. He can do that, as I understand, in individual cases or as to groups.

Mr. GEORGE. I think he could. That would be my interpretation. I do not know how he might construe it, but he certainly could do it as to groups.

Mr. CASE. Mr. President, will the Senator from Indiana further yield?

Mr. CAPEHART. I yield.

Mr. CASE. The phrase "reasonable addition" refers to the reasonable addition in the preceding sentence, and is not intended to be a requirement that any association shall set aside as much as 15 percent.

Mr. CAPEHART. Absolutely not.

Mr. FLANDERS. Mr. President, will the Senator yield?

Mr. CAPEHART. I yield.

Mr. FLANDERS. I am still concerned, Mr. President, with the fact that some of the institutions will be penalized if they follow State laws. That is the case in New York, in which the State requires certain additional reserves against mortgages in the portfolio. I am rising to ask the Senator whether he would be willing to accept words to this effect:

Such additions to reserve shall include, but shall not be limited to, all reserves required to be established or maintained by any State or Federal banking authority.

Mr. GEORGE. Mr. President, will the Senator from Indiana yield?

Mr. CAPEHART. I yield.

Mr. GEORGE. I hope the Senator from Indiana will not even consider that, because its adoption would mean that there would be no uniformity in the national law, and it would be within the power of each State utterly to defeat the taxing program.

Mr. CAPEHART. The Commissioner, if he wants to, can issue such a regulation. Is it not a fact that the 10 percent is more liberal than are any of the State requirements at the moment?

Mr. FLANDERS. No. Some States require an additional reserve against paper in the portfolio. Furthermore, the FDIC requires such reserves, but no provision is made for them.

I should like to make an observation with regard to the suggestion just made by the Senator from Georgia. He, quite directly and strongly, indicates, from the

traditional and historic home of States rights, that he is now completely abandoning that theory and is supporting the theory that everything of this nature the whole country over, should now come under Federal authority, and that States' rights can go to blazes. That is an interesting situation.

Mr. GEORGE. I do not think my distinguished friend from Vermont is quite capable of defining States' rights for a southerner. I have already assured him that when it comes to State laws, I think they should be observed. Let the institutions live up to the letter of them; but when the Federal Government sees fit to say that institutions owe some tax, then let them live up to the letter of the Federal laws as well. In other words, I have often heard of dual citizenship, and I invoke that doctrine now. An institution resides within the State, but it also resides within the Nation.

Mr. CAPEHART. The argument put forth by the able Senator from Vermont likewise applies to national banks and commercial banks. We do not make our Federal laws comply with State laws.

Mr. FLANDERS. There are State banks and national banks, and each is amenable to the law which has jurisdiction over it.

Mr. FERGUSON. Mr. President, will the Senator from Indiana yield?

Mr. CAPEHART. I yield.

Mr. FERGUSON. I suggest that if the Senator from Indiana accepts the philosophy of the Senator from Vermont, of allowing the State law to determine the question, it would permit the legislatures of the respective States to say whether there should be any tax at all. I do not see how we could raise any taxes if we applied that philosophy to tax legislation of the National Government.

Mr. FLANDERS. I bow, Mr. President, to the legal experience and astuteness of the Senator from Michigan, but I think it is just a little bit beside the point. A State establishes rules, and the Federal Government penalizes an institution for which those rules are established by saying, "If you follow these legal restrictions, we are going to tax you because you do so."

Let me return for a moment to the matter of the new regulatory body—

Mr. CAPEHART. I assume the Senator is still asking a question.

Mr. FLANDERS. Yes. It is perfectly clear, from the observations made from time to time by the Senator from Georgia, that we are setting up a new regulatory body, a new regulatory device, over the banks of the Nation. There are a great many of them already, but here is another. I wish to suggest that this new regulatory body is unique among all the regulatory bodies set up by the Government over all the various branches of activity in the United States, in this respect, that for the first time we have a regulatory body which has an official interest in its own action. It is concerned with getting as much tax as possible out of a given operation, and it will have a continuous interest to shade safety for income. I know of no other regulatory body in the United States which does not

approach its task with complete objectivity. There is no complete objectivity in this brand-new regulatory body which is set up, not by direct legislation, but by inference.

Mr. CAPEHART. I might say that we are trying to put some restrictions upon this regulatory body, and there is nothing in the proposed amendment or in the law which would keep a State from establishing any reserves it might care to establish, and the banks in those States must follow the directions.

However, if a State provides a larger reserve requirement than the Commissioner himself will allow, a larger reserve than the floor we place in the amendment, it will simply mean that the banks will have to pay Federal taxes. If the States themselves desired to provide restrictions forcing the banks to pay taxes, then, it seems to me, they would have to take the responsibility.

Mr. IVES. Mr. President, will the Senator yield?

Mr. CAPEHART. I yield.

Mr. IVES. Would it mean also that the savings banks and other savings institutions would be required to reduce their interest rates to their depositors if the procedure were followed along the line just suggested by the distinguished Senator from Indiana?

Mr. CAPEHART. They might have to do so.

Mr. IVES. If they had to do that, they might not have any depositors very soon.

Mr. KERR. Mr. President, will the Senator yield?

Mr. CAPEHART. I yield.

Mr. KERR. Is it not a fact that that could not be the case, because there is no tax applicable to any fund except that which is left after interest to the depositors is paid; and therefore no provision with reference to tax could affect that interest.

Mr. CAPEHART. The bankers must, of course, set up some reserves if they are good businessmen. The larger the reserve they set up, of course, the less tax they pay and the more solvent their institutions are.

Mr. KERR. But the Senator from New York asked the Senator from Indiana if this provision would not affect the amount which these banks paid to their depositors, and if I understand the law and the amendment it does not apply to anything except that which the bank has after it has paid the interest to the depositors.

Mr. CAPEHART. The answer to the question of the Senator from New York ought to be, possibly, "Yes" or "No." It certainly does not apply to and there will be no tax on the interest they pay to their depositors.

Mr. KERR. Nor does this provision fix the rate.

Mr. CAPEHART. Nor does it fix the rate. Of course, if all the banks were required to pay Federal taxes upon their earnings they naturally would have less interest to pay to their depositors, but if they want to pay out all their earnings to their depositors the provision would have no effect.

Mr. IVES. Mr. President, I should like to continue. The question I raised was

a very simple one. If, after this particular proposal were enacted and after it had been carried out by the savings banks in the several States, it was determined in any particular State that the reserves authorized or permitted under this particular provision were insufficient, and that they must be greater in that State, so as to comply with or conform to the statute enacted by the State, would it not be required that the interest rates themselves be reduced in that case?

Mr. CAPEHART. I think so, but—

Mr. IVES. Surely there can be no argument about it.

Mr. CAPEHART. But the amendment I am offering would establish a floor. If the Congress passes the bill as written and reported by the committee the whole matter will be in the hands of the Commissioner, and he might issue regulations more liberal than the provision I am suggesting, or the regulations might be less liberal. But I am establishing a floor. He can do as he pleases, but he cannot go below the formula outlined in my amendment.

Mr. President, I am not advocating the committee provision. I am simply trying to say that if section 313 becomes a part of the law we should establish a floor, and that I propose to do by my amendment.

Mr. IVES. Mr. President, will the Senator yield for another question?

Mr. CAPEHART. Yes.

Mr. IVES. Does the Senator really feel that the Commissioner of Internal Revenue is the proper Federal authority to administer banking law?

Mr. CAPEHART. He has been doing it for years, but I am not certain he is the proper one to do so. However, he is the only agency we have at the moment.

Mr. IVES. This has nothing to do with the Federal reserve law; it has nothing to do with any other banking law. It has to do strictly with a particular revenue act; to provide for certain reserves under a particular revenue act, and it is left to the commissioner to enforce it.

Mr. CAPEHART. Mr. President, the chairman of the committee has agreed to accept the amendment and take it to conference.

Mr. DIRKSEN. Mr. President, I suggest the absence—

Mr. SALTONSTALL. Mr. President, before the Senator suggests the absence of a quorum, I should like to ask the Senator from Indiana [Mr. CAPEHART] or the Senator from Georgia [Mr. GEORGE] a question.

Mr. DIRKSEN. Very well.

Mr. SALTONSTALL. I have just discussed the matter with the Senator from Georgia. I think I know what his answer will be. But I should like to bring out the point. On page 143 I will read from line 11 through line 14:

The reasonable addition to a reserve for bad debts shall be determined with due regard to the amount of the taxpayer's surplus or bad-debt reserves existing at the close of December 31, 1951.

I call attention particularly to the words in line 12, "with due regard." I understand the original draft contained the words, "without due regard," and then the language was changed to "with

due regard." My point is this: Take one of the banks I happen to know a little about in Boston, Mass. It has now a reserve and undivided profits of approximately 13 percent. That is its idea of what is a conservative bank. It begins to pay out dividends after that point is reached. As of December 31, 1951, the Commissioner, if the Capehart amendment is accepted, could draw that 13 percent down to 10 percent. In other words, it would penalize the bank to the extent of requiring it to reduce what it has considered a proper reserve or surplus which it has built up over the years.

Mr. GEORGE. Mr. President, the Commissioner could not draw down the reserve; no.

Mr. SALTONSTALL. I did not mean draw down. I mean it would be taxable.

Mr. GEORGE. No; it would not be taxable.

Mr. CAPEHART. It would not be under the amendment. At least that was not the intention; and it would not be.

Mr. GEORGE. The amendment operates only for the future, and the amount would not be taxable. If the bank had a 25-percent reserve, not a penny of it could be touched under this provision.

Mr. SALTONSTALL. I beg pardon. I agree with what the Senator from Georgia has said. I did not make myself clear. Perhaps it was because I was not clear in my own mind. What I meant to say was that on December 31, 1951, in deciding for the future as to what would be a proper reserve for that bank, the fact that it had built up 13 percent would be considered an excessive reserve, or might be considered an excessive reserve, and ultimately that bank would have to pay taxes on the additional 3 percent.

Mr. GEORGE. No, no. The bank would never have to pay any tax on the 3 percent. The sentence means this, I may say to the Senator: Suppose the bank is a new bank, and does not have a cent of reserve, and another bank has 2 percent of reserves, and another bank has 20 percent of reserves. When the Commissioner looked at the first bank he would naturally say, "Well, you need more reserves," and when he looked at the third bank, which had 20 percent reserves, he would say "You need less." But the amendment which the Senator from Indiana offers provides that the reserves can never be below 10 percent of the total accounts or deposits. And as those deposits move up the reserve level, of course, moves up.

Mr. SALTONSTALL. I agree absolutely with what the Senator from Georgia has said. But what I am trying to say to the Senator is that considering a bank as of December 31, 1951, perhaps the Commissioner in his discretion may impose a new condition upon a bank which has, over a period of years, carried reserves of 13 percent.

Mr. GEORGE. I will say that if a bank is in such a fine position, it ought to feel itself to be very fortunate. But it could never be hurt by a tax on a part of that reserve. If deposits increased it could keep on building up the reserve.

Mr. CAPEHART. One of the features of the amendment is that it helps the small growing bank, because it can set up its reserves based upon its deposits. So it encourages the small bank, the growing bank, because its reserve can keep going up each day as its deposits go up.

Mr. FLANDERS. Mr. President, I should like to clear my mind on the parliamentary situation. First, I inquire what is the status of the amendment offered by the Senator from Indiana?

The PRESIDING OFFICER (Mr. HUNT in the chair). It has precedence over the motion to strike out.

Mr. FLANDERS. It is a substitute amendment is it not?

The PRESIDING OFFICER. It is a perfecting amendment.

Mr. FLANDERS. I should next like to know what is the difference between a substitute amendment and a perfecting amendment which completely eliminates the preceding amendment?

Mr. GEORGE. Does the Senator from Illinois wish to call a quorum in connection with the acceptance of this amendment?

Mr. DIRKSEN. I should like to call a quorum before the vote.

Mr. GEORGE. This is simply an amendment perfecting the committee amendment.

Mr. FLANDERS. Then, Mr. President, I make the point of order that the amendment I offered is the question before the Senate.

Mr. GEORGE. The Senator's motion is a motion to strike out. We have a right to perfect the provision.

Mr. FLANDERS. Then my motion is not the motion before the Senate.

Mr. CAPEHART. If my amendment should be agreed to, the Senator from Vermont could still move to strike.

The PRESIDING OFFICER. The question is on agreeing to the amendment of the Senator from Indiana [Mr. CAPEHART] as modified, which is offered as a substitute for the amendment of the Senator from Vermont [Mr. FLANDERS]. [Putting the question.]

Mr. CAPEHART. Mr. President, the able chairman of the committee has accepted my amendment.

Mr. GEORGE. I accepted it insofar as I could.

The PRESIDING OFFICER. The Chair understands; but it is necessary for the Senate to vote on it.

Mr. DIRKSEN. I suggest the absence of a quorum.

The PRESIDING OFFICER. The question is on agreeing to the amendment—

Mr. FLANDERS. I suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The legislative clerk called the roll, and the following Senators answered to their names:

Aiken	Clements	Ellender
Benton	Connally	Ferguson
Brewster	Cordon	Flanders
Butler, Md.	Dirksen	Frear
Butler, Nebr.	Douglas	Fulbright
Cain	Duff	George
Capehart	Dworshak	Gillette
Carlson	Eastland	Hayden
Case	Ecton	Hendrickson

Hennings	Lehman	O'Mahoney
Hickenlooper	Lodge	Robertson
Hill	Long	Russell
Hoey	Magnuson	Saltonstall
Holland	Malone	Schoeppel
Humphrey	Maybank	Smathers
Hunt	McCarran	Smith, Maine
Ives	McCarthy	Smith, N. J.
Jenner	McFarland	Smith, N. C.
Johnson, Colo.	McKellar	Sparkman
Johnson, Tex.	McMahon	Stennis
Johnston, S. C.	Millikin	Thye
Kefauver	Monroney	Underwood
Kem	Morse	Watkins
Kerr	Mundt	Wiley
Kilgore	Murray	Williams
Knowland	Nixon	
Langer	O'Connor	

The PRESIDING OFFICER. A quorum is present.

Mr. MILLIKIN. Mr. President, I should like to have the attention of the distinguished senior Senator from Indiana [Mr. CAPEHART] and the distinguished senior Senator from Georgia [Mr. GEORGE].

A while ago I thought I clarified two points with respect to the meaning of the pending amendment. However, I have received a number of inquiries which make me believe that perhaps I did not clarify it. I wish to do so now.

I invite attention to the opening words of the amendment:

In no case shall the reasonable addition to a reserve for bad debts determined under the preceding sentence be less for any taxable year than 15 percent of the taxpayer's net earnings during such taxable year—

And so forth. I wish to ask this question: Assume that one of these institutions wishes to make an addition to its reserve of 20 percent of its net earnings in a taxable year or 40 percent, 90 percent, or any other percentage. May it do so without obtaining the permission of the Commissioner of Internal Revenue?

Mr. CAPEHART. I would say "No."

Mr. MILLIKIN. Why not?

Mr. CAPEHART. The Commissioner of Internal Revenue, of course, would issue regulations and tell the bank what, under the bill as reported by the Finance Committee, it could do or could not do. In issuing the regulations he would make certain, of course, that they did not go below the floor prescribed in the amendment which I am offering.

Mr. MILLIKIN. Let us put our minds on the floor that we are talking about. I am talking about the 15 percent of net earnings.

Mr. CAPEHART. The Commissioner could not go below 15 percent a year.

Mr. MILLIKIN. Must the permission of the Commissioner of Internal Revenue be received if one of these institutions wishes to make it 20 percent or 30 percent, or any other percent?

Mr. CAPEHART. That is correct.

Mr. MILLIKIN. Such permission must be received?

Mr. CAPEHART. Yes; just as though we were to disregard the Capehart amendment and were to adopt the bill as reported by the Finance Committee; the institutions affected would have to get permission from the Commissioner of Internal Revenue with respect to how much reserve they would or would not be allowed to have.

Mr. MILLIKIN. May I direct the same question to the chairman of the committee?

Mr. GEORGE. My belief is, I will say to the distinguished Senator from Colorado, that they might set aside 20 percent. There could be one possible qualification, and that would be whether or not it would be a reasonable reserve.

Mr. MILLIKIN. The decision of an institution to make it more than 15 percent would be subject to the approval of the Commissioner of Internal Revenue, would it not?

Mr. GEORGE. It might be that he would determine the question of reasonableness if they wished to add more than that. My view originally was—and I am inclined to believe that I was correct—that they might set aside 20 percent, provided the ceiling of 10 percent of the total deposits or accounts was not exceeded. It may be that it would be construed in connection with paragraph (d), to which the amendment would be added, as giving the Commissioner control of the amount of the reserve in excess of 15 percent, and that he might consider it to be an unreasonable and unnecessary reserve. On reflection, I may say, that is true.

Mr. MILLIKIN. Upon what theory, may I ask, would the Bureau of Internal Revenue have the power, since the 10 percent had not been reached, to determine how much a taxpayer's net earnings should be added toward accumulating that 10 percent?

Mr. CAPEHART. Always the institution is entitled to 10 percent of his surplus, undivided profits, and reserves. With respect to whatever reserve is necessary to bring it up to that point the Commissioner would have nothing to say about it. The institution could do it.

Mr. MILLIKIN. It seems to me that we are making a complete switch. Let me put the question to the distinguished Senator again. I am talking only about the 15 percent net earnings provision realizing all the time that the first part of the amendment containing this provision merely provides a mechanism toward reaching the second part—the 10 percent ultimate reserve nontaxable ceiling.

Mr. CAPEHART. In paragraph (d) on page 143 of the bill the Commissioner is given the right to fix the amount of the reserve.

Mr. MILLIKIN. Yes. It must be reasonable.

Mr. CAPEHART. It is left entirely up to him. The bill states that it must be reasonable. That is one restriction that is put on him. All we do with our amendment is to say to him, "You cannot set it below 15 percent."

Mr. WILLIAMS. Why do we give him that privilege in the build-up toward the 10 percent? Why not let the bank put as much as it wants to put into its reserves as fast as it wants to do so? Once it reaches 10 percent it cannot go any further. It might be highly important for the bank to reach the 10-percent reserve as rapidly as possible.

Mr. CAPEHART. It could do so under the amendment I have offered.

Mr. MILLIKIN. If it gets the Commissioner's consent, according to the latest interpretation of the amendment.

Mr. CAPEHART. All we are endeavoring to do in this amendment is to put

a floor below which the Commissioner cannot go in the regulation he issues; that is all; no more and no less. We are saying to him that he cannot ever set a floor below 10 percent of an institution's surplus, undivided profits, and reserves, and that if he is going to set it on a percentage basis of their gross earnings, he can never set it below 15 percent.

Mr. MILLIKIN. Let me call this matter to the attention of the Senator from Indiana. A new institution must build up its reserve position as rapidly as possible.

Mr. CAPEHART. Yes.

Mr. MILLIKIN. Fifteen percent may be a very low level with which to accomplish this build-up. The institution itself may conclude that it should build it up in 1 year or 2 years.

Mr. CAPEHART. Yes.

Mr. MILLIKIN. And devote every penny of its net earnings to the building up of the 10-percent reserve.

Mr. CAPEHART. If I understand correctly, the bill which came from the committee provides that the Commissioner can permit them to do so if he wants to give such permission. All the amendment would do would be to put a floor under the percentage.

Mr. MILLIKIN. Why permit the Commissioner to decide the question?

Mr. CAPEHART. It was done in committee.

Mr. MILLIKIN. I did not do it. I am talking about the amendment which is now before the Senate, not something the Committee on Finance did.

Mr. CAPEHART. I am talking only about what my amendment would do. It would correct what I believe should be corrected in the committee bill.

Mr. MILLIKIN. I believe the amendment is infinitely better than the theory of the committee bill. However, I do not believe it is as good as it should be, because it does not give a new institution, for example, the opportunity to make a quick build-up of its necessary reserve without getting the permission of the Commissioner. I am perfectly willing to leave it in his discretion to permit an enlargement of the reserve after it gets to 10 percent. I am perfectly willing to allow that to be within the Commissioner's field of discretion, but I am unwilling to allow him to have discretion to limit the speed of the build-up.

Mr. CAPEHART. The committee bill leaves it entirely in the discretion of the Commissioner.

Mr. MILLIKIN. That is wrong, too.

Mr. CAPEHART. We are trying to put some floor under the percentage.

Mr. LEHMAN. Mr. President, will the Senator yield?

Mr. CAPEHART. Yes.

The PRESIDING OFFICER (Mr. HUNT in the chair.) The Senate will be in order. The Chair requests Senators who must converse to please leave the Chamber. Senators will please take their seats. There are many Senators on the floor this afternoon. The Senate will be in order. The Chair suggests to the occupants of the galleries that they, too, be in order.

Mr. LEHMAN. Mr. President, as I listened to the colloquy I gained the impression of how futile it is to attempt to write banking legislation on the floor of the Senate. We have a situation in which three Senators participated in colloquy, namely, the distinguished chairman of the Committee on Finance, who undoubtedly knows more about taxation than any other Member of the Senate; the sponsor of the amendment, who I know has sought to be helpful; and the Senator from Colorado, who by common consent is an able and intelligent Member of this body. Yet we were unable to establish what the amendment would or would not do.

It would seem to me that it is folly to attempt to write legislation on the floor of the Senate in this manner.

Therefore, I renew the suggestion made by my distinguished colleague, the senior Senator from New York [Mr. Ives] and myself that section 313 be eliminated from the bill pending further hearings and further study by the Committee on Finance, in which the superintendents of banks of the various States interested in the legislation could participate and inform the committee with regard to the conditions affecting their States, and could make such suggestions as would be of general interest to all the people of the country.

This section of the bill affects probably 50,000,000, 60,000,000, or 70,000,000 people, who have savings in the mutual banks and in loan associations. We must not do anything which would discourage them from saving. It is equally important that we do not do anything which would place their savings in serious jeopardy, as we might do if we passed an ill-considered and ill-advised bill.

Mr. MILLIKIN. In my opinion there is a great deal to what the distinguished Senator has said.

It has been my own hope that we could arrive at something which would not allow the profits of these institutions which are in excess of the amount needed to protect their security to be exempt from taxation; I hoped that they would be subjected to taxation, and I believe we should not allow them to be free from that kind of taxation.

On the other hand, I believe the version of the bill proposed by the committee does not give these institutions sufficient protection.

If we can find out what the pending amendment means, I believe it will turn out to be better than either the committee version of the bill or a motion to strike out the entire matter.

I thought I understood what the amendment meant, and I felt lifted and encouraged that at least we had something which was constructive.

So far as I am concerned, I shall vote against the amendment for the reason I have stated, to wit, that in building up to a 10-percent reserve, which must of necessity be built up in order to protect the security of the institution, I am unwilling to have that matter determined according to the decision of the Bureau of Internal Revenue. I believe that should be the decision of the bank itself.

So far as revenue is concerned, the question of whether that is the decision of the bank or is not the decision of the bank is not a particularly important matter. What is important is the matter of principle; namely, whether the Commissioner is better able to determine how fast the reserves of that institution should be built up within the limits of the law than is the institution itself.

Mr. CAPEHART. Mr. President—

The PRESIDING OFFICER (Mr. HUNT in the chair). The Senator from Indiana has the floor.

Mr. CAPEHART. Mr. President, the Senator from Colorado is attacking the committee version of the bill, rather than my amendment, because my amendment places a floor or gives the Commissioner certain directions as to what he shall do and what he shall not do, whereas the committee version of the bill leaves the matter entirely to the discretion of the Commissioner.

How the Senator from Colorado can decide to vote against the Capehart amendment and not to vote against this entire section in the committee version of the bill is something which I cannot understand.

Mr. MILLIKIN. Mr. President, if the Senator from Indiana will yield further, let me say that I have just stated why I shall vote against the Capehart amendment. If that amendment is rejected and if I have no alternative but to have the section proposed by the Finance Committee either stricken out or remain in the bill, I shall vote to have it stricken out.

Mr. FERGUSON. Mr. President, if the Senator from Indiana will yield to me—

Mr. CAPEHART. I yield.

Mr. FERGUSON. I should like to ask the Senator from Indiana whether he will modify his amendment so as to cover the proposal just made by the Senator from Colorado. It appears to me that that would be a reasonable provision, namely, that in accumulating the 10-percent reserve, the judgment of the bank should be supreme, but that provision could be made that under no circumstances could the Commissioner require more than 15 percent to be taken out for reserve purposes until the 10-percent reserve figure was reached, as the case might be.

It seems to me that the addition of a few words to the amendment, in such a way as to permit the first 10 percent to be accumulated at the discretion of the bank, would cover the situation.

Is not that the Senator's proposal?

Mr. MILLIKIN. Mr. President, if the Senator from Indiana will yield to me—

Mr. CAPEHART. I yield.

Mr. MILLIKIN. Let me say that I do not see why it cannot be done, and I think it should be done.

Mr. FERGUSON. Mr. President, let me ask the Senator from Indiana whether he will accept that modification of his amendment.

Mr. CAPEHART. Mr. President, I am not going to accept the modification now proposed because I am not the expert on this matter. The able Senator from

Georgia [Mr. GEORGE] is chairman of the committee, and he will be one of the conferees. I am only trying to be helpful and to get the Senate to adopt a provision which will protect the institutions which are affected and will allow them to have sufficient reserves so that they never will get into trouble, and at the same time to see that they do not—

Mr. FERGUSON. Mr. President, the Senator from Indiana has a right to modify his own amendment, of course.

Mr. CAPEHART. I should like, first, to obtain the opinion of the able Senator from Georgia.

Mr. FERGUSON. Mr. President, if the Senator from Indiana will yield to me at this time—

Mr. CAPEHART. I yield.

Mr. FERGUSON. I should like to ask the chairman of the committee whether, if the amendment is modified in the way suggested by the Senator from Colorado, so as to allow the 10-percent reserve to be accumulated at the discretion of the bank, regardless of whether that is done in 1 year or 2 years or in whatever period the bank might see fit to do it, the Senator from Georgia will accept the amendment as thus modified.

Mr. GEORGE. Mr. President, will the Senator from Indiana yield to me?

Mr. CAPEHART. I yield.

Mr. GEORGE. At first I thought that was a necessary and proper construction of the amendment.

Mr. FERGUSON. I thought so, too.

Mr. GEORGE. But upon further reflection, I doubt the accuracy of my earlier conclusion as to the correctness of that construction.

Under the language of the amendment as it now stands, if the amount deducted in any 1 year for the reserves is more than 15 percent, the deduction must be a reasonable one.

However, I would have no objection to a modification of the amendment which would result in taking this matter to conference, let me say to the Senator from Colorado, who I believe raised this issue.

If it is agreeable to the Senator from Indiana, I would have no objection to a modification of the amendment by the Senator from Indiana in such a way as clearly to result in taking that question to conference.

I think the matter might easily be handled by saying:

In no case shall the reasonable addition to the reserve for bad debts, determined under the preceding sentence, be less for any taxable year than 15 percent, but may be more.

In other words, not less than 15 percent, but it could be more than that.

Then there is what in effect is a proviso:

Provided, That such addition to the reserve shall not carry the total reserves above 10 percent of the accounts and deposits.

Mr. CAPEHART. Mr. President, I would be glad to accept that modification of the amendment.

Mr. FERGUSON. Mr. President, does not the Senator feel that perhaps more should be allowed, in the discretion of the institution?

Mr. GEORGE. The amount can be modified now, if at all, in the discretion of the institution; and that is what the Senator wishes to get away from.

I merely make the suggestion, and I would be willing to take such an amendment to conference.

Mr. CAPEHART. Mr. President, I accept that modification of my amendment.

Mr. KERR. Mr. President, I should like to know, what the distinguished chairman of the committee is proposing. I take it that he is not saying that he would accept an amendment which would leave it optional with the taxpayer as to whether he would pay any taxes.

Mr. GEORGE. Oh, no; not at all; but I am saying that I would be willing to take to conference an amendment which would preserve this question for the conference.

Mr. KERR. I should like to ask a question at this point: If the amendment as now written is taken to conference, will not it put the matter in its entirety into conference, in view of the fact that there is no provision of that sort at all in the House version of the bill?

Mr. GEORGE. Oh, it will be in conference, of course; but at the same time I think the Senator from Colorado has in mind a situation which seems to me to possess certain merit, to wit, in the event there is a newly organized building and loan association, and if that association is earning, let us say, 30 percent or 40 percent each year or during the first 2 or 3 years of its life, it might wish to build up its reserves toward the 10 percent final reserve which it can maintain, at a little more rapid rate than 15 percent of its earnings a year.

Mr. KERR. Is the Senator aware of the fact that not a single State in the Union makes any such liberal provision with reference to any commercial bank, savings bank, or building and loan association?

Mr. GEORGE. I think that may be true, but we are now providing for a floor beneath which the Commissioner may not go. We are saying that if the taxpayer wishes to take 15 percent out of his earnings and put it in reserve, he may do so.

Mr. KERR. As I understood the Senator from Colorado, his suggestion was that the language be amended to permit the taxpayer to reserve all of his earnings, without any portion of it being subject to tax, until such time as it amounted to 10 percent of his deposits, or accounts, without regard to what the Commissioner thought, without regard to what the Capehart amendment provided, and without regard to what the committee bill provided. Is not that correct, I ask the Senator from Colorado?

Mr. MILLIKIN. That is entirely correct. I repeat, that is entirely correct.

Mr. KERR. Then, if I correctly understand it would mean—

Mr. MILLIKIN. Wait a minute. I have the floor, and I have not yielded it. The Senator from Oklahoma asked me a question, and I have not yet answered it.

Mr. KERR. I thought the Senator had answered when he said it was entirely correct.

Mr. MILLIKIN. I repeat, it is entirely correct, because I want the institution to have the power, without the blessing of the revenue authorities, to build up to the 10 percent if they want to build up to the 10 percent, and then, when they build up to the 10 percent, I want them taxable, unless at that time, for the first time, the revenue authorities use discretion by saying, "We will or we will not let you build up more, because of the particular situation of your institution."

Mr. KERR. I call the Senator's attention to the fact that that would mean in many cases that the taxpayer would, for an unlimited period of time, be wholly exempt from taxation, and I know of no other creature under the law, not even the rural co-ops, whose exemptions approach anywhere near or approximate such a provision. I would hope the chairman of the committee would not accept such an amendment.

Mr. MILLIKIN. The taxpayer will be exempt to the extent of 15 percent under the amendment, if that is a limitation. What difference does it make, if he is exempted as to any other percent, so long as we have the ceiling which in effect says, "When you reach this point, and when you exceed it, you shall pay taxes"?

Mr. KERR. I call the attention of the distinguished Senator from Colorado to the fact that even his own State exempts 5 percent of the net earnings semiannually, which means 10 percent annually, until the reserve equals 10 percent of the invested capital.

Mr. MILLIKIN. Yes. Well, what point does the Senator make of that? I want these institutions in my State to be able to get up to 10 as fast as rapidly as possible.

Mr. KERR. There would be nothing to prevent it from keeping its balance after it had paid taxes, to build up its reserve as fast as it could.

Mr. MILLIKIN. I do not want it to pay taxes until it has reached the 10-percent reserve. That is the point.

Mr. KERR. That is the way I understood the Senator. I would hope the committee would not accept any such amendment.

Mr. IVES. Mr. President, will the Senator yield?

Mr. MILLIKIN. I yield to the Senator from New York.

Mr. IVES. Is the Senator from Colorado satisfied that the 10-percent limitation is proper for every section of the country?

Mr. MILLIKIN. No; it is not proper for every section of the country. If I had my way about it, since we have to write a general Federal law, I would make it higher than 10.

Mr. IVES. That is exactly the point.

Mr. MILLIKIN. If I thought it were a feasible thing to do, I would propose that it be higher than 10; but since 10 is in New York, and since 10 is in Massachusetts, 10 is a figure which will draw a certain amount of support, whereas a higher figure for the time being would not.

Mr. IVES. I may point out to the Senator one thing which I have emphasized several times today. I do not think the Senator was in the Chamber when I was emphasizing it. It is that New York is trying to get into a position where we can step up the 10-percent limitation which is now in effect to a higher figure. That is why we are encouraging savings banks particularly to set up extra reserves, so that that law can be passed as soon as it may be possible to do so. A provision of this kind would completely prevent our going ahead.

Mr. MILLIKIN. I should like to say, then, that under the Capehart amendment—

Mr. IVES. That would, too.

Mr. MILLIKIN. Under the Capehart amendment there will be authority in the Commissioner of Internal Revenue to permit them to go above 10 percent. Personally, I have no appetite for that kind of authority anywhere along the line.

Mr. IVES. I am not very certain of it.

Mr. MILLIKIN. But I am quite sure that under the Capehart amendment the Commissioner could give authority to build up more than 10.

Mr. IVES. Does not the Senator from Colorado feel that if we are to have a limitation of this kind, it should be written into the law, and not left to administrative determination?

Mr. MILLIKIN. I do not think any ceiling would be so impeccable that there ought not to be some exceptions to it. Once we have the best ceiling that we can evolve, I am willing to allow some discretion in the Bureau to establish a higher ceiling in order to preserve the security of the bank.

Mr. IVES. But the Senator would leave that to the Bureau of Internal Revenue rather than to the authorities in the banking field within the States, which are dealing directly with this question.

Mr. MILLIKIN. I must agree with the theory which has been advanced in the Senate today, that in Federal legislation we cannot allow the States to determine whether a tax shall be paid.

Mr. LEHMAN. Mr. President, will the Senator yield?

Mr. MILLIKIN. I yield to the Senator from New York.

Mr. LEHMAN. After listening to the colloquy, while I know the fine purpose and intent behind the amendment proposed by the Senator from Indiana, I very much hope it will not be accepted and will not prevail, but I trust that the amendment proposed by the Senator from Vermont striking out section 313 will prevail. I am willing to say that as between the Capehart amendment and the present wording of the bill contained in section 313, I should prefer the wording which now exists in that section, for the reasons I shall state.

The colloquy which has been carried on, and the explanation made by the distinguished Senator from Georgia, are very confusing. The amendment fixes a floor of 10 percent, but that floor almost inevitably becomes a ceiling of 10 percent. The 15 percent of the net earn-

ings referred to in the amendment of the Senator from Indiana, according to the explanation made by the Senator from Georgia, can be used only to build a reserve up to 10 percent, but cannot be used beyond that, without subjecting itself to corporate taxation.

Mr. CAPEHART. Mr. President, will the Senator yield?

Mr. LEHMAN. May I first finish my thought? I shall yield in a minute.

Mr. CAPEHART. Very well. I want to keep the record straight.

Mr. LEHMAN. I shall yield in a moment, of course. I feel that I should rather, so far as New York is concerned—and I think it probably would apply to States such as Massachusetts, and possibly others—refer the matter to the discretion of an official who would not be bound by a 10-percent floor and ceiling; and I again want to emphasize that the floor would become a ceiling. The Commissioner of Internal Revenue would refer to the bill, including the Capehart amendment, he would refer to the RECORD, and would say, "Well, it was the intention of the Senate to hold this reserve down to 10 percent." There are banks which in their discretion have built a reserve up to 13, 14, or 15 percent and, certainly in the event that a bank had a reserve today of say 13 percent, if we should run into 2 or 3 years of bad depression, and if that reserve should be reduced to 9, 8, or 7 percent, according to what has been said on the floor this afternoon I think the Commissioner of Revenue would say, "You cannot build it up again beyond 10 percent," even though those responsible for the conduct of the bank and the safety of deposits would feel that a reserve above 10 percent was justified.

So far as I am concerned, while I very much hope that the amendment of the Senator from Vermont will prevail, if it does not, I would much rather have the existing language of section 313 than the language suggested by the Senator from Indiana.

Mr. CAIN. Mr. President, will the Senator from Colorado yield?

Mr. MILLIKIN. I yield.

Mr. CAIN. The Senator from New York, if I understood him correctly, has indicated that both New York and Massachusetts require a 10-percent reserve—

Mr. LEHMAN. May I correct that statement?

Mr. CAIN. Certainly, sir.

Mr. LEHMAN. New York requires a 10 percent reserve, but, in addition, requires a 5 percent reserve on mortgages.

Mr. CAIN. The Senator from New York has further stated that if he must make a choice between the committee amendment and the Capehart amendment, he would prefer the committee provision. I wonder if it would be reasonable for anyone representing any State other than New York or Massachusetts to make such a choice. It seems to me that on the basis of a choice the Capehart amendment is infinitely to be preferred to the committee version.

Mr. LEHMAN. The Senator from New York is not able to answer that

question, because he does not know what the statutory requirements in other States are, nor the condition of the reserves.

Mr. SALTONSTALL. Mr. President, will the Senator from Colorado yield?

Mr. MILLIKIN. I yield.

Mr. SALTONSTALL. I would say, as coming from Massachusetts, where the reserves are higher, that the danger is that the Commissioner of Internal Revenue, in the interest of getting as much tax as he could, would necessarily consider 10 percent a ceiling rather than a floor. I would not go so far as did the junior Senator from New York in saying that I prefer the language in the amendment to the language in the bill as it stands, because I do not want to leave all discretion to the Commissioner of Internal Revenue, but I do not like the provision for the reasons which I have stated.

Mr. CAIN. I take it, then, that the Senator from Massachusetts would be strongly in support of the Capehart amendment were it to permit a reserve percentage higher than 10 percent?

Mr. SALTONSTALL. I would; or a reserve for bad debts.

Mr. IVES. Mr. President, will the Senator from Colorado yield?

Mr. MILLIKIN. I yield.

Mr. IVES. Since the reserve rates of New York have been brought into the discussion, I should like to point out the fact that in New York State, under the law, 10 percent is required on deposits. There is an additional 10 percent on conventional mortgages, 5 percent of VA mortgages, and an additional 5 percent on RFC mortgages is being requested. So that with the present requirements and the request of the State superintendent of banking it comes somewhere near 17 percent. That is about what it amounts to.

Mr. MILLIKIN. Mr. President, I should like to have the attention, if I may, of the distinguished senior Senator from Indiana [Mr. CAPEHART]. Taking his amendment down to the fourth line of the second full paragraph, I would suggest at that point putting in the following language: "but an excess of such 15 percent amount shall be allowable if it is determined by the institution that an additional amount is necessary to require an adequate reserve."

Would that language be acceptable to the Senator?

Mr. CAPEHART. Mr. President, I accept that modification of my amendment.

SEVERAL SENATORS. Vote! Vote!

Mr. ROBERTSON. Mr. President—

The PRESIDING OFFICER. The Senator from Virginia.

Mr. ROBERTSON. Mr. President, I wish to make a unanimous-consent request. Next week we shall have before us another Capehart amendment which, in some respects, is more complicated and technical than is this one. It deals with price fixing. I ask unanimous consent that there be inserted, after the debate on this Capehart amendment—

Mr. MILLIKIN. Mr. President, I did not yield for this purpose. This is dragging in something entirely extraneous.

Mr. ROBERTSON. The Senator from Virginia did not know that the Senator from Colorado had the floor. I thought he was asking for a vote.

Mr. MILLIKIN. I was not asking for a vote. I beg the Senator's pardon. I believe I am in possession of the floor. I shall be glad to yield for any purpose having to do with the pending bill, so far as I may be permitted to do so.

Mr. KERR. Mr. President, I thought the Presiding Officer recognized the Senator from Virginia.

The PRESIDING OFFICER. The Chair thought the Senator from Colorado had yielded the floor, and he recognized the Senator from Virginia.

Mr. ROBERTSON. That was my understanding. Several Senators said "Vote! Vote!" The Senator from Virginia asked recognition and the Chair recognized him. Then the Senator from Colorado said, "I do not yield."

Mr. MILLIKIN. Mr. President, I want the distinguished Senator from Virginia to know that I intended no discourtesy at all. It gives me pleasure to yield to the distinguished Senator if he has anything to say about the pending amendment; and, in order that he may have an opportunity to say what he wants to say, I shall yield the floor, and he may have his opportunity on his own time.

Mr. DIRKSEN. Mr. President, will the Senator from Colorado first yield to me in order that I may make a parliamentary inquiry?

Mr. MILLIKIN. I yield.

The PRESIDING OFFICER. The Senator will state his parliamentary inquiry.

Mr. DIRKSEN. I understood there was a motion to strike section 313 and then an amendment by the Senator from Indiana [Mr. CAPEHART] to perfect that section. It was my understanding that an amendment to the perfecting amendment of the Senator from Indiana was going to be submitted, and I was wondering if it had been submitted.

Mr. CAPEHART. Mr. President, I accepted a modification offered by the able Senator from Colorado, which he read.

Mr. DIRKSEN. Mr. President, I ask that the Capehart amendment, as modified, now be stated to the Senate.

The PRESIDING OFFICER. Does the Senator from Colorado yield for that purpose?

Mr. MILLIKIN. I yield.

The LEGISLATIVE CLERK. On page 143, line 14, after the period, it is proposed to insert the following:

In no case shall the reasonable addition to a reserve for bad debts determined under the preceding sentence be less for any taxable year than 15 percent of the taxpayer's net earnings during such taxable year (computed without the deduction of such addition to reserves), but an excess of such 15-percent amount shall be allowable if it is determined by the institution that an additional amount is necessary to require an adequate reserve, except that such an addition to a reserve shall not be deductible under this sentence if the total amount of the taxpayer's surplus, undivided profits, and reserves (computed without the amount of the addition) equals or exceeds 10 percent of the taxpayer's total deposits or accounts on the last day of its taxable year.

Mr. ROBERTSON. Mr. President, will the Senator from Colorado yield?

Mr. MILLIKIN. I yield.

Mr. ROBERTSON. Will the distinguished Senator from Colorado inform the Senator from Virginia in what respect the Capehart amendment, as amended by the Senator from Colorado, is better for the Virginia building and loan associations than the committee amendment, as amended.

Mr. MILLIKIN. I disclaim responsibility for the committee amendment. I am willing to answer questions about the Capehart amendment.

Mr. ROBERTSON. The Senator is asking me to take a chance between the Capehart amendment, as amended by the Millikin amendment, and the committee amendment, as amended. Will the Senator tell me which will be better for the Virginia building and loan associations?

Mr. MILLIKIN. I did not know whether the Senator from Virginia was asking the question jocularly or seriously. My objection to the committee amendment is that, in my opinion, it does not give sufficient protection to these institutions in maintaining reserves necessary for their security. As far as I know, that is true in Virginia as it is elsewhere, in my opinion. The Capehart amendment, as proposed to be amended, will give the institutions a definite right to build up to a 10-percent reserve without having to pay taxes on the build-up, and they do not pay taxes as long as they hold themselves within the 10 percent; but thereafter, if they try to go beyond that, they pay taxes, as in my opinion they should. I said a while ago that personally, if I could do exactly as I pleased, I would make the figure higher than 10 percent. I hope that ultimately it will be higher than 10 percent, but there are certain practical problems around here, and in the end no good theory has any virtue unless it can attract votes.

Mr. HOLLAND. Mr. President, will the Senator yield for a question?

Mr. MILLIKIN. I yield.

Mr. HOLLAND. Is the Senator from Florida correct in his understanding that the Capehart amendment, so-called, as now modified by the wording inserted by the distinguished Senator from Colorado, does not prescribe any brake on the rates of increase of the reserves, but does fix the limit of the reserves at 10 percent of the total deposits or accounts?

Mr. MILLIKIN. That is exactly what it does, according to my understanding. And it permits the institution, in its discretion, such amounts as it wants to set aside year by year out of its net earnings to build up to 10 percent without taxation.

Mr. CASE. Mr. President, will the Senator yield?

Mr. MILLIKIN. I yield.

Mr. CASE. Is it not true that the effect of the amendment, as the Senator now suggests, is the same as saying that no addition to the reserves shall be taxable until the reserves exceed 10 percent of the taxpayer's total deposit or accounts on the last day of the taxable year?

Mr. MILLIKIN. Offhand, I think it goes to much the same thing, but we have definite language before us, and I would suggest that we not further complicate the matter.

Mr. SALTONSTALL. Mr. President, will the Senator yield?

Mr. MILLIKIN. I yield.

Mr. SALTONSTALL. I should like to ask a question of the Senator from Georgia, with the consent of the Senator from Colorado. I should like to ask the Senator from Georgia this question: The matter discussed between us in a conversation at the Senator's desk a few minutes ago, and I should appreciate it if he would put the remarks he made to me in the RECORD. I ask him with relation to the words "with due regard" in line 12 on page 143 of the bill, whether or not the word "with" should not be changed to "without," so it would read "without due regard"? The distinguished Senator from Georgia stated to me that the committee considered that the word "with" was better than the word "without." The Senator from Georgia also stated that this matter would be in conference, and that he would be very glad to discuss the question whether the word should be "without" rather than "with." It makes considerable difference, as I understand, to some of the banks in my State.

Mr. GEORGE. It will go to conference, and as I stated to the Senator I certainly shall be glad to review it and study that particular situation.

Mr. FLANDERS. Mr. President—

Mr. MILLIKIN. Mr. President, I yield to the Senator from Vermont.

Mr. FLANDERS. Mr. President, I seek the floor.

Mr. MILLIKIN. I yield the floor.

The PRESIDING OFFICER (Mr. SMATHERS in the chair). The Chair recognizes the Senator from Vermont.

Mr. FLANDERS. Mr. President, there is a possible amendment to the amendment of the Senator from Indiana which I would feel to be so satisfactory that it would be acceptable to me and that I would not feel it necessary to press further with my amendment to lift out section 313. I read this amendment, and then I shall send it to the desk. I propose to amend the Capehart amendment by adding at the end thereof these words:

Such addition to reserves shall include, but shall not be limited to, all reserves required to be established or maintained by any State or by any State or Federal banking authority.

The PRESIDING OFFICER. The Chair rules that the amendment offered by the Senator from Vermont is not in order.

Mr. FLANDERS. May I inquire as to the basis for that decision?

The PRESIDING OFFICER. It is an amendment in the third degree.

Mr. FLANDERS. I did not get the basis of the ruling. I had understood that under the agreement, amendments to amendments were in order in spite of the fact that originally the committee amendments were agreed to bloc.

The PRESIDING OFFICER. The Chair is advised that the understanding

of the Senator from Vermont is not correct, and that his amendment is, at this time, out of order.

Mr. FLANDERS. I still do not understand on what basis it is ruled to be out of order. It is an amendment to an amendment, and the announcement was that amendments to amendments were allowable, in spite of the fact that the committee amendments were agreed to en bloc.

Mr. KNOWLAND. Mr. President, a parliamentary inquiry.

The PRESIDING OFFICER. The Senator will state it.

Mr. KNOWLAND. Is it not a fact that the Senator from Indiana in accepting the so-called Millikin amendment was in effect modifying his own amendment, and would not the Senator from Indiana, if he were so inclined, under the rules of the Senate be permitted to modify his amendment along the line suggested by the Senator from Vermont, without it being out of order?

The PRESIDING OFFICER. The Senator from California is correct.

Mr. FLANDERS. I still would like to be informed as to why an amendment to one kind of an amendment is ruled out of order when it is my understanding that amendments to amendments in general are in order.

Mr. LONG. Mr. President, a parliamentary inquiry.

The PRESIDING OFFICER. Just a moment. The committee amendment is in the first degree. The amendment offered by the Senator from Indiana is in the second degree. Therefore, the amendment proposed by the Senator from Vermont would be in the third degree, and, therefore, not in order.

Mr. FLANDERS. I should like to interrogate the Senator from Georgia as to whether that is in accordance with the agreement under which we agreed to the committee amendments en bloc?

Mr. LONG. Mr. President, a parliamentary inquiry.

Mr. FLANDERS. Did we not agree that if we voted on the committee amendments en bloc they were to be considered as though they were a part of the bill itself; so my amendment would be a second degree amendment?

Mr. GEORGE. I do not think that was the effect of the agreement. It seems to me the Senator's amendment is clearly one in the third degree. That was the Chair's ruling, as I understood it.

The PRESIDING OFFICER. The Chair so rules.

Mr. LONG. Mr. President, a parliamentary inquiry.

The PRESIDING OFFICER. The Senator will state it.

Mr. LONG. Would it not be in order, if the Capehart amendment is agreed to, for the Senator from Vermont then to move the adoption of the language he now proposes?

The PRESIDING OFFICER. The Senator from Louisiana is correct.

Mr. KERR. Mr. President—

The PRESIDING OFFICER. The Senator from Oklahoma is recognized.

Mr. KERR. Mr. President, I should like to address myself to what I believe to be the meaning of the Millikin

amendment to the Capehart amendment. I should like to say to the Senator from Vermont that I see no reason for any further desire to amend it, if it is accepted, because it leaves it up to the taxpayer himself as to what part of his earnings shall go tax-free into his reserve account, until the reserve account reaches 10 percent of the total of the deposits and assets of the taxpayer. Then, as I understand the meaning of the original language of the committee bill, the Commissioner of Internal Revenue would have discretion to allow still further additions to the reserve, which would be tax-free. Before the Capehart amendment is agreed to, I should like to call a few facts to the attention of Senators, and then ask a question or two.

First, the mutual savings banks in our country today have a capital structure which is equal to \$1 for each \$9 in deposits. Second, the commercial banks in our country have a capital structure of only \$1 to \$13 of deposits. In other words, under the tax-exempt provisions of the law as it now exists, and has existed for many years, the mutual savings banks have already built a surplus and undivided profits account which is considerably higher, on a percentage basis, with reference to their deposits, than is the case of the commercial banks.

In addition, Mr. President, aside from that surplus and undivided profits account, between 50 and 55 percent of all the assets of these banks is invested in Government bonds. I should think that that in itself would be a reserve.

Furthermore, a very high percentage of their remaining assets is invested in Government-insured loans.

So actually, as of today, the savings banks have an over-all average reserve in surplus and undivided profits of between 11 and 13 percent of their total deposits. Besides, a very high percentage of their remaining assets is invested in Government bonds and Government-insured loans.

The distinguished Senators from New York have taken the position that this is bad legislation because it violates the principle of the laws of their State. I do not so understand the laws of their State. As I understand, under the laws of their State the savings banks are required to add 10 percent of their earnings to their reserves until their reserves equal 10 percent of their deposits.

Mr. IVES. Mr. President, will the Senator yield?

Mr. KERR. I yield to the Senator from New York.

Mr. IVES. The Senator from New York would like to have it definitely understood that the reason why he considers this to be bad legislation is not that it is in contradiction or violation of any law of the State of New York. The reason the Senator from New York feels that it is bad legislation is that very definitely it contravenes all the principles upon which the savings banking processes have been carried on in the State of New York, and I dare say in most other sections of the country, over the years. I should like to point out—

Mr. KERR. Mr. President, I yielded for a question.

Mr. IVES. The Senator may have yielded for a question, but I understood that he yielded.

Mr. KERR. I yielded for a question, but I understand that the Senator is making a speech.

Mr. IVES. The Senator from New York is trying to clear up the Senator from Oklahoma on this matter.

Mr. KERR. The Senator from Oklahoma will undertake that responsibility. I do not yield for other than a question.

Mr. LEHMAN. Mr. President, will the Senator yield?

Mr. KERR. I yield for a question.

Mr. LEHMAN. My recollection is that the Senator from Oklahoma said he would like to ask the two Senators from New York why something happened—

Mr. KERR. Not at all. The Senator from Oklahoma is perfectly capable of asking the Senator from New York a question. What the Senator from Oklahoma was trying to do was to give some information to the Senate, including the Senators from New York.

Mr. IVES. The Senators from New York were merely trying to clear up the Senator from Oklahoma.

Mr. KERR. With reference to the purpose in creating these banks, I say that the purpose was not to create a creature that would be free and exempt from taxation. I want to ask Senators a rhetorical question. For whose benefit are these reserves accumulated. Under any interpretation of the law as I know it, they must be accumulated either for the benefit of the stockholders or the depositors. Under the practice of the savings banks, the accumulated earnings are not available to depositors until the liquidation of a bank.

I do not believe it is germane to this issue for Senators to argue that an additional reserve should be built up for the benefit of the depositors, because the depositors do not get the reserves. The only way the depositors can get the reserves is for the bank to be liquidated. And, Mr. President, tax-exempt financial institutions do not liquidate.

In the case of the building and loan associations, the reserve is for the benefit of the stockholders. What stockholder would not want to have a provision in the Federal law that his institution should be the judge of how much of its earnings shall be tax-exempt, until it accumulates as a reserve an amount equal to 10 percent of its total assets? No wonder the savings banks have increased nearly 100 percent in 5 or 6 or 7 years. If we continue to give them an exemption of their earnings at their discretion, until their surplus is 10 percent of whatever their present or increased deposits may be, we shall have a magnet which will draw all the money out of the commercial banks into an institution which has a blanket exemption or freedom from taxation at the discretion of the institution itself, until its reserves equal and continue to remain equal to 10 percent of the amount of its expanding deposits.

Mr. President, I know of a building and loan association with \$150,000 cap-

ital. Inquiry was made about getting a little stock in that institution. The answer was received that "stock is available in this institution at its book value of \$3,500,000." I looked into the situation to see how a corporation with \$150,000 of capital could have a book value of three and a half million dollars, and I found that it had been accumulating tax-free reserves. No commercial bank in the country can compete with that sort of an institution. My heart is not crying for the commercial banks, but I am aware of the fact that they have to pay taxes.

I have heard Senators talk about the poor little savings and loan associations, the blessed little building and loan associations, and the little mutual savings banks. That is marvelous; but I call attention to the fact that in 1950 they made more than a quarter of a billion dollars, after all expenses, after the provision of all required reserves, and after all interest and dividends had been paid.

Mr. FLANDERS. Mr. President, will the Senator yield?

Mr. KERR. I yield for a question.

Mr. FLANDERS. For a question. Does the Senator from Oklahoma make no distinction between a business organized for profit, on the one hand, and a fiduciary institution, on the other hand, which, because of the service it renders to the small investor and small depositor, has grown to a size commensurate with its service?

Mr. KERR. There is no attitude on the part of the Senator from Oklahoma, and there is no provision in the committee bill, which would tax a single penny of what the savings banks would earn, so long as they paid it out only to their depositors in the form of interest.

Mr. HOLLAND. Mr. President, will the Senator yield?

Mr. KERR. Therein lies their fiduciary relationship. As they exercise the fiduciary relationship, there is no tax on their earnings to any extent. They can pay 100 percent of their earnings in the form of interest and additional dividends to their depositors, and they are free and exempt from any taxation.

However, I contend, Mr. President, that when they pay their depositors only a limited percent of their earnings in the form of interest, and place the residue in reserves which the depositors cannot touch—they could all come forward together and seek it, but they could not get the money in the reserves—

Mr. FLANDERS. Mr. President, will the Senator yield?

Mr. KERR. I have the floor; and a short time ago I saw how the floor was kept.

I invite the attention of the Senate to the fact that deposits in these banks, as well as other banks, are guaranteed by an institution which has been set up by the Federal Government. Each deposit is insured up to \$10,000.

As I started to say, when one of these institutions quits funneling out its earnings to the depositors and funnels them into a tax-exempt reserve, it is no longer a fiduciary operation for the depositors. The depositors cannot touch that money.

Mr. FLANDERS. Mr. President, will the Senator yield?

Mr. KERR. I yield first to the Senator from Florida.

Mr. HOLLAND. Mr. President, I have always known that the great State represented by the Senator from Oklahoma produced wonderful things, including its fine Senators, but after hearing about the building and loan association which he has mentioned, I believe we have found something new in which the State of Oklahoma has attained greatness. My question is addressed to the particular association which the Senator has mentioned. Would not the passage of the pending bill, containing the amendment now before the Senate, subject that particular association, after the first year, to full taxation, in the same manner that a commercial banking company would be subjected to taxation?

Mr. KERR. I do not know whether it would do so. I say to the Senator from Florida that if there is any living man who knows what is meant by the amendment to the Capehart amendment to the Millikin amendment to the committee amendment, and the further discretion of the Secretary of the Treasury, he is a smarter man than the Senator from Oklahoma. I know what the committee amendment means. I know what the Capehart amendment means.

Mr. HOLLAND. The Senator from Florida understands that the sole meaning of the amendment as amended is that there can be no brakes and no limitation yearly upon setting up reserves until the time when they reach 10 percent of the total deposits and accounts, but that thereafter the amendment leaves the bill just as it was in the beginning, and it leaves the revenue of the building and loan association which was so vividly described by the Senator from Oklahoma wholly taxable by the Federal Government insofar as its income was concerned.

The question of the Senator from Florida is: Would it not be a good thing to have the particular association which the Senator has so ably described subjected after January 1 to the complete income-tax power of the Federal Government?

Mr. KERR. The answer to the last question is "Yes." However, under no concept of equity or equality that I know of should the Government pass a law which says that it is entirely within the discretion of the taxpayer to say whether he shall put 15 percent or 100 percent of his earnings, tax-free, into a reserve until such time as it equals 10 percent of whatever his current deposits are.

I invite the attention of the Senate to the fact that the total deposits in all the commercial banks of the country as of the last of 1950 were \$146,000,000,000. Their earnings last year before taxes were \$1,365,000,000, on which they paid \$428,000,000 in taxes to the Federal and State Governments.

Mr. FLANDERS. Mr. President, will the Senator yield?

The PRESIDING OFFICER. Does the Senator from Oklahoma yield to the Senator from Vermont?

Mr. KERR. Not for a moment. That leaves a net after taxes of \$937,000,000. At the same time building and loan associations and mutual savings banks had built up their deposits to approximately \$40,000,000,000, on which they earned last year approximately \$250,000,000, and on which they paid no Federal tax.

I invite the attention of the Senate to the fact that many States tax these banks. Many States tax them just as they tax other corporations and other commercial enterprises. That is what they are.

Mr. President, when institutions reach the point where they have under their control \$40,000,000,000 of the \$186,000,000,000 of deposits in this country, they are assuming responsibility for far more than their fiduciary relationship to their depositors and to themselves.

Mr. FLANDERS. Mr. President, I desire to ask a question at this point.

Mr. KERR. They have \$40,000,000,000 of the liquid assets of this country under their control, and they use them to make profits. Yet it is said in the Senate that it should be discretionary with them whether they should pay any taxes at all until their reserves and undivided profits reach 10 percent of their total deposits.

I yield to the Senator from Vermont for a question.

Mr. FLANDERS. I have two questions.

Mr. KERR. I will ask the Senator from Vermont to ask his questions one at a time. I yield for his first question.

Mr. FLANDERS. The first question I shall ask relates to a statement which I understood the Senator to make, to the effect that he did not believe in leaving the question of taxing their reserves to the taxed organization or outfit. I should like to inquire of the Senator whether that is not exactly what the Senate voted for in connection with co-operatives.

Mr. KERR. It is one of the things that I believe is most damnable about the bill. It gives an exemption to town co-ops far beyond anything even dreamed of for rural co-ops. I am one Senator who is not going to vote for a provision which would give savings banks or building and loan associations in a city exemptions and privileges which are denied to the rural co-ops. I am glad the Senator asked that question. If the Senator does not believe I am right, I suggest that he read the bill.

Mr. FLANDERS. Mr. President, will the Senator yield for a further question?

Mr. KERR. Yes.

Mr. FLANDERS. A few moments ago I said that I had only two questions to ask. Perhaps that was an unfortunate slip of the tongue. I shall ask a question on another subject, and perhaps later revert to my other question. I should like to ask the Senator from Oklahoma on what grounds he believes that savings institutions of various kinds are going beyond their fiduciary capacity and their fiduciary function when they set up reserves in accordance with the laws of their States and the demands of the various governmental bodies to

which they must submit. What is outside the fiduciary relationship to their depositors when they meet those legal and administrative requirements?

Mr. KERR. Mr. President, I am glad the Senator from Vermont asked that question. I wish to remind him of what his own State requires of its building and loan associations and its savings banks; I wish to remind him that his own State does not give its savings banks or its building and loan associations any such privilege as that provided in the Millikin amendment to the Capehart amendment, as modified, or under the amendment the Senator from Vermont is sponsoring.

Mr. FLANDERS. Mr. President, the Senator from Oklahoma is not answering my question.

Mr. KERR. Mr. President, I am going to finish answering the Senator's question, and I am glad he has asked it.

The State of Vermont requires 5 percent of the net earnings semiannually to be added to the reserves until the reserves equal 10 percent of the capital of the building and loan association.

Under the provisions of the Capehart amendment, before it was made impotent by the Millikin amendment to it—

Mr. FLANDERS. Mr. President, I asked a question, and I hope the Senator from Oklahoma will confine himself to answering that question.

Mr. KERR. Mr. President, I confine myself to the specifications I fix for myself; and if the Senator from Vermont does not wish me to do so, he does not need to ask me any more questions. [Laughter.]

Mr. FLANDERS. Mr. President, if the Senator from Oklahoma wishes to evade the questions and to pass on to something else, that is his prerogative.

The PRESIDING OFFICER. The Chair asks the Senator from Vermont to abide by the Senate rules. The Senator from Oklahoma has the floor.

Mr. KERR. Mr. President, under the provisions of the Capehart amendment as it was originally presented, the Secretary of the Treasury would have to permit these banks to set aside 15 percent of their earnings annually, until their reserves equaled 10 percent of their deposits or accounts.

In the State of Vermont the same kind of association is required to set aside 5 percent semiannually until its reserve equals 10 percent of its stock.

In referring to the provisions of the Capehart amendment before the Millikin amendment hit it, let me make a little mathematical calculation: $1\frac{1}{2}$ times 10 is 15; in other words, the original Capehart amendment was 15 times as liberal as is the provision in the law of the State of Vermont in regard to the savings and loan associations.

In the State of Vermont, in the case of savings banks, the requirement is that one-eighth of 1 percent of their deposits shall be set aside until the reserve equals 10 percent of the deposits and other liabilities, except surplus.

Under the Capehart amendment those institutions could set aside 15 percent of their earnings; and now under the

Millikin amendment to the Capehart amendment they would be allowed to set aside any amount they wished to set aside, until it reached 10 percent of their combined deposits.

I say that I am as much interested as is any other man in the solvency, solidarity, and safety of these institutions. I say that the experience in our country over the period of time since it became a nation teaches us that this Government is not going to regulate the financial institutions of the United States in such a way as to destroy or impair them.

I think these banks should have treatment equal to or better than the treatment accorded the commercial banks, but certainly I do not think they should be set aside in a sacred precinct and under a sacred tabernacle, and that in that connection the statement should be made that "any man who enters here will be tax exempt either under the law or at his option."

Mr. LEHMAN. Mr. President, will the Senator yield for a question?

Mr. KERR. Yes; I yield for a question.

Mr. LEHMAN. I wonder whether the Senator from Oklahoma realizes that during the very terrible and trying days of the depression in 1932 and 1933—

Mr. KERR. I remember the depression, although I was hardly able to realize it at the time. [Laughter.]

Mr. LEHMAN. I do realize and remember those days, because I had the responsibility of guarding the interests of 15,000,000 people, 9,000,000 of whom were depositors in the savings banks and savings associations.

Now, if I may continue my question—

Mr. KERR. The Senator will have to begin to ask it, first, before he can continue asking it.

Mr. LEHMAN. Very well; I will ask it.

Mr. KERR. I am waiting for the Senator from New York to ask it.

Mr. LEHMAN. I would have completed my question, had I not been interrupted by my distinguished colleague, the Senator from Oklahoma.

This is my question: Does not the Senator from Oklahoma realize that in the terrible and trying days of the depression in 1932 and 1933, the savings banks and the savings associations of New York State, in spite of having a reserve of 10 percent, were virtually without any reserves whatsoever because of the decline in the value of bonds, including Government bonds, and the decline in the value of mortgages?

That is why some of us are trying to obtain the enactment of measures which will protect the depositors, the small depositors, 9,000,000 of them in my State, and probably 50,000,000 or 60,000,000 of them throughout the country.

Mr. KERR. Mr. President, I am glad the distinguished Senator from New York asked that question. As lengthy as it was and as difficult of understanding as it was both to him who asked it and to him who listened to it, I say that I am aware of the tragedy of the depression and of the failure of banks over the country. That situation was not limited to New York.

It was a wonderful thing for the State of New York that it had one so distinguished and so able in a position of responsibility; and I must say that in my opinion he met that responsibility as well as did any other man I know. Out of the meeting of that responsibility have come the following things: First, the Federal Government now guarantees bank deposits up to \$10,000 each; and that takes care of all the Democrats, Mr. President. [Laughter.] I believe that takes care of all the citizens of New York who have voted for or who will vote for my distinguished colleague. [Laughter.] Mr. President, that takes care of those to whom the Senator from New York refers as "the little depositors." Their deposits are guaranteed.

Furthermore, Mr. President, I wish to pay tribute to the great State of New York. I wish to pay tribute to its citizens and to its distinguished representatives and to the distinguished men who have had the responsibility for its government. I wish to pay tribute to them for the manner in which they have met that responsibility. In the light of that experience, they have provided in that great State that these banks must set aside 10 percent of their earnings annually, placing that amount into a reserve, until it reaches 10 percent of their deposits. I favor at least that requirement in this bill, Mr. President, and I say let us take a leaf from the history of legislation and administration in New York. Let us do all that the wise men and able statesmen of that State have done for their 9,000,000 depositors. I am especially tender of them, Mr. President, because we in Oklahoma borrow a great deal of their money. I want them to keep on having it. I want it to be secure. I congratulate New York on how secure they have made it.

From the 1929 depression they learned a lesson. From that depression came the realization that in the future they must not permit such a tragedy. So they wrote some laws, and said with reference to mutual savings banks that they shall set aside 10 percent of their annual earnings in a reserve fund, until it reaches 10 percent of their deposits.

With reference to building and loan associations, Mr. President, they said they shall set aside 5 percent of their annual earnings until the reserve is 10 percent of the capital and 50 percent of the book value of the real estate held by the association. The provision of the Capehart amendment, before it was rendered useless by the Millikin amendment, was far more liberal with reference to the reserve permission for the savings banks of New York, and 10 to 20 times more liberal with reference to building and loan associations, than the requirements of the State of New York, itself.

Mr. LEHMAN. Mr. President, will the Senator yield?

Mr. KERR. I will yield in a moment. I trust that the Senator from New York in pressing upon the Senator from Oklahoma the accumulated wisdom of the great leaders of his State, including himself, will say to us, "If you do one and one-half times as much for our savings banks, and 20 times as much for our sav-

ings and loan associations, as we ourselves have seen fit to do, you will have met your responsibility and we shall not then ask you to go beyond that and leave it entirely to the discretion of our institutions as to how much more will be tax-free."

Mr. LEHMAN. Mr. President, will the Senator yield for a question?

Mr. KERR. I yield for a question.

Mr. LEHMAN. I wonder whether the Senator realizes—

Mr. KERR. Well, sometimes he wonders, too.

Mr. LEHMAN. I wonder whether the Senator realizes that the reserves set up by the statute and regulations of the State of New York were in excess of 10 percent as far back as 1930, and are today in excess of 10 percent, which is the limit just mentioned on the Senate floor, and I wondered—

Mr. KERR. Just one minute.

Mr. LEHMAN. Certainly.

Mr. KERR. I quoted from the law of the Senator's State, which he said I quoted correctly, and it is not in excess of what is set up here.

Mr. LEHMAN. May I answer that?

Mr. KERR. No. The Senator may ask me a question, and then when he gets the floor he may do what he wants to do.

Mr. LEHMAN. I should be very anxious to hear whether the Senator's recollection of the colloquy in regard to the reserves in the State of New York is the same as mine, namely, as expounded by the senior Senator from New York, that the statutory reserve is 10 percent, and that by regulation there is an additional reserve required for conventional mortgages, and a lesser amount required for VA mortgages and FHA mortgages. As my distinguished colleague from New York has stated, the aggregate of those reserves is about 17 percent; and my colleague will correct me if I am not quoting him accurately.

Mr. KERR. The Senator from Oklahoma answers that question by saying no, there is no law in the Senator's State, and there is no legal requirements in his State, which sets up any such thing. I have read to the Senator what the law is, and I take it that the administrators in New York, as in Oklahoma and elsewhere, are creatures of the law. I remind the Senator further that his own State taxes the earnings of its savings and loan banks.

Mr. LEHMAN. Mr. President, may I ask the Senator a question?

The PRESIDING OFFICER. Does the Senator from Oklahoma yield to the Senator from New York?

Mr. KERR. I yield for a question.

Mr. LEHMAN. I wonder whether the Senator does not realize that in addition to the amount of reserves set up by statute, the statutes of New York State give the superintendent of banks wide powers to recommend and require certain safeguards in the protection of depositors in the State of New York.

Mr. KERR. I am sure that the laws of the State of New York give wide powers to its administrative officials, but I remind the Senator, as he talks about the percentage required, with reference

to FHA loans, that they are but a small percent of the assets of the savings banks. Nearly 60 percent of their total assets are in Government bonds, and in view of the fact that they have on the average 11 percent against their total assets, it means that they have two and one-half times that with reference to those assets which are not invested in Government bonds.

I remind the Senator further that of the amount invested in real estate mortgages, 15, 20, or 25 percent of their total portfolios are Government-guaranteed mortgages, and that as of today a far higher percentage of the additions are Government-guaranteed. I also remind the Senator that under his able leadership and that of other great men in the State of New York, it taxes its mutual savings banks on their net earnings; and that is all this bill attempts to do.

Mr. IVES. Mr. President—

The PRESIDING OFFICER. Does the Senator from Oklahoma yield to the senior Senator from New York?

Mr. KERR. I yield for a question.

Mr. IVES. The Senator from New York is under the impression—and I ask the distinguished Senator from Oklahoma whether the impression is not correct—that the distinguished Senator from Oklahoma believes that either my colleague from New York or myself stated that the New York banking law requires reserves of more than 10 percent. Is that correct?

Mr. KERR. I asked one of the Senators a while ago.

Mr. IVES. I was merely trying to find out.

Mr. KERR. I asked one of the Senators a while ago whether the statement I made was not correct, and I was answered that it was.

Mr. IVES. I merely desire to point out that neither one of us made any such statement as the statement I have indicated.

Will the Senator from Oklahoma yield for another question?

Mr. KERR. I yield for a question.

Mr. IVES. Will the Senator from Oklahoma allow me to read into the RECORD again a very brief statement by the superintendent of banks of the State of New York covering this question, so that it may be clear what the law is?

Mr. KERR. Mr. President, I do not yield for that purpose. The Senator from New York is at perfect liberty to read that into the RECORD as many times as he desires. He has already read it into the RECORD twice.

Mr. IVES. The Senator from New York has already read it into the RECORD.

Mr. KERR. That is what I said.

The PRESIDING OFFICER. The Senator from Oklahoma declines to yield.

Mr. KERR. I think, Mr. President, we have the opportunity today to do that which is just to all taxpayers, and to do equity to thousands affected by the bill. I hope that the committee will not accept more than the Capehart amendment, and that the Senate will not approve more than the Capehart amendment.

The PRESIDING OFFICER. The question is on the amendment, as modi-

fied, offered by the Senator from Indiana to the committee amendment.

Mr. DIRKSEN. Mr. President, I am always overwhelmed, of course, by the eloquence of the Senator from Oklahoma, but I fancy that if anyone reads in cold print what he said he would get quite a misapprehension as to what the equities are in this matter.

I do not address myself particularly to the subject of mutual savings banks; I know all too little about them, but I do know something about the savings and loan associations. I have served at one time and another as a director of one of them, in a very modest fashion and in a very small town, where it lives intimately, of course, with the people, and particularly with those who practice thrift and frugality.

First let me point out with respect to this so-called dual amendment, the Capehart amendment, modified by the Millikin amendment, that there is a limitation of 10 percent on reserves. Once the associations reach it, they are through. If they put in 100 percent of their earnings the first year and thereby accumulate a reserve of 10 percent, that is the end of it.

Mr. KERR. Mr. President, will the Senator yield?

Mr. DIRKSEN. I yield.

Mr. KERR. Was the Senator present when the question was asked by the Senator from Georgia [Mr. GEORGE] and other Senators whether, under the provisions of the bill, the Secretary of the Treasury would have discretion to go even beyond that?

Mr. DIRKSEN. The language speaks for itself. Once it has reached a reserve of 10 percent, the institution can go no further. Perhaps in fiscal 1952 it would not contribute a dime, but it will contribute that much more in 1953 and in succeeding years. After all, they are continuing operations.

Let me point out to my friend from Oklahoma that insofar as building and loan associations are concerned—and I am thinking particularly of those which are federalized—according to the Home Loan Bank Board approximately 70 percent of the mortgages are not insured or guaranteed. GI loans are being made every day, as are loans to persons who are building homes for themselves, FHA financed in some cases and in other cases not. We are in a shifting real-estate market, where equity financing is so slender that very conceivably, by a modification of values, the solvency of many of these institutions can be impaired.

All the amendment does is to say, "We will build up your reserve, and when it has reached 10 percent you cannot go further." That is all it does.

I am thinking particularly of the thrift institutions that are building homes today. Let me repeat to the Senator from Oklahoma, notwithstanding all the persuasive things he said today, what an agent of this Government, for the confirmation of whose nomination the Senator and I vote only a few weeks ago, said about the situation. He is the chairman of the Federal Home Loan Bank Board. Under the law that board is charged with the solvency, liquidity, and

integrity of these institutions. We passed a law giving him responsibility, and he addressed a letter to the distinguished chairman of the Finance Committee in which he said:

Savings and loan associations are limited in their investment to first-mortgage loans and to United States Government bonds.

How many mortgage loans are there? I put the figures in the RECORD last night. They run from 79 percent to 84 percent, so that most of the money that frugal people invest is invested in the building of homes for GI's and others where the equity may not be more than \$500 on a \$10,000 house.

We have charged an agency of the Government with that responsibility, and the chairman of that agency says that those funds are invested in mortgages. He says that 70 percent of those mortgages are not insured or guaranteed. Then he says:

Substantial reserves against losses are imperative.

Who said that? The junior Senator from Illinois? No. The senior Senator from Oklahoma? No. It was said by the Chairman of the Federal Home Loan Bank Board—

Substantial reserves against losses are imperative.

He says that the real-estate market has been on the rise since the early 1930's, and losses in Government bonds may occur if liquidation of bonds is necessary. Losses may be suffered even if mortgages are insured or guaranteed, as was demonstrated in the recent floods in Kansas, Missouri, and Oklahoma.

Mr. THYE. Mr. President, will the Senator from Illinois yield?

Mr. DIRKSEN. I yield.

Mr. THYE. In Minnesota we had that experience in connection with the flood in north Mankato last spring. The same condition occurred in the spring of 1950. There were devastating floods, and it cost the owners of homes tremendous sums of money to put their homes back into proper condition.

Mr. DIRKSEN. That is quite correct.

The Senator from Oklahoma said that we need not worry about the depositors because they are insured. But do not forget that if there is no reserve, then will come the losses, and the self-same Government must bail out the depositors. Is it not the part of wisdom, is it not the part of prudence, to make sure that adequate reserves are set up for such an occasion?

The Chairman of the Home Loan Bank Board says that the proposed tax would permit an association to establish a loss reserve based on its experience after 20 years. Then he says:

Such loss record in our opinion, is not a safe basis for establishing reserves, because the real-estate market has risen without interruption for the last 20 years.

The limitation in the Capehart amendment, even though it is within the discretion of the institution to determine how much shall be allocated to reserve, is the 10-percent clause, for when the reserve reaches 10 percent that is the end, and from there on the tax gatherer comes in and applies the tax.

In the mean these savings and loan institutions are of modest size. In 1950 the average insured association had savings of \$4,000,000, paying an average dividend of 2½ percent, and making an average annual reserve allocation on 1½ percent of its savings. We ask only to keep them intact, to keep them sound, to make sure that they are not washed out in a period of accelerated values, with the danger of a down-turn in the real-estate market. If that should occur, they will have to go into their contingent funds to take care of the situation.

I do not wish to detain the Senate any longer, but I want to be sure that we have an adequate concept of what is involved. It does not make any difference whether the Millikin proviso makes it possible for the institutions to take 100 percent of their earnings in a year and dump them into a reserve to build up the fiscal solidarity and integrity of the institution, for when they get to 10 percent, which is recognized by standards of accountancy as being about the adequate and right kind of reserve—

Mr. GEORGE. Mr. President, will the Senator from Illinois yield?

Mr. DIRKSEN. I yield.

Mr. GEORGE. My own judgment is, and I think the Senator's experience will bear it out, that no building and loan company or mutual bank can afford to set aside an unreasonable amount of reserve. It is obliged to take care of its customers, or it would have to go out of business.

Mr. DIRKSEN. That is correct.

Now, Mr. President, I yield the floor, but I want to make this one suggestion: What is wrong with the committee's accepting the proposal and taking it to conference? Far be it from me to attempt to advise the committee, but it would be possible to call in advisory authorities of the Home Loan Bank Board, and there is a possibility that the committee could come back with a conference report that would be satisfactory to all.

Mr. KERR. Mr. President, will the Senator yield?

Mr. DIRKSEN. I yield.

Mr. KERR. Does not the Senator know that the conferees can do that under the Capehart amendment as originally offered, but that if the Senate adopts the amendment as amended by the Senator from Colorado, the conferees cannot then come back with more than that? Does not the Senator know that to be true?

Mr. DIRKSEN. I would not expect the conferees to come back with more than what is on the desk at the present time, but I fancy the conferees can come back with a modification, if that is the understanding of the conferees and of the Senate Finance Committee. And so it seems to me, Mr. President, that is the prudent course to pursue. We have ventilated the measure generously for a long period of time. I think everyone is seeking to find a right answer, a right solution to the problem. It is not a question of favoritism in behalf of building and loan associations as against commercial banks, or vice versa. The question is: What is good practice? What is

sound? What will keep these institutions liquid and safe in view of the fact that more than 80 percent of their assets are in the form of real estate first mortgages? Certainly this body has no business trifling under those circumstances, and I simply commend to my colleagues that if the Senate Finance Committee will accept the amendment, they can then impress their will with respect to this language and certainly come back with something that is at once acceptable. That in my opinion, is the wise course to pursue.

Mr. IVES. Mr. President, I dislike very much to differ with my distinguished colleague from Illinois in the recommendation he is making with regard to taking this amendment to conference. For reasons which my colleague and I have stated on the floor this afternoon, the Capehart amendment, even as modified by the Millikin amendment, is definitely unacceptable so far as New York State is concerned. If the conferees are to be limited to this type of amendment in the effort to work out some kind of a compromise proposition, such a compromise can never meet the situation in the State of New York, where we are trying to increase our reserves, rather than to leave them where they have been under the law.

The efforts which have been made, which I have pointed out, indicate our attitude and our desire in this connection. Therefore, it is going to be impossible for us to go along with the idea of agreeing to the Capehart amendment with the thought that subsequently this whole proposition is to go to the conferees for a final decision and determination, and final language, presumably, to meet a situation which the amendment in no way can meet.

Consequently, Mr. President, I shall have to ask for the yeas and nays on the amendment in order that my colleague and I at least can be recorded against the proposal. I ask for the yeas and nays on the amendment.

The yeas and nays were ordered.

Mr. KERR. Mr. President, a parliamentary inquiry.

The PRESIDING OFFICER. The Senator will state it.

Mr. KERR. What is the question?

The PRESIDING OFFICER. The question is on the amendment of the Senator from Indiana [Mr. CAPEHART], as modified.

Mr. BUTLER of Maryland. Mr. President, a vote "yea" is a vote in favor of the amendment, is it not?

The PRESIDING OFFICER. That is correct. The clerk will call the roll.

The Chief Clerk proceeded to call the roll.

Mr. HENDRICKSON (when his name was called). Mr. President, earlier in the session today I made the announcement that at an appropriate time in the proceedings this afternoon, if a vote came on either the Flanders amendment or any substitute, I would ask the Senate that I be excused from voting. I explained earlier today that there was a conflict of interest so far as I was concerned; that I was not only a shareholder in a building and loan association, but that I was also the solicitor and

one of the directors. I feel that, under the circumstances, morally I would be debarred from voting. So now, Mr. President, I make the request that I be excused from voting on the substitute amendment, because exactly the same principle is involved in voting on the substitute as would apply in voting upon the Flanders amendment.

The PRESIDING OFFICER. Is there objection? The Chair hears none, and the Senator from New Jersey is excused from voting.

The Chief Clerk resumed the call of the roll.

Mr. HUMPHREY (when his name was called). On this vote I have a pair with the junior Senator from Wisconsin [Mr. McCARTHY]. If he were present and voting he would vote "nay." If I were permitted to vote I would vote "yea." Therefore, I withhold my vote.

Mr. DIRKSEN (when his name was called). For the same reason assigned by the Senator from New Jersey, having had some identity with a banking institution, I want to be sure that my motives, are not misinterpreted, so, therefore, I ask that I may be excused from voting.

The PRESIDING OFFICER. Is there objection? The Chair hears none, and the Senator from Illinois is excused from voting.

The roll call was concluded.

Mr. JOHNSON of Texas. I announce that the Senator from New Mexico [Mr. ANDERSON] and the Senator from Arkansas [Mr. McCLELLAN] are absent by leave of the Senate.

The Senator from Virginia [Mr. BYRD], the Senator from New Mexico [Mr. CHAVEZ], the Senator from Kentucky [Mr. CLEMENTS], the Senator from Iowa [Mr. GILLETTE], the Senators from Rhode Island [Mr. GREEN and Mr. PASTORE], the Senator from Michigan [Mr. MOODY], and the Senator from West Virginia [Mr. NEELY] are absent on official business.

I announce that on this vote the Senator from New Mexico [Mr. CHAVEZ] is paired with the Senator from Rhode Island [Mr. PASTORE]. If present and voting, the Senator from New Mexico would vote "yea," and the Senator from Rhode Island would vote "nay."

I announce also that on this vote the Senator from Arkansas [Mr. McCLELLAN] is paired with the Senator from Rhode Island [Mr. GREEN]. If present and voting, the Senator from Arkansas would vote "yea," and the Senator from Rhode Island would vote "nay."

I announce further that on this vote the Senator from Michigan [Mr. MOODY] is paired with the Senator from Maine [Mr. BREWSTER]. If present and voting, the Senator from Michigan would vote "yea," and the Senator from Maine would vote "nay."

Mr. SALTONSTALL. I announce that that the Senator from Utah [Mr. BENNETT], the Senator from Pennsylvania [Mr. MARTIN], and the Senator from North Dakota [Mr. YOUNG] are absent by leave of the Senate.

The Senators from Ohio [Mr. TAFT and Mr. BRICKER] and the Senator from Nebraska [Mr. WHERRY] are necessarily absent.

The Senator from New Hampshire [Mr. TOBEY] is absent because of illness.

The Senator from New Hampshire [Mr. BRIDGES] is absent because of illness in his immediate family.

The Senator from Maine [Mr. BREWSTER] and the Senator from Idaho [Mr. WELKER] are absent on official business.

The Senator from South Dakota [Mr. CASE], the Senator from Pennsylvania [Mr. DUFF], the Senator from North Dakota [Mr. LANGER], and the Senator from Delaware [Mr. WILLIAMS] are detained on official business.

On this vote, the Senator from Maine [Mr. BREWSTER] is paired with the Senator from Michigan [Mr. MOODY]. If present and voting, the Senator from Maine would vote "nay" and the Senator from Michigan would vote "yea."

On this vote, the Senator from Utah [Mr. BENNETT] is paired with the Senator from Ohio [Mr. BRICKER]. If present and voting, the Senator from Utah would vote "yea" and the Senator from Ohio would vote "nay."

On this vote, the Senator from South Dakota [Mr. CASE] is paired with the Senator from New Hampshire [Mr. BRIDGES]. If present and voting, the Senator from South Dakota would vote "yea" and the Senator from New Hampshire would vote "nay."

On this vote, the Senator from Ohio [Mr. TAFT] is paired with the Senator from Pennsylvania [Mr. MARTIN]. If present and voting the Senator from Ohio would vote "yea" and the Senator from Pennsylvania would vote "nay."

The result was announced—yeas 41, nays 28, as follows:

YEAS—41

Butler Md.	Holland	Millikin
Butler, Nebr.	Jenner	Monroney
Cain	Johnson, Colo.	Morse
Capehart	Johnson, Tex.	Mundt
Carlson	Johnston, S. C.	Nixon
Cordon	Kem	O'Connor
Douglas	Knowland	Robertson
Dworshak	Long	Russell
Ferguson	Magnuson	Schoeppel
George	Malone	Smathers
Hayden	Maybank	Underwood
Hennings	McCarran	Watkins
Hickenlooper	McCarthy	Wiley
Hoey	McFarland	

NAYS—28

Aiken	Hunt	O'Mahoney
Benton	Ives	Saltonstall
Connally	Kefauver	Smith, Maine
Eastland	Kerr	Smith, N. J.
Eaton	Kilgore	Smith, N. C.
Ellender	Lehman	Sparkman
Flanders	Lodge	Stennis
Frear	McKellar	Thye
Fulbright	McMahon	
Hill	Murray	

NOT VOTING—27

Anderson	Dirksen	Moody
Bennett	Duff	Neely
Brewster	Gillette	Pastore
Bricker	Green	Taft
Bridges	Hendrickson	Tobey
Byrd	Humphrey	Welker
Case	Langer	Wherry
Chavez	Martin	Williams
Clements	McClellan	Young

So Mr. CAPEHART's amendment, as modified, was agreed to.

Mr. GEORGE and Mr. MALONE addressed the Chair.

The PRESIDING OFFICER. The Senator from Texas.

Mr. CONNALLY. Mr. President, I offer the amendment which I send to the desk and ask to have stated. It is

a preferential amendment, and takes precedence over the amendment of the Senator from Vermont.

Mr. SALTONSTALL. Mr. President, will the Senator yield before he does that?

Mr. CONNALLY. I yield.

Mr. SALTONSTALL. On behalf of the Senator from Vermont [Mr. FLANDERS], who has temporarily lost his voice, I ask permission to withdraw his amendment to strike out—temporarily, at least.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. SALTONSTALL. I understand that the amendment is now withdrawn.

The PRESIDING OFFICER. The amendment has been withdrawn.

Mr. LEHMAN. Mr. President, a parliamentary inquiry.

The PRESIDING OFFICER. The Senator will state it.

Mr. LEHMAN. I am not certain of the procedure. Does this mean that the amendment has been withdrawn only temporarily? Or is it withdrawn permanently?

Mr. SALTONSTALL. I will say to the Senator from New York that it is my understanding that the Senator from Vermont expects to offer his motion to strike at a later date.

The PRESIDING OFFICER. The amendment offered by the Senator from Texas will be stated.

The CHIEF CLERK. On page 142, in lines 11 and 12, it is proposed to strike out the following: "Building and Loan Associations," and insert in lieu thereof the word "and."

On page 142, beginning with line 16, it is proposed to strike out all that follows down to and including line 3 on page 143, and insert in lieu thereof the following:

(b) Cooperative banks: Section 101 (4) relating to exemption from tax of building and loan associations and cooperative banks is hereby amended to read as follows:

"(4) Cooperative banks and credit unions, without capital stock organized and operated for mutual purposes and without profit."

On page 143, in lines 8 and 9, it is proposed to strike out the following: "a domestic building and loan association."

On page 143, in lines 21 and 22, it is proposed to strike out the following: "cooperative banks, and domestic building and loan associations," and insert in lieu thereof the following: "and cooperative banks."

On page 144, beginning with line 14, it is proposed to strike out all that follows down to and including line 3 on page 145.

Mr. CONNALLY. Mr. President, the amendment which I offer eliminates from the section which the Senator from Vermont assailed building and loan associations. If there is one organization of the kind mentioned in this section which is important to the people of the United States, it is the building and loan associations. They have for their purpose the encouragement of home ownership by the people who live in the homes. They are not only valuable from a financial standpoint, but from a cultural standpoint. If we are ever to build up democracy in this Republic, it will be

largely through the efforts of people who own their own homes, and who are willing to fight for their homes if need be.

It will be remembered that during the days of the depression building and loan associations were so drastically affected that the Federal Government had to come to their rescue. They were imperiled. They lost great sums of money. I say that the Government ought not to tax such organizations. The States may exercise the right to tax them. Let the States tax them if they want to, but let us not put upon them a Federal tax, when we want to encourage home ownership and home building.

I submit, without detaining the Senate for a long period of time, that all Senators are familiar with building and loan associations. They no doubt have many of them in their home towns. They are useful organizations. They are useful agencies for encouraging thrift, and, above all, for encouraging the ownership of homes by the people who occupy them, by the people who must defend this Republic if it is to survive.

Mr. President, I submit the amendment.

The PRESIDING OFFICER. The Chair inquires of the Senator from Texas whether he wishes these amendments considered en bloc.

Mr. CONNALLY. I do. They all relate to the same thing.

Mr. President, I ask unanimous consent to have printed in the RECORD at this point as a part of my remarks a letter which I have received from Mr. R. A. Benson, building and loan supervisor of the Department of Banking of the State of Texas, at Austin, Tex. The letter is dated September 14, 1951.

There being no objection, the letter was ordered to be printed in the RECORD, as follows:

STATE OF TEXAS,
DEPARTMENT OF BANKING,
Austin, Tex., September 14, 1951.
The Honorable TOM CONNALLY,
United States Senate,
Senate Office Building,
Washington, D. C.

SIR: In our effort to keep posted on the policies of the various branches of our national Government we note the Senate Finance Committee has taken tentative action on amendments to H. R. 4473, which, if adopted, would tax savings, building and loan associations as ordinary corporations. If, in our opinion, such tax is imposed, the effect on such type of institutions will be serious, and possibly destroy them.

In our great State there are many deserving towns and cities that do not enjoy the full services, creating thrift and home ownership, rendered by savings, building and loan associations, and the proposed tax, it is apparent, will prevent the organization and development of new associations so badly needed. Since 1949 13 State charters for savings, building and loan associations have been granted, making a total of 150 State and Federal chartered associations operating in Texas, with prospects for many more being organized if their development and prosperity are not hampered by taxation.

This department is responsible for the chartering and supervision of 67 State savings, building and loan associations. In our supervisory capacity we have consistently urged substantial semiannual allocations to reserves for losses.

Savings, building and loan associations' funds, the accumulations of savings by the thrifty members of their communities, are invested in first mortgages secured by homes in their communities, and United States Government bonds. Approximately 80 percent of their mortgages are not insured or guaranteed, therefore, substantial reserves are imperative because the real estate market has been on the rise for the past 15 years.

In Texas the majority of associations are currently paying an average dividend of 2½ percent, and make an annual reserve allocation of 1½ percent. If the proposed tax becomes law, the associations are faced with two alternatives:

1. If adequate credits are made to reserves it would be necessary for these institutions to reduce dividends to such an extent that it is believed would cause general withdrawal of savings and result in liquidation.

2. The institutions would continue to pay the same dividend rates as formerly but the allocation to loss reserves would not be sufficient and the loss problems would be increased tremendously.

The average institution in 1950, due to growth, barely maintained its reserves to savings, notwithstanding that it allocated one-third of its net income to reserves instead of paying it out in dividends. If the average association reduced its allocation to reserves by one-half, its reserve ratio would decline steadily to a dangerous condition. All savings in Federal savings and loan associations and savings in practically all of the State-chartered savings, building and loan associations are insured up to \$10,000 by the Federal Savings and Loan Insurance Corporation.

You are urgently requested to take time out from your many duties and contact the members of the Senate Finance Committee, impressing upon them the seriousness of this situation.

Yours sincerely,

R. A. BENSON,

Building and Loan Supervisor.

Mr. CONNALLY subsequently said: Mr. President, I ask unanimous consent to have printed in the RECORD a letter which I now send to the desk, and which I desire to have printed in connection with the remarks I made earlier today.

There being no objection, the letter was ordered to be printed in the RECORD, as follows:

HOUSING AND HOME FINANCE AGENCY,
HOME LOAN BANK BOARD,
Washington, D. C., September 4, 1951.
The Honorable WALTER F. GEORGE,
Chairman, Committee on Finance,
United States Senate,
Washington, D. C.

MY DEAR SENATOR GEORGE: We have noted from the CONGRESSIONAL RECORD of August 29, 1951, that the Committee on Finance has taken tentative action on amendments to H. R. 4473, which, if adopted, would tax mutual savings banks, savings and loan associations, including building and loan associations, cooperative banks, homestead associations, and similar institutions.

Let me assure you that we are not unappreciative of the many weighty problems before your committee and your desire to spread the tax burden as evenly as possible. However, the proposed tax, in our opinion, would have a serious adverse effect on these institutions and would possibly destroy them. An additional consideration which should not be overlooked is that the proposed tax would apparently prevent the organization and development of new associations which are still needed in many county seats and in new and developing parts of our country.

We are responsible for the chartering, regulation, and supervision of some 1,500 Fed-

eral savings and loan associations. We act as trustees of the Federal Savings and Loan Insurance Corporation, which insures accounts up to \$10,000 in 2,860 institutions of the savings and loan type. In our supervisory capacity we have constantly urged substantial annual allocations to reserves for losses.

Savings and loan associations are limited in their investments to first-mortgage loans and to United States Government bonds. Approximately 70 percent of their mortgages are not insured or guaranteed. Substantial reserves against losses are imperative because (1) the real-estate market has been on the rise since the early thirties; (2) losses in Government bonds may occur if liquidation of bonds is necessary; and (3) losses may be suffered even if mortgages are insured or guaranteed, as was demonstrated in the recent floods in Kansas, Missouri, and Oklahoma.

The proposed tax would permit an association to establish a loss reserve based on its experience of the last 20 years. Such a loss record in our opinion is not a safe basis for establishing reserves because the real estate market has risen without interruption for almost 20 years. We are satisfied from our analysis of the situation that a 20-year experience loss reserve will not be adequate when the real estate market turns down. We would therefore be faced with two alternatives if the proposal became law: (1) if adequate credits are made to reserves by these institutions, it would be necessary for these institutions to reduce dividends to such an extent that we believe it would cause general withdrawals of savings and would gradually result in the liquidation of these institutions. For example, the average insured association in 1950 had savings of \$4,000,000, paying an average dividend of 2½ percent and making an annual reserve allocation of 1½ percent of its savings. In order to maintain the same reserve allocation of 1½ percent it would be limited to not more than a 1 percent dividend paying a tax of slightly more than 1½ percent of savings. (2) The second alternative is that the institutions would continue to pay the same dividend rates as formerly. In this case the loss reserves would not be sufficient and our supervisory and insurance loss problems would be increased tremendously. For example, the average insured institution in 1950, due to growth, barely maintained its ratio of reserves to savings, notwithstanding that it allocated one-third of its net income to reserves instead of paying it out in dividends. If this average institution reduced its allocation to reserves by a half, its reserve ratio would decline steadily to a dangerous point.

We would like to emphasize that the staff of the Committee on Finance has never called upon our board for an expression of its views on the proposed tax or related matters, and this is the first time our board has submitted its views to your committee.

We hope you will reconsider your tentative decision in the light of the effects it may have upon these institutions which have almost 30,000,000 savers.

Time has not permitted an exhaustive study of this matter. We are enclosing a memorandum from our general counsel setting forth additional consideration. We will, of course, be glad to have further studies made for your committee and to cooperate in any way which you deem desirable.

Sincerely yours,

WILLIAM K. DIVERS,
Chairman.

HOME LOAN BANK BOARD,
September 4, 1951.

From the office of the general counsel,
To Mr. William K. Divers, Chairman.

You have requested that a study be made of the effect which the adoption of the amendments to H. R. 4473 taxing mutual

savings banks, savings and loan associations and similar institutions would have on these institutions. The proposed amendments would tax these institutions as ordinary corporations allowing a deduction for dividends or interest paid to depositors and allowing a special deduction for amounts placed in bad debt reserves based upon experience over a period of time.

Time has not permitted us to make as complete a study, including case histories on institutions in the various reserve categories, as we would like. However, from the figures readily available we have obtained the following:

1. If these institutions are taxed as proposed, the figures indicate that these institutions could not pay reasonable dividends and at the same time make required allocations to their reserves for losses. In 1950 the dividends paid by institutions insured by the Federal Savings and Loan Insurance Corporation were at an average rate of 2.55 percent. The over-all average of reserves to assets for all associations was substantially the same at the end of the year as it was at the beginning. In other words, though supervisory authorities were diligent in their efforts to increase the over-all reserves, they remained virtually static during the year.

Had the 52-percent tax been applied in 1950 to the total amounts remaining after dividends and the same dividend been paid, the average reserve position of all insured associations would have decreased during the year one-half of 1 percent. On the other hands, had the 52-percent tax been applied in 1950 and had the same credits been made to reserves by all insured associations that were made, the average dividend paid would have been 1 percent. It is quite evident that these institutions cannot retain their capital if they pay dividends of only 1 percent and it is questionable whether they can retain their capital if dividends are decreased to any substantial extent. On the other hand, it would appear to be unsafe to permit a decline in the reserves. These figures are alarming and would appear to indicate that a tax such as proposed would be disastrous for the savings and loan industry.

Should the tax be imposed, the normal thing for the management of an association to do would be to make every effort to maintain the capital in the association and it is fearful that the reserves would first suffer.

The disastrous effect would work slower on associations which have been long established and have strong reserve positions as they may be able to remain in a relatively safe position for a while, though their reserves will be gradually lowered percentage-wise. However, it appears clear that many comparatively new associations which have not had time to build strong reserves and probably some other associations with low reserve positions could not be permitted to continue operation by supervisory authorities because of the low reserves and the inevitable fact that reserves could not be built up as required by law or regulations. New associations could not be organized under such conditions.

2. All of the 6,000 associations in the United States, except approximately 200, are mutual institutions whose earnings are distributed on a pro rata basis to shareholders after allocations to necessary reserves for losses. In these institutions the reserve which the association is able to build is the only cushion which protects the shareholders or the Federal Savings and Loan Insurance Corporation from losses. There are no stockholders who have a liability to shareholders or depositors, and there is no capital except that placed with the institution by the shareholders. Congress and the supervisory authorities have recognized this in requiring the building of adequate reserves.

Congress, in passing title IV of the National Housing Act creating the Federal Savings and Loan Insurance Corporation, required that each member institution within a reasonable time not exceeding 20 years build its reserve to at least 5 percent. The Insurance Corporation by regulation requires that three-tenths of 1 percent of each insured account in the institutions be placed in reserve annually until the reserve reaches 5 percent of all insured accounts. The charter of each Federal savings and loan association requires semiannual credits to reserve accounts until the reserves equal 10 percent of the share capital of the association. The Insurance Corporation has required as a condition of insurance in many instances that the applying association agree to set aside a minimum of 25 percent of net income to reserves whenever the reserves fall below 5 percent of assets. These represent the minimum requirements which Congress and the supervisory authorities consider necessary.

3. The special deduction proposed in connection with the taxing of these institutions would be allowed from amounts placed in bad debt reserves based on experience over a period of years. Title IV of the National Housing Act creating the Federal Savings and Loan Insurance Corporation was passed in 1934, and the Home Owners' Loan Act providing for the creation of Federal savings and loan associations was passed in 1933. Thirty percent of all insured associations were incorporated during the period of rising prices since 1933, and almost all of the \$14,000,000,000 of home mortgages held by savings and loan associations was acquired by savings and loan associations during this period of rising prices. Consequently, these institutions have had virtually no losses and therefore a tax deduction based on losses over this period would be inconsequential. Reserves in these institutions are created to take care of losses that may occur in times of stress. The long rise in real-estate prices and the present sharp inflationary trend have given those responsible for supervision of institutions of these types much concern. The inflationary condition which we face today makes necessary the building of even larger reserves to meet future contingencies.

As accounts up to \$10,000 in 2,860 of these institutions are insured by the Federal Savings and Loan Insurance Corporation, the Corporation would be called upon to pay heavy losses in times of stress. The Insurance Corporation risks would increase if the reserve ratio of insured institutions would decrease.

We would be glad to go further into this matter and obtain additional information if time permits.

T. WADE HARRISON.

The PRESIDING OFFICER. The question is on agreeing to the amendment offered by the Senator from Texas.

Mr. GEORGE and Mr. MALONE addressed the Chair.

The PRESIDING OFFICER. The Senator from Georgia.

Mr. GEORGE. Mr. President, I earnestly hope that this amendment will not be adopted. The amendment which we have already adopted today is far more liberal than what the president of the Building and Loan League stated to me was a proper amendment, as applicable to this particular industry. I hope that this amendment will be rejected.

The PRESIDING OFFICER. The question is on agreeing to the amendment offered by the Senator from Texas.

Mr. MALONE. Mr. President—

The PRESIDING OFFICER. The Senator from Nevada is recognized.

Mr. McFARLAND. Mr. President, will the Senator from Nevada yield?

The PRESIDING OFFICER. Does the Senator from Nevada yield to the Senator from Arizona for a question?

Mr. MALONE. I yield.

Mr. McFARLAND. Mr. President, will the Senator from Nevada yield for a unanimous-consent request, that he may have the floor after a vote is taken on the pending amendment?

Mr. MALONE. I shall be happy to yield, with the understanding that I do not thereby lose the floor.

Mr. McFARLAND. I ask unanimous consent that the Senator from Nevada may have the floor immediately after the vote on the pending amendment.

The PRESIDING OFFICER. Without objection, it is so ordered.

The question is on agreeing to the amendment offered by the Senator from Texas.

The amendment is rejected.

Mr. McFARLAND. Mr. President, will the Senator from Nevada yield further?

Mr. MALONE. I yield for a question.

Mr. McFARLAND. Would the Senator from Nevada be willing to yield the floor so that I could make a motion to recess until Monday morning?

Mr. MALONE. Provided the junior Senator from Nevada shall have the floor beginning on Monday morning.

Mr. McFARLAND. I dislike to do that. Several other Senators may wish to speak. I feel, however, that we should make some progress with the bill. I thought perhaps the Senator from Nevada would be willing to delay his speech for a few days.

Mr. MALONE. There seems to be a little haze on this side of the aisle. At least, it seems to be a little difficult for the Chair to discern Senators who would like to be recognized. Now that I have the floor I believe I shall keep it.

Mr. McFARLAND. That is the Senator's privilege.

Mr. MALONE. I shall be glad to yield for a motion to recess provided I may have the floor on Monday morning.

Mr. McFARLAND. I had hoped that the Senator from Nevada would postpone his speech for a few days, inasmuch as he intends to speak on another subject, so that we could dispose of the pending bill. However, I am perfectly willing to stay and listen to his speech, if he wants to make it now. I feel that we should make some progress with the pending bill. I have tried to get an agreement for a limitation of debate, but the distinguished acting minority leader, the Senator from Massachusetts [Mr. SALTONSTALL] tells me it is impossible to get an agreement at this time. I am trying to make some progress. I dislike to keep Senators here.

Mr. SALTONSTALL. Mr. President, will the Senator from Nevada yield so that I may ask a question of the Senator from Arizona?

Mr. MALONE. I yield for that purpose, with the understanding that I do not lose the floor.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. SALTONSTALL. I should like to ask the majority leader if he intends to have any further votes or discussion on the pending bill after the Senator from Nevada concludes his speech this afternoon. [Laughter.]

Mr. MALONE. I do not yield for any further interruptions. I do not appreciate that.

Mr. FERGUSON. Mr. President, will the Senator from Nevada yield so that I may send to the desk an amendment to the pending bill?

Mr. MALONE. I shall be happy to do so, provided I do not lose the floor.

Mr. FERGUSON. Mr. President, I send to the desk an amendment which I propose to offer, and I ask that it be printed and lie on the table.

The PRESIDING OFFICER. The amendment will be received and printed, and will lie on the table.

Mr. CAPEHART. Mr. President, will the Senator yield? I make a motion that the Senate reconsider the vote—

Mr. McCARRAN. Mr. President, will the junior Senator from Nevada yield briefly to me?

Mr. MALONE. I have not yielded for the purpose of making a motion. I shall yield first to the senior Senator from Nevada. Then I shall yield to the Senator from Indiana.

Mr. McCARRAN. I desire to move to take up a message from the House of Representatives, which will take only a few minutes, and then introduce a bill and insert some matter in the RECORD, if the junior Senator from Nevada will yield to me for that purpose.

Mr. MALONE. I shall be happy to yield, provided I do not lose the floor.

The PRESIDING OFFICER. Is there objection? The Chair hears none, and it is so ordered.

Mr. CAPEHART subsequently said: Mr. President, I move that the Senate reconsider the vote by which the Capehart-Millikin amendment was agreed to.

Mr. MILLIKIN. Mr. President, I move to lay on the table the motion to reconsider.

The PRESIDING OFFICER (Mr. SMATHERS in the chair). The question is on agreeing to the motion to lay on the table the motion to reconsider the vote on the amendment.

The motion to lay on the table was agreed to.

SUSPENSION OF DEPORTATION OF CERTAIN ALIENS

Mr. McCARRAN. Mr. President, I ask the Chair to lay before the Senate the amendments of the House of Representatives to the concurrent resolution (S. Con. Res. 34) favoring the suspension of deportation of certain aliens.

The PRESIDING OFFICER (Mr. SMATHERS in the chair) laid before the Senate the amendments of the House of Representatives to the concurrent resolution (S. Con. Res. 34) favoring the suspension of deportation of certain aliens, which were on page 8, strike out

line 22; on page 11, strike out line 11; on page 18, after line 6, insert:

A-1531776, Shukur, Djamil Khedhourl.

A-6142881, Wang, Yuen-Fung nee Chu.

A-6142239, Wang, Chiao Jen.

Mr. McCARRAN. Mr. President, this is one of the series of resolutions having to do with the suspension of deportation of certain aliens, pursuant to law. As Senators will remember, the law provides that the Attorney General may, through the device of suspending deportation of an alien for more than 6 months, and reporting his action to the Congress, accomplish the result of giving the alien permanent residence in the United States, provided the Congress affirmatively approves the suspension.

All of the names submitted by the Attorney General are screened in the Senate Committee on the Judiciary, as carefully as may be, before they are reported to the Senate.

This particular resolution, after it had passed the Senate, was amended in the House. The House struck out one name from the resolution, and added three names.

The three names which were added have been screened by the Immigration Subcommittee of the Senate Committee on the Judiciary, and appear to be unobjectionable. Accordingly, Mr. President, I move that the Senate concur in the House amendments to Senate Concurrent Resolution No. 34.

Mr. SALTONSTALL. Mr. President, will the junior Senator from Nevada yield so that I may ask a question of the senior Senator from Nevada?

Mr. MALONE. I yield for that purpose, provided I do not lose the floor.

Mr. SALTONSTALL. Does the amendment merely strike out one name?

Mr. McCARRAN. It strikes out one name and adds three names.

The PRESIDING OFFICER. The question is on the motion of the Senator from Nevada.

The motion was agreed to.

RELIEF OF CERTAIN OFFICERS AND EMPLOYEES OF THE FOREIGN SERVICE—CORRECTION IN REENROLLMENT OF BILL

Mr. McCARRAN. Mr. President, the bill (S. 1786) is a bill for the relief of certain officers and employees of the foreign service of the United States who, while in the course of their respective duties, suffered losses of personal property by reason of war conditions and catastrophes of nature.

When the bill was originally introduced, one of the names contained in the bill was "Clive E. Knowlson." However, the bill when printed contained the name "Olive E. Knowlson."

The concurrent resolution which I now send to the desk is to correct an error in the spelling of a name and request the President of the United States to return said enrolled bill to the Senate and, upon its return, the actions of the presiding officers of the two Houses signing said bill shall be deemed rescinded.

It further provides that the Secretary of Senate is authorized and directed to amend the bill by striking on page 2, line 9, of the engrossed Senate bill the name "Olive E. Knowlson" and insert in lieu thereof "Clive E. Knowlson."

Mr. President, I ask unanimous consent for the immediate consideration of the concurrent resolution.

There being no objection, the concurrent resolution (S. Con. Res. 48) was considered and agreed to, as follows:

Resolved by the Senate (the House of Representatives concurring), That the President of the United States be, and he is hereby, requested to return to the Senate the enrolled bill (S. 1786) for the relief of certain officers and employees of the Foreign Service of the United States who, while in the course of their respective duties, suffered losses of personal property by reason of war conditions and catastrophes of nature; that if and when said bill is returned by the President, the action of the presiding officers of the two Houses in signing said bill shall be deemed to be rescinded; and that the Secretary of the Senate be, and he is hereby authorized and directed, in the reenrollment of said bill, to make the following correction in the engrossed bill:

On page 2, line 9, strike out the name "Olive E. Knowlson", and in lieu thereof insert "Clive E. Knowlson."

PREVENTION OF ACCEPTANCE OR WEARING OF FOREIGN DECORATIONS BY CERTAIN OFFICERS

Mr. McCARRAN. Mr. President, I ask unanimous consent to introduce for appropriate reference a bill to prevent unauthorized acceptance or wearing of foreign decorations by officers of the United States.

The PRESIDING OFFICER. Is there objection to the request of the Senator from Nevada?

There being no objection, the bill (S. 2165) to prevent unauthorized acceptance or wearing of foreign decorations by officers of the United States, introduced by Mr. McCARRAN, was received, read twice by its title, and referred to the Committee on the Judiciary.

Mr. McCARRAN. Mr. President, the purpose of this bill is to implement and enforce the provision in article I, section 9, paragraph 8, of the United States Constitution, which prohibits any person holding an office of profit or trust under the United States from accepting any present, emolument, office, or title, of any kind whatever, from any foreign country, without the consent of the Congress.

There is a code provision on the books at the present time, carrying out this constitutional provision.

It is my considered opinion, Mr. President, that this constitutional provision is being flouted by the Department of the Army.

Under date of July 19, 1951, over the signature of J. Lawton Collins, Chief of Staff, United States Army, orders were published changing Army regulations in such a way as to make an attempted distinction between acceptance of an award from a foreign government, and receipt of such an award. It should be obvious that no such distinction can or

tribution of American aid within China. And when he gained this authority, Stilwell already intended to inaugurate a new policy of lavishing American military equipment upon the Chinese Communists.

If Stilwell had gained these ends, there can be no doubt whatever that the Chinese Communists would have come to full power in China before the end of the war. And if President Roosevelt had acted more promptly on Wallace's recommendations superseding Stilwell and sending General Wedemeyer to China immediately to contain and partly prevent the fearful Chinese nationalist losses of that summer, Chiang Kai-shek would probably be ruling China today.

In short, surprising as it may seem in view of Henry Wallace's later vagaries, this much-whispered about, never before published Wallace report on China, was one of the really striking and decisive anti-Communist acts of the war period. As such, it is so important a commentary on current attempts to reconstruct the history of American policy in China, that the subject must be pursued further in subsequent reports.

I now read an article by Joseph Alsop, which appeared in the New York Herald Tribune on September 12. The article is entitled:

MATTER OF FACT
(By Joseph Alsop)
IS IT ACCURATE?

WASHINGTON.—To suggest that testimony given under oath is specifically untruthful is a very grave thing to do. In all honesty, however, it is now necessary to ask whether the much-publicized ex-Communist, Louis Budenz, has not been untruthful in his testimony before the McCarran subcommittee of the Senate Judiciary Committee.

This is deeply important. Budenz has so far been the key witness in Senator Pat McCarran's attempt to prove that the disaster in China was the result of a Communist plot centering in the Institute of Pacific Relations. Many responsible persons and publications are saying that if McCarran can prove his case, he will justify Senator McCARTHY. But if the case is being proved with false testimony, that puts the matter in a very different, not to say a rather lurid, light.

Let us examine the actual testimony of Budenz, as it relates to one individual, John Carter Vincent, former chief of the State Department's Far Eastern Affairs Division, and now American representative at Tangier. Budenz has been questioned about Vincent at least twice. On the first occasion, during the investigation conducted by Senator Millard F. Tydings, he was rather pressingly invited to accuse Vincent of being a Communist. He did not deny the possibility, but he also refused to make the charge, explaining that he had to be "careful in my statements."

CONTRASTING TESTIMONY

In contrast, before the McCarran subcommittee, Budenz became extremely positive. He said flatly that "from official reports I have received," he knew Vincent to be a "member of the Communist Party."

He was then reminded by the subcommittee counsel, Robert Morris, a specialist in leading questions, that Vincent accompanied Henry A. Wallace as his political adviser on the Wallace Vice Presidential tour of the Far East in the spring of 1944. Budenz affirmed in reply that he had "heard in official Communist Party circles that John Carter Vincent and Owen Lattimore were members of the Communist Party traveling with Henry Wallace." Being requested to elaborate, he continued:

"The trip by Wallace to China was followed by the Communists with a great deal of interest in discussions in the Politburo. In those discussions it was pointed out that

Mr. Wallace was more or less under good influences from the Communist viewpoint, that is to say, that he had on one hand Mr. Lattimore, and on the other John Carter Vincent, both of whom were described as being in line with the Communist viewpoint, seeing eye to eye with it, and that they would guide Mr. Wallace largely along those paths."

There are two aspects of this testimony, insofar as John Carter Vincent is concerned. First, there is the simple statement of fact that Vincent was an enrolled and dependable Communist, whom the party Politburo relied upon to "guide Mr. Wallace" along the path of the party line. Second, there is the obvious and unquestionably intended implication that Vincent actually succeeded in guiding Wallace in this manner, and that the party Politburo was delighted with the result.

A KEY DOCUMENT

Before the Tydings subcommittee, Budenz had previously testified that "Wallace's trip was followed with very great care and detail by the Communist Party." The picture conveyed is at once detailed and complete, of Wallace on his journey being managed and controlled by the two Communists, Vincent and Lattimore, and of all the transactions of the trip being known in detail to the Communist inner circle in New York.

This Budenz testimony seems very smooth and very damning, until you examine it in conjunction with the only key document in the case. This document is Henry Wallace's report on China to President Roosevelt, which has just been published in this space for the first time. The important point is that when this report was drafted at Kunning at the close of Wallace's trip in 1944, the man accused by Budenz, John Carter Vincent, was present and a full participant.

With Vincent's frank concurrence, Wallace made three vital recommendations to Roosevelt. Gen. Joseph W. Stilwell, whose military policy was disastrously weakening the regime of Chiang Kai-shek, who already planned to transfer American military aid to the Chinese Communists, was to be removed from command in China. The President was to name a new military commander who would also serve as his "personal representative" with the Generalissimo. And Gen. Albert C. Wedemeyer was proposed for this post as being "persona grata to Chiang."

If these recommendations of the Wallace report had been promptly acted upon, they would have averted China's catastrophes of that summer of 1944, and Chiang Kai-shek would probably be ruling in China today. The President partly followed these recommendations later on, with effects profoundly unfavorable to the Communist cause. In short, the whole wretched China story shows no clearer, more decisive anti-Communist act than this Wallace report in which John Carter Vincent participated and concurred.

ONLY ONE ANSWER

Was this then the act of a Communist Party member trusted by the party inner circle to exert "good influences from the Communist viewpoint," and to "guide" Wallace along the party line? And what about the Politburo following Wallace's trip "with very great care and detail," with all the unusual advantages conferred by having two agents in the party? If Vincent and Lattimore really were agents, as testified by Budenz, how can the Politburo have missed hearing of the Wallace report? And if they did hear it, why was not Vincent disciplined as disloyal, and why did not Budenz mention these crucial facts?

There is only one answer to all these questions. The contemporary documentary evidence refutes Budenz's late-remembered verbal evidence in implication and in detail. Every word he said about Vincent would

surely be thrown out in any court of law in the land. The hard facts cannot be escaped.

Mr. President, I now read the third of the series of articles by Joseph Alsop, entitled "Budenz and Morris," which appeared in the Herald Tribune on September 14, as follows:

If the readers of this space will pardon a persistency which derives from indignation, this is a final report on the strange case of the semiprofessional ex-Communist, Louis Budenz, and the McCarran subcommittee of the Senate Judiciary Committee. What must first be examined is the remarkable built-in pickup, the faculty for recalling today what was not recalled last year, which characterizes Budenz's memory.

This is most clearly illustrated by the Budenz testimony about John Stewart Service, a member of the group of State Department officials that the McCarran subcommittee has been picturing as Communist plotters.

Last year, Budenz told Senator Millard F. Tydings's investigating committee that "I had no information" with regard to Mr. Service's political affiliations. This year, again under oath, Budenz told the McCarran subcommittee, "John S. Service, at least from the official information I received, had many contacts with the (Communist) Party."

The contradiction in this testimony about Service is too glaring to require comment. It is of a piece, moreover, with the development of the Budenz testimony about another State Department official, John Carter Vincent. Last year Budenz refused to identify Vincent as a Communist. This year he named him as a member of the Communist Party and stated that the party leaders relied on Vincent to guide Vice President Henry A. Wallace along the path of the party line on Wallace's far-eastern trip in the spring of 1944.

A previous report has shown how Vincent participated and concurred in Wallace's crucial cable from China, urging President Roosevelt to dismiss from command the pro-Chinese-Communist Gen. Joseph W. Stilwell and to replace him with the brilliant, stoutly anti-Communist Gen. Albert C. Wedemeyer.

Hence, if we are to believe Budenz's more recent testimony about Vincent, we must assume that an active member of the Communist Party voluntarily joined in striking the heaviest blow that could be struck against the Communist cause in China. And despite the known duty of all Communists to report everything to their superiors, we must assume further than an enrolled Communist also concealed this massive fact of the Wallace cable from the party leaders whom he served. Any jury in the world, if asked to make these fantastic assumptions, would respond by throwing out Budenz's testimony, lock, stock, and barrel, and would perhaps call for judicial inquiry into the bargain.

Yet Budenz's personal role is not so completely incomprehensible. A far more distinguished ex-Communist, the great student of party history, Dr. Frans Borkenau, has kindly reminded the writer that a favorite Communist Party device for disposing of undesirable persons is to betray them to the police as dangerous Communists. Thus the leaders of the Spanish exiles were betrayed to the French Deuxieme Bureau by the French Party. Thus in wartime all sorts of men and women whose influence in post-war Germany was feared by the German Party were turned over to the Gestapo to be removed from the scene.

By the same token, Budenz may well have been the unconscious victim of his former Communist associates, who derive incalculable advantages from the fear and suspicion

now being spread through the Government. And Budenz may also have been the victim of the process so wisely described by still another ex-Communist, Whittaker Chambers, who once said: "With the play of so many influences on my mind, because people are always asking me questions, bringing me information, there are actually areas of my experience where I can no longer distinguish between what I once knew and what I have (later) heard."

But if it is possible to be charitable about Budenz, the same charity cannot be extended to the counsel of the McCarran subcommittee, Robert Morris, who has a large, expensive staff to gather all the facts, whose questions led Budenz on to testify as he did.

Until the publication of the Wallace cable on Stilwell and Wedemeyer, Morris intended to prove the "Communist influence" of Henry Wallace's far-eastern trip with a little-read pamphlet that Wallace signed for the Institute of Pacific Relations some time later. The pamphlet contains the woolly references to the Chinese Communists and hopes for postwar cooperation with the Soviets which in those days were the commonplaces of the most conservative American press, but are now regarded as signs of sin. When this reporter asked Morris to explain Budenz's testimony, he brandished this pamphlet, saying, "that's Communist stuff, isn't it?"

On the other hand, Morris had nothing to say or at least nothing coherent, about Vincent's share in the recommendation that Roosevelt replace Stilwell with Wedemeyer, which really did influence American policy, with results profoundly although only temporarily unfavorable to the Chinese Communist cause.

Nor did Morris have a word to say about Wallace's second group of official recommendations to Roosevelt from China, concerning the dangerous demoralization that was being caused in Chungking, in that spring of 1944, by the predominance of the more corrupt and reactionary Chinese Nationalist elements. Yet in this other vital document, instead of urging the slightest American aid for the Chinese Communists, Wallace urged stronger American support for the more honest, modern-minded and efficient Chinese Nationalists—the same men whom Generalissimo Chiang Kai-shek himself brought back to power a few months later.

The cable containing Wallace's political recommendations to Roosevelt found its way into print as long ago as 1950. The even more decisive cable recommending the Stilwell-Wedemeyer shift was first published in this space this week. But the document itself was always available to the McCarran subcommittee, either from Wallace's files or the Government files, and its existence certainly should have been known to Morris. In fact Wallace communicated its substance to the McCarran subcommittee's close collaborator, Alfred Kohlberg, some months ago, and then wrote about it first to Senator HOMER FERGUSON and then to Senator PAT McCARRAN himself, as soon as the Wallace trip of 1944 began to be discussed in the subcommittee hearings.

This selective system of dealing with the documentary evidence speaks for itself as clearly as do the contradictions into which the unfortunate Budenz was led. To this, only one more word must be added.

The reports in this space on this shocking business are in no sense intended as a defense—to borrow a word from Counsel Morris of John Carter Vincent or anyone else, except against the specific charges specifically discussed. After giving Roosevelt the recommendations that might have saved China from the Chinese Communists, Henry Wallace himself subsequently fell for a while, into the hands of the Communist Party—which this reporter was the first to point

out, as he was the most active opponent in the war years in China of the pro-Communist policy there. For all this reporter knows, other men besides Wallace may also have been guilty of other follies. In short, rather than defense of individuals, the aim here has been to attack the kind of public proceeding that is typified by the effort to build an obviously false case around the Wallace trip to China in 1944. This sort of thing, if permitted and approved for very much longer, can threaten the common liberties of any ordinary citizen.

REVENUE ACT OF 1951

The Senate resumed the consideration of the bill (H. R. 4473) to provide revenue, and for other purposes.

Mr. JENNER. Mr. President—

The PRESIDENT pro tempore. The Senator from Indiana is recognized.

Mr. JENNER. Mr. President, I should like to ask a question before I proceed. As I understand, a previous order has been entered that there will be a joint meeting of the two Houses at 12 or 12:15 o'clock today.

The PRESIDENT pro tempore. There has been no order to that effect.

Mr. JENNER. A point of order, Mr. President.

The PRESIDENT pro tempore. The Senator will state the point of order.

Mr. JENNER. The Senator from Indiana has been recognized. If I have not completed my remarks at the time when the joint meeting shall begin, may I be permitted to continue upon the Senate's return to the Chamber, without being charged with an additional speech?

The PRESIDENT pro tempore. Without objection, that will be understood.

Mr. JENNER. Mr. President, the House of Representatives, after careful study and hearings by its Ways and Means Committee, has voted to increase taxes by about \$7,000,000,000. The Senate Finance Committee has carefully studied every section of the House bill, as well as the economic effects it will have, and has recommended that we add \$6,000,000,000 in new taxes to those already in effect. We must now decide whether or not to vote an increase of billions of dollars to the tax burden now carried by the American people.

I rise to state I am unalterably opposed to this bill, Mr. President. I am not interested in cutting off a billion dollars here and there. I am opposed to any further increase in taxes. I intend to oppose this or any other revenue bill with all the strength and influence I possess.

The distinguished Senator from Georgia [Mr. GEORGE] and his colleagues on the Finance Committee have undoubtedly put together the best revenue-raising bill that could be devised to wring another five to eight billion dollars from the American people. But I must oppose a good tax bill as vigorously as I would oppose a bad tax bill. I do not want to take any more money from the American people and give it to their Government.

The reason is simple. People pay taxes to their Government to get protection. Our people are paying huge taxes, but they are not getting protection. We are getting no protection against dangers from without, no protection against fraud and cheating and gambling and

chicanery from within. Instead of fighting against our foreign enemies, our Government is collaborating with them. Instead of fighting against the criminal and vicious elements at home, our Government is collaborating with them.

I shall not help to squeeze another dollar out of the American people while this administration is throwing away our hard-won earnings with utter recklessness, to buy us a foreign policy and domestic policies which are destroying our country.

I not only oppose adding a single dollar of new taxes, Mr. President, but I say that, barring open war, we can cut out present tax rates, reduce Government spending by many billions, and have better defense, a better foreign policy, a better domestic policy, and a more truly American Government than we have today.

I am not going to discuss the revenue provisions of this bill, important as they are. We cannot in conscience discuss how to tax our people until we have answered the question whether they should be taxed.

Taxation is surgery. We know the new bill must cut deep into the vitals of our family life if it is to raise more money. It must cut deep into the tissues of our farms and industries. It must constrict the income flowing into our colleges and medical schools. All that would be tolerable, however cruel, if it were necessary to defend our country. The first question, the only question is, will this bill help protect our native land?

Over the last month we have witnessed an astonishing sight in this Capitol. Members of the House of Representatives put up a vigorous fight to cut the State Department appropriation bill. Member after Member on both sides of the aisle rose to voice their total lack of confidence in the present administration of our foreign affairs. The effort to cut appropriations failed.

Members of both House and Senate spoke of cutting the budgets of the old-line agencies, the \$56,000,000,000 defense bill, the foreign aid appropriations. Everyone of those efforts failed. We cut a little bit here and a little there, but the cuts were meaningless. The administration has won virtually all it asked for and probably much more than it expected.

The Members of Congress were treated like the signatory nations at San Francisco. We know what it is to be run over by a steamroller. The administration skillfully used the machinery of the appropriation bill to roll over us. The opposition was flattened out.

The administration is politically far more ingenious than are the Members of Congress. My colleague in the other House, Representative BROWNSON, of Indiana, said his throat was dry from all the dust raised by the Russian tanks the administration drives across the floor of the House whenever it wants more money. We are trying to oppose those Russian tanks with statistics, with wringing of hands. We are not even thinking about how to outwit and outmaneuver the administration's hordes of

technical experts and political spellbinders.

We have been frustrated by our own elaborate machinery. We have a committee system and a budget procedure so elaborate and so rigid that we can investigate exactly what the executive departments do with a few thousand dollars, but we have no machinery, whatever, for asking whether the whole enterprise has proved to be a good one—whether it should be continued or promptly brought to an end.

We authorize a certain activity for a Government bureau, and it goes on forever. We never ask whether the authorization should be continued. If the administration can succeed in getting an authorization it can get virtually all the money it wants for any program for all the years to come—and how well they know it.

Our problem is not form but substance, not mechanics but principles. It is too late for a consideration of procedures. The question is not the technical question of how we are to vote on appropriations and taxes but the most fundamental of all political questions: Shall the people, through their representatives, decide how much money this Government is to have; or shall the Government decide what the people are to give them for their own purpose?

I doubt if there is a Member of this body who believes we voted \$60,000,000,000 for defense and \$8,000,000,000 for foreign aid because we believed it necessary. We voted the money because administration wanted it.

Representative government rests on the power of Congress to protect the earnings of the people against the power of Government, and to dole out to the Government any so much money as it needs for the public business. Representative government was born when parliaments insisted the rulers could have no money without their free consent. When the executive power—be it president or prince—wins back the ability to decide how much money it will spend, we have arbitrary government, subject to no effective checks whatever.

This is the paramount issue. The Members of this body must face the issue of Congress' control of the purse before they impose a single dollar of new taxes. If we cannot cut down appropriations to the amounts we believe necessary for the public business, we have abdicated our function as guardians of the public purse—the earnings of the people. We must confess the power of the purse has passed from Congress, and once again rests in the hands of an executive power which is not bound by any restraints the people wish to impose upon it.

We have called millions of young men from their homes to form the Armed Forces of the United States. Over 200,000 are fighting in Korea, and several hundred thousand, perhaps several millions, will be garrisoned in Europe by this administration. But we cannot escape the fact that legally and morally the full responsibility for drafting the lives and the money of our people rests on us. Our soldiers have been fighting and dying in Korea because you and I

drafted them. We invoked the whole awful sovereign power of the United States when we told them they must leave their homes, their schools, their farms, their jobs, and go halfway around the world to fight.

We cannot in conscience leave to anyone else—in the executive arm or anywhere else—the question whether our men and our money have been drafted in the public interest only.

What are we in Congress going to do about it?

On March 19 I said in this body that our country was being governed by people with a blueprint for our destruction, and we were right on the timetable.

At that time I said:

The task of Congress is to formulate a clear, simple, realistic foreign policy, in the great tradition of American foreign policy, write it into law, and then tell the Fair Deal officials to operate under it—or operate without public funds.

Today I tell the Senate we must decide on that policy now. We must reestablish congressional control of policy-making through control of the purse and do it at once. The next election will not be held for 16 months. The present Congress is the only Congress which can do anything before January 1953. We cannot wait.

Hundreds of casualties in Korea have marked every week we have delayed. Billions of dollars are lost forever in the maw of war production. The foundations under the free society grow weaker every day, and we sink lower and lower into the quicksand.

The masterminds who design the blueprint for our destruction never rest. Each day that we hesitate we move further along according to the timetable they have made. Every day we wait, we come closer to the point of no return.

We are near the end of this session. We all know that if we recede on this issue in 1951, we will not solve it in 1952. Next year is an election year. We will wish to leave here early and return to our States and talk to our people.

Either we will face this issue of who is to control the purse now, this year and this session, or we will not face it at all. If we give way to administration pressure now, the pressure will constantly increase, and the ground beneath our feet will slowly crumble. The last free parliamentary body will sink into oblivion.

Representative government means that the people of the Nation can earn their living and seek their happiness in their own way because their representatives stand like a wall against the predatory designs of the ruler. They decide how much of our earnings need to be diverted for the public weal, and just what the executive agencies may or may not do with it. Their only power is that if the executive refuses to obey the law, the representatives of the people can withhold the funds the rulers must have to operate.

If we, here in this Congress, have lost the power to protect the earnings of our people, Mr. President, if we can no longer control the purse which the executive is allowed to spend, then let us openly ad-

mit that representative government is dead. Let us vote to dissolve the American Congress so that it may end in the sad dignity of disaster, instead of descending to the role of a plaything of the dictators like the parliaments of Louis XIV, and of Mussolini's Italy, and Hitler's Third Reich. If representative government is dead, then let us take down the flag that hangs over the Capitol, lock the doors and depart to our homes to seek a more direct means to continue the fight for liberty.

I, for one, do not believe we are defeated. I do not believe we have exhausted all the means by which the representatives of the people can guard their earnings against a predatory government, and tell their government how much money it may have and what it can do with it. We have not been defeated. We have not yet begun to fight.

TWO ROADS BEFORE US

Congress and the people are today deeply oppressed by a sense of confusion. We have a vast mass of information to digest, many conflicting policies to assess. As soon as we seem to have grappled with one problem its shape changes and we are confronted with another so different in appearance that we must start from the beginning. We climb up one step but we fall back two. If we continue in that way we have no hope of success.

I do not believe, Mr. President, that confusion is our problem. It seems to me our problem is crystal clear. We do not have confusion about an American policy for Europe or Asia, for military or diplomatic affairs. We have a head-on collision between two opposing doctrines, an American doctrine, and a doctrine based on a philosophy alien to everything for which we stand.

The boiling rapids of confusion are the turmoil which must follow when two totally different forces meet head-on trying to use American power and resources to bring about wholly different ends.

So long as we ignore this deep-set conflict, we will be burdened by the confusion and turmoil. If we look deeper and see the two opposing forces we will understand our problem, at least, and that is the first essential to the attempt to find a solution.

For a long time many of us have believed that in making an American foreign and domestic policy to meet the world crisis, we had to oppose an organized power working the other way. Now we have the proof.

The summary dismissal of General MacArthur tore away the veil of lies which has hidden the administration's foreign policy and revealed to us the threat to our very existence which was hidden there.

Our Senate committee under the junior Senator from Georgia, have dealt ably with the important task of clarifying the record. Now we can trace in exact detail the sordid story of American military leaders who have been made afraid to fight, foreign-policy officials who use the lie as a weapon to destroy our friends and help our enemies.

The MacArthur hearings have fully documented what it is almost impossible for Americans to believe—that men in our own Government were working night and day to deceive our elected officials and bend and twist our foreign policy to help the Soviet Union.

The hearings show us that we have in this country today two foreign policies and two military policies. One, the policy nominally headed by Truman, Acheson, and Marshall means abandonment of Asia to the Communists with the vain promise of saving Socialist Europe. The other, that of Generals MacArthur and Wedemeyer and Admiral Sherman, rests on the belief that we must face communism where it attacks us. We must outwit the Communists in Asia, where they have already thrown down the gage of battle, or both Europe and the United States will be overwhelmed by the new barbarian invasion.

This is the immediate aspect. But both policies are part of a larger whole. The MacArthur-Wedemeyer plan for the security of the United States is part of the great tradition of foreign policy which has been followed in this country from Washington's day to our own. The Truman-Acheson-Lattimore policies are a total abandonment of American principles and their replacement by a policy and program that will destroy American security and strengthen the power of the U. S. S. R.

The clear-cut choice between our historic American tradition and the new doctrines imported from Europe, underlies the differences between the President and General MacArthur in the conduct of the war in Korea. That choice underlies the conflict between General Wedemeyer and the Marshall plan for China in 1945-46. That choice is the source of confusion in the peace negotiations going on today in Korea, the peace treaty just concluded in San Francisco, and the growing threat of chaos in Germany.

The choice underlies every problem with which we are faced in foreign and in domestic policy.

I believe, Mr. President, that Congress must now resolve that choice. We must decide that American resources can be used only for the carrying out of American policy. We must find the way to do it, and then we must make our executive officers obey.

I intend to suggest, Mr. President, a series of concrete proposals by which our committees can work out between sessions the essential steps for a return to representative government. I believe we must use the next session of the Eighty-second Congress to put those proposals into effect. Then and only then can the American people hold a free election. At this point I need say only that nothing but a total reconstruction will save us.

We do not have one problem at home and another abroad. We do not have one problem in foreign policy and another in social security. We have only one problem.

I say that the only answer to communism is Americanism. The only answer

to soft internationalism is hard nationalism. The only answer to socialism is liberty.

It is the task of this Congress, Mr. President, to draw the line. We must lay down precisely the dividing line between Americanism and communism, socialism, internationalism, collectivism, and the rest. Then we must take our stand and ask everyone in the United States to stand with us or against us.

I am not impressed with the familiar argument that we live in a new era. Every era is new. Every generation lives in a new era. The colonists who came here from the quiet villages of England to make their way in the wilderness had to cope with a new era. The men who crossed the mountains into Kentucky—Indiana—Illinois—had to cope with a new era. The men and women who traveled in covered wagons over the Great Plains had to face a new era. The invention of electricity, of the automobile, of the radio, in our own time, have given us all practice in facing new eras.

Americans love new eras. They love the challenge of the new and unexpected. We do not have to turn to the worn-out doctrines of the worn-out nations of Europe to meet the challenge of the new.

There is nothing older than dictatorship, oligarchy, power. The nations of Continental Europe have been struggling with power for centuries. Tyranny and dictatorship change their form but not their substance.

I repeat—our only answer to power, whether it is in our own government or abroad—is liberty—American liberty.

I want it definitely understood, Mr. President, that I am an American reactionary. The nations of the world have, since 1914, been rushing toward their own destruction. Every new remedy has meant a faster flight than before. I do not propose a new remedy but an old one. I propose that we in this country go back wholly, completely, and immediately to the principles on which this country was founded, and that we offer those principles as a beacon to the other nations of the world to pull themselves, in their own way, out of the slough of despond in which they have been struggling since 1914 when the power-seekers of Europe captured control of the purse of their nations in the name of military necessity.

I believe, Mr. President, that we stand at one of the great crossroads in history. It is a great battle though there is no sound of the clash of arms. The world cannot continue much longer the mad race to Communist socialism, to rearmament, to Armageddon. We must turn back and provide the barrier behind which the other nations can reform.

We have no choice except between the descent to commu-socialism or the return to pure American political doctrine and that choice must be made now.

Congress, the custodian of our national security, must make the choice and make it now. We must either go down the road to disaster or turn now. There is no middle ground.

Congress cannot wait for another election. We cannot be diverted by side issues. We cannot transfer our burden to

anyone else, because there is no one else to take it up. We here today must make the choice.

Never, even in the Continental Congress or in the fateful years of the Civil War, was a more solemn and difficult choice put before an American Congress.

I know that the Members of this body are tired, overworked, exhausted by nervous tension and the conflict of wills. But the hour is at hand. We must rise to it. Our country has no other hope.

THE COSTLIEST GOVERNMENT IN HISTORY

I return to my question, Mr. President. Are we voting taxes for what the people need or are we voting taxes for what the Government wants? Are we spending money to get protection for our people, or are we spending it for something quite different? Let us look at the record.

The present administration is the most expensive in all history.

It far surpasses the New Deal which we used to think of as wasteful and extravagant.

In 144 years, the first 28 Presidents of the United States spent \$113,000,000,000. The New Deal spent \$376,000,000,000 in 12 years. The Fair Deal in 7 years will have spent at least \$327,000,000,000.

It will cost us \$400,000,000,000 to carry the Fair Deal for 8 years.

What did we get in return? I should like to examine the activities of the Fair Deal against that one figure. What will we have for this \$400,000,000,000?

What are we getting in foreign policy, in military policy, in financial stability, in domestic tranquillity?

Let us go back, Mr. President, to VE-day, in April 1945. On that day we had 12,000,000 men under arms. Our victorious armies were spread out in a long line across central Europe, across Africa, across India and China and converging on Japan. Our Navy guarded the seven seas.

Our Air Force was a vast curtain over Europe, Asia and Africa. It spread out north almost to the pole, south over Latin America.

This army was the best equipped army ever seen on the face of the earth. It had more arms, better arms, than any other nation had ever possessed. It had fleets of ships and swarms of planes to carry everything it needed faster than supplies had ever moved before.

In the pipelines leading to the front lines were vast quantities of tanks and bombs, bazookas and flame-throwers, laundry machines and candy bars, a flood tide of everything which the greatest industrial machine in history could make and transport to its fighting men.

In the rear of the Armed Forces were camps where more men were being trained, shipyards where more ships were being built, factories where more locomotives and freight cars and machine tools were being constructed. Our people were united and happy, ready to give their utmost for their country. The Armed Forces of the United States were a dynamic power, growing larger and stronger every day.

They were grouped in two great crescents, enclosing on one side the Third

Reich, on the other the Japanese Empire.

As the German Empire cracked, and the Japanese begged for peace, our forces were placed like a giant pincers which could, if needed, close on the Soviet Union, then still confined within the borders that had contained it for generations. Poland was free, Hungary was free, Czechoslovakia and Bulgaria and China were free, free and friendly to us.

I do not need to tell you Mr. President, where we are now, 7 years and nearly \$400,000,000,000 later.

The Soviet Union has expanded her empire fivefold. In 1939 the Soviet Union controlled less than 8 percent of the world's population. By 1950 the percentage had grown to 35 percent. Her tyranny was imposed not only on 170,000,000 but 779,000,000 people. Instead of one country, U. S. S. R. controls 17 countries, 13 of which used to be our friends.

"We of the free world are taking a terrific beating," said Representative KARL STEFAN in the debate on the State Department appropriation last July.

We have allies in the rest of the world by a most precarious hold. Communist parties are strong in France and Italy, the Socialists are close to neutrality in Britain, Germany is divided and the half of Germany on our side is weighted down by the results of the war, the Carthaginian peace and the tide of pitiful refugees from the Russian zone.

Iran and the Arab world are in turmoil, the Communists are penetrating into Africa, the other essential base for our permanent aircraft carriers.

In Asia, India is neutralist, the French and Dutch possessions are deep in either open civil war or political penetration. We are bogged down in a cruel bloody war in Korea. Our allies, the South Koreans, have been decimated and their country destroyed, while our Navy guards the Red coast against attack. Our allies, the Free Chinese, are cooped up on Formosa while the Reds execute their brothers, prevented by us from aiding their own guerrilla forces. We have just concluded a treaty of peace with Japan which, under its smiling surface, hides a booby trap as dangerous as anything we have yet encountered in Asia.

At home our people are working, but hard-pressed for the necessities of life because taxes are so heavy. The debt grows ever heavier. Our people are worried, frustrated, angry, and confused, with no confidence that their hard work and sacrifice will bring them security. Meanwhile, the Judiciary Committee in the Senate is bringing out every week new testimony showing that the Soviet conspiracy to destroy our country reached into the very highest levels of our State Department and the White House itself.

How could any administration spend \$400,000,000,000 and get only disaster? What brought us to this sorry pass? To answer that question I must examine in detail what our Government has done with the money and the power we so trustfully gave it.

TRUMAN'S BLOODY PEACE

President Truman has stated the case for his foreign policy in his own words. It is a feeble case.

Mr. Truman sees a vision. He sees a vast, solid structure of what he calls collective security. He sees the armies of the nations joined loyally together in battle in Korea, to fight the armies of communism.

He sees the Communist leaders check-mated by the fighting, aware of the folly of starting aggression anywhere else, ready to sue for an honorable peace.

What a tragic picture. Here is the head of a great state, the directing head of the coalition of free nations, the last best hope on earth, indulging in pipe dreams, in wishful thinking, in delusions of grandeur over his role as world peacemaker.

We know the terrible reality that is hidden from Mr. Truman. We know the truth of Truman's bloody peace. All Korea has been laid in waste with flame-throwers and demolition bombs. China is locked in the throes of civil war. Japan is trembling with fear of Communist penetration. The Philippines know they are next on the timetable.

Europe is divided and confused, chasing rainbows of welfare gains. Its armies are actually growing smaller while the Soviet Union's legions, its stockpile of atom bombs, its fleet of submarines, grow ever larger. European cabinets fall and rise like the waves of the sea. Ernest Bevin dies and Aneurin Bevan says England cannot give up free false teeth to preserve her liberty.

At home our people are divided as never before. Our young men are torn from their parents, their wives, their children, and sent half way around the world to meet the Soviet threat. Most terrible of all, 250,000 men in Korea are sentenced, perhaps indefinitely, to what Minority Leader JOSEPH MARTIN called the treadmill war in Korea. At least there are 83,000 battle casualties, 14,000 nonbattle deaths, and an unknown number of nonbattle disability victims while a million Chinese and North Korean soldiers and perhaps 2,000,000 Korean civilians are victims of war. Meanwhile, an army of over 2,000,000 Asians is refused arms by our own State Department and is forbidden to attack our enemies or even to defend their homeland.

In 5 years, President Truman has turned the whole world into a permanent armed camp, but he still dreams of peace. He sees himself going down in history as the "Peacemaker"—the maker of the bloodiest peace in history.

This dream fantasy reminds me of the play within Hamlet in which Hamlet's wicked uncle pours poison into the king's ear while he sleeps. How well Shakespeare must have known the eternal palace guard, always ready to pour poison into the ruler's mind, when they have hypnotized him into easy credulity.

President Truman is fed dreams of peace by the same men who put him in line for the Presidency in 1944 because they knew they could handle him. They

had watched him and worked with him and tested him when he was in the Senate. They gave word to Sidney Hillman that the Democratic convention of 1944 was to accept him. Once or twice, Harry Truman, the captain of Battery D, has reasserted himself, as when he proposed military aid to Greece and Turkey to stop Communist arms with force. But each time he seemed about to escape, the palace guard moved quickly to mend the break in the net, to increase the stimulants which would dull his mind or irritate him to temper tantrums, while they made the decisions on our country's fate. Then Harry Truman, the prisoner of Blair House, went back to writing letters to music critics while his secret cabinets governed the country.

While the President of the United States is dulled with soporifics, this hidden government has committed the United States to abandoning Asia and to building up the Socialist one-world of the British Labor Party, setting the table for Stalin whenever he is ready to take over. Our foreign policy and our economic policy are completely meshed with those of allies who may or may not be our friends. Our Armed Forces are rapidly being meshed with theirs.

We are told we must pin our hopes on situations of strength in Europe and on the likelihood that Soviet leaders will have a change of heart. We are to withdraw the American flag from Asia, put our men and our bases under the United Nations, and leave all the Orient for the Communist serpent to swallow at leisure.

Never did a mountain labor to bring forth such a tiny mouse as Truman's defense policy. Never was so slight a boy sent on a man's deadly errand. Never, at any period of history, did the strongest nation in the world, able to muster the greatest military and political power, mumble such foolish words as a charm to ward off the imminent threat of war to the uttermost. For \$400,000,000,000 we have bought—at best—the President's pathetic dream of peace in our time.

THE REMOVAL OF MAC ARTHUR

The President gives us the public policy of the administration, the words he was told to use. But that is not our real foreign policy. The men who are managing the vast concentration of power called the American Presidency are not so simple-minded as all that.

To find out what is the administration's real foreign policy, we must go far deeper than Mr. Truman's addresses, deeper than any of the double-talk handed out by the State Department's hired propagandists.

The administration says it must put Europe first in its plan for our defense, because of Europe's great industrial resources. That is child's talk. Even a child would not protect its home against burglars by locking the front door and leaving the back door unlatched. In military strategy, there is no most important front. The unguarded front is always the most important. The reasons the administration gives for putting Europe first are not the real reasons.

We have the facts in the 2,000,000 words of testimony before the Russell committee. But it is too much for us to take in all at once. Let us turn the light sharply on a few crucial turning points in the story.

Exactly why did President Truman remove MacArthur?

Exactly what did Marshall try to do in China after VJ-day?

Exactly what are our policies in Korea; in Japan, and in all Asia today?

If we find the answer to those three questions, we can find the administration's real foreign policy in Asia.

President Truman had the right to remove General MacArthur, but no superior can remove a subordinate without passing judgment on himself. General MacArthur is correct in saying he obeyed, to the letter, every directive he received. A man does not serve as a soldier until past the age of 70 and then suddenly abandon the code by which he has lived. President Truman was right in saying General MacArthur was not in sympathy with his policy in Asia. General MacArthur did not believe we needed to let the Communists win every contest with us. He did not think we could trust our future to the fuzzy thinking of the European Socialists or their Communist guides. So Congress must still face the issue. Was General MacArthur disobeying the orders of the political head of state or did he risk his career to save his country from disaster? But if the general did not disobey the orders of his superior, then Congress is letting the men who tried to destroy our country in the past, destroy our future also.

After letting the Joint Chiefs of Staff spar with Congress for days over the question of why the President dismissed our chief representative in Asia, President Truman suddenly revealed the whole story in a press conference. He said he had decided to dismiss General MacArthur when the general issued his statement of March 25 telling the Chinese Reds he was prepared to discuss a cease-fire. He said that is when he made up his mind about General MacArthur.

This cease-fire was identical with what General Ridgway offered later—with the President's approval—except that MacArthur tried to make a good Yankee bargain, and, I am sure, would not have ridden in a little jeep with a small white flag flying on it into the Communist enemy territory to sit down and talk about peace. He warned that if the U. N. stopped "its tolerant effort to contain the war in the area of Korea," if, that is, whoever runs the U. N. would let the military bomb troop concentrations, and let Chiang wage his own war without our interference, we could—and I again quote General MacArthur—"doom Red China to the risk of military collapse."

That was sound negotiation—to tell the enemy that, if they did not want to negotiate, we were prepared to step up the attack. What was wrong with it then?

In that resounding statement, MacArthur told us that the Red government of China was crumbling, that a

sudden blow might end its control of China. Do you realize what that means? With a little courage and daring last spring we could have overthrown the Soviet Union's dominance of Asia.

Strangely enough, our papers did not pay much attention to this dramatic announcement. The Members of Congress did not pay much attention to it. But the President's cronies did. Frank Hanighen said in Human Events that Acheson was "furious." Why? Because General MacArthur was saying the Acheson-Marshall sell-out of free China could still be undone.

The Communists have never controlled China. The Reds were not recognized by the British because they were in control of all China. The Communists held the key military points, but they could not control the countryside and consolidate their gains. When we entered the Korean war, Chinese resistance flared. At least a million new members joined the guerrilla forces. Chinese soldiers who thought they had been abandoned, Chinese farmers who had learned what Russia meant by "land reform," rallied to the struggle. They burned warehouses, exploded gasoline dumps, destroyed bridges, killed Communist cells which were "re-educating" the Chinese. Even the New York Times, which so often faithfully follows administration policy, said editorially May 12, 1951:

As to whether the new (Communist) state is actually in control of China is at least a moot question, in view of the rising terror in that country and the continued guerrilla warfare, which suggests that the civil war born of Communist aggression is by no means over. Certainly there is no reason for indecent haste to bury the old and hail the new.

The Red Chinese discovered that in going into Korea they had undertaken Russia's war before they had consolidated their rear. Caught between the unexpected resistance in the south and the shocking casualties in the north, the Communists turned as usual to terror, just as they had with the farmers in Russia. They killed saboteurs, hostages, and even innocent bystanders. They had execution days, first in one city, then in another, so that the whole population could watch and be terrified. They made everyone write his "autobiography," saying what he had done every day of his life, so they could guess who would be the dangerous. They interrogated the leaders—"brain-washing," the Free Chinese call it. They commandeered the press and the schools. They beheaded students. The more courageous students and teachers they burned alive.

Mr. McFARLAND. Mr. President, will the Senator yield for the purpose of my suggesting the absence of a quorum?

The PRESIDING OFFICER. Does the Senator from Indiana yield to the Senator from Arizona for that purpose?

Mr. JENNER. I shall be glad to yield, in accordance with the understanding which was had earlier this morning, that there is to be a joint session, and meeting of the two Houses and the ruling of the President pro tempore that, follow-

ing the joint meeting, the Senator from Indiana would be entitled to the floor, without it being counted against him as a second speech.

Mr. McFARLAND. That is in accordance with my understanding. I suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The Chief Clerk proceeded to call the roll.

Mr. McFARLAND. Mr. President, I ask unanimous consent that the order for a quorum call be rescinded, and that further proceedings under the call be suspended.

The VICE PRESIDENT. Without objection, it is so ordered.

JOINT MEETING OF THE TWO HOUSES TO HEAR PREMIER ALCIIDE DE GASPERI OF ITALY

The VICE PRESIDENT. The Chair would like to suggest to Members who are present that they remain, so the Senate may proceed in a body to the joint meeting with the House. The Chair asks that the Sergeant at Arms communicate with committees that are in session, and ask them to recess so their members may go to the House to hear the address to be delivered by the Italian Premier. The Chair hopes there will be a good representation of Senators.

RECESS

Mr. McFARLAND. I move that the Senate stand in recess, subject to the call of the Chair, so Senators may attend the joint meeting with the House of Representatives.

The motion was agreed to; and (at 12 o'clock and 2 minutes p. m.) the Senate stood in recess subject to the call of the Chair.

Thereupon, the Senate preceded by its Secretary (Leslie L. Biffle), its Sergeant at Arms (Joseph C. Duke), and the Vice President, proceeded to the Hall of the House of Representatives to hear the address to be delivered by Hon. Alcide de Gasperi, Premier of Italy.

(For the address delivered by the Premier of Italy, see pp. 12233-12234 of the House proceedings of today.)

REVENUE ACT OF 1951

The Senate having returned to its Chamber at 12 o'clock and 40 minutes p. m., it reassembled when called to order by the Vice President.

The Senate resumed the consideration of the bill (H. R. 4473) to provide revenue, and for other purposes.

The VICE PRESIDENT. Under the previous arrangement, the Senator from Indiana has the floor.

Mr. JENNER. Mr. President, to continue, if it were not for the clouds of dust raised by our propagandists, we would have known the truth. What was our Government doing while this reign of terror was going on? It was guarding Red China, so the Free Chinese could not help their people or us. Our Navy, the Navy which fought at Midway and the Coral Sea, was ordered to patrol the coasts of China, so that Chinese planes and ships from Formosa could not get food and weapons to their comrades on the mainland. The Chinese soldiers

who had fought 2,000,000 Japanese while our men were fighting on Iwo Jima and Okinawa, were deserted by us. One can guess how gleefully the Communists told the Chinese people, especially the soldiers and students, that we had abandoned them.

The same American Navy which carried out the brilliant outflanking move at Inchon was, in the south, assigned to guarding the Red coast.

We do not know who in the administration devised this plan. We know only that, a few days after we invaded Korea, the President gave the order to the Navy to neutralize everything our men were fighting for. Someone who was interested in completing the Red conquest of China had poured poison in the President's ear.

MacArthur's statement was very clear: The Red regime was crumbling. By a quick move, a "Little Inchon," the Free Chinese could have been landed on the China coast, to outflank the Red invaders. They could have returned in junks and sampans, as they came. They could have joined with the underground, with the millions of disillusioned peasants and soldiers, and could have forced the Communists back toward the Russian border. Fear of communism would have been lifted from Indochina, Malaya, India, and Japan—and probably from Europe.

What glorious news it would have been to read of the landing of the Free Chinese on their own shore, of their pushing the Reds to the north while our armies drove them back in Korea. How much happier our men in Korea would have been if they had been a part of a victorious liberating army, a part of pincers grinding the Red armies to destruction. Every true American would have rejoiced. Certainly, no true American could have lifted a finger to stop so happy a solution.

But do Senators remember who was MacArthur's superior in the Defense Establishment? It was General Marshall, architect of the betrayal of China. Do they remember who was General MacArthur's superior in foreign policy? It was Dean Acheson, chief of the pro-Soviet bloc of the State Department, and Under Secretary when Marshall went to China.

Marshall and Acheson saw what the rest of us missed. They saw the victory they had won suddenly snatched from their grasp.

Do Senators really think Acheson and the other members of the inner circle would let Red China crumble? Do Senators think they would let Chiang Kai-shek regain his own country? Mr. President, do you think they were concerned about American security?

Now we know the real reason why the President dismissed General MacArthur. It was because Acheson wanted it, so that the treasonable sell-out of China to the Reds could not be undone, and so that 450,000,000 lost allies could not again become our friends.

That is the basis of the administration's foreign policy in the Korean war. Now, I want to list briefly the number of ways in which the Truman adminis-

tration sabotaged our military security by their policies in Korea.

First. Before the war, the State Department refused to permit the Army to give heavy weapons to the South Koreans, though Korea is an arrow pointed at the heart of Japan.

Second. They tried to undermine the legitimate Government of Korea and to create political turmoil.

Third. They refused to heed warnings of the Republic of Korea, which gave almost the exact date of invasion.

Fourth. Acheson publicly announced that both Korea and Formosa were outside our line of defense, so that we could not protect them. Thus he invited the Communists to enter.

Fifth. After our ground troops were tied down in Korea, the President ordered the Navy to guard the Communist China coast, thus ending the Nationalist blockade of Shanghai and Tientsin.

Sixth. The administration refused to let MacArthur bomb the Communist troop concentrations and air fields.

Seventh. The administration refused to let MacArthur bomb Rashin and other strategic points in North Korea.

Eighth. They refused to let our Navy blockade the Reds, though Admiral Sherman gave us in his testimony a vivid picture of how the pitifully weak railroad system of China could be bombed out of commission and the Trans-Siberian Railroad so overloaded that it could not equip the Chinese Communists.

Ninth. They did not demand that our allies embargo shipment of war materials to Red China.

Tenth. They freed the South China armies opposite Formosa so they could be sent to the north and hurled against our men in Korea.

Eleventh. They refused to let our armies go beyond the thirty-eighth parallel, in 1951, though our fire power had clearly routed the Communist armies.

Twelfth. They refused to let the Free Chinese send troops to Korea, though they offered the largest contingent of any ally.

Thirteenth. They refused to let the Chinese Government on Formosa to use its 500,000 "first-class troops" against the invaders of their own homeland.

Fourteenth. They let 500,000 Korean reservists go without food, clothing, and equipment in Korea, while we were sending arms to Tito.

Mr. President, I am not saying anything about the United Nations, because I think that all during the Korean war the U. N. was in Mr. Acheson's pocket; and when we find who makes up Mr. Acheson's mind we shall know what determines the policies followed by the U. N.

Now look at the list of interferences with military victory by our Government, Mr. President, and ask yourself whether that is carelessness, stupidity, or sabotage. Carelessness and stupidity are dangerous in war. They cause serious losses. But carelessness and stupidity cannot be continuous and universal. Even the most stupid man will be right part of the time if he only does the obvious. When military decisions are consistently and continuously de-

signed to prevent victory, then the only possible answer is sabotage.

And if someone was powerful enough to sabotage our military operations in Korea, Mr. President, what do you think they are going to do to sabotage us when we are in greater danger?

I say, General MacArthur's military campaign in pursuit of victory was sabotaged in every possible way by our Government from the day the Navy was ordered to protect the Red Chinese, to the day when General MacArthur was relieved of his position as the first American citizen of Asia.

I say that someone in the administration was counting on the military belief that we could not hold Korea. Perhaps they even hoped MacArthur's military reputation could be destroyed and he could be removed like other great commanders during public anger over defeat. I say the plotters were frustrated by the logistical miracles performed by the Navy in moving men from the United States and equipment from the battle fields of the Pacific, by the fire-power of our infantry and air, and by the brilliant overall strategy of MacArthur at Inchon.

I say powerful people in the administration did not want MacArthur to win. When he dared to win, and then dared to say that, if he were given the minimum of military authority, he could doom Red China to the risk of imminent military collapse, they decided he must go.

MacArthur saw a magnificent opportunity. He saw that the base surrender of China to the Reds by Acheson and Marshall could suddenly be undone. MacArthur dared to speak for the American point of view and he was disciplined like a second lieutenant who is rude to the captain.

THE STRANGE PEACE IN KOREA

When General MacArthur was informed on May 17 that the President decided to dismiss him, because he issued his cease-fire statement, the General made a curious statement.

General MacArthur said he had twice before made the same offer for a "cease fire," but "without the slightest exception being taken thereto."

Such a cease-fire statement, he said, "could only be regarded as supplementary to, and in full support of any political move toward peace, unless" and I ask Senators to note carefully, "unless an agreement was in contemplation on the enemy's own terms."

Congress has so far practically ignored this charge that the administration is planning a peace settlement in Korea which gives the Communists everything they desire.

After a year of war, in which most of Korea is reduced to a shambles, and one to two million Korean civilians are dead, we are prepared to make peace with the Communists at the thirty-eighth parallel and call it a glorious victory.

The Republic of Korea was established legally by the U. N. with its boundary at the Yalu. The thirty-eighth parallel has no legal or political sanction. Occupation of North Korea by the Communists is pure usurpation, another

crossing the thirty-eighth parallel was pure invasion. The U. N. at the beginning of the Korean war took the position that the Republic of Korea extended to the Yalu. It gave MacArthur permission to operate above the thirty-eighth parallel after holding his men for many precious days while the Communists rested and regained their strength.

On December 9, 1950, the U. S. S. R. introduced a resolution into the U. N. proposing the terms for a settlement in Korea. The resolution introduced into the U. N. Assembly by the Soviet delegate provided:

1. That all foreign troops be withdrawn immediately from Korea.
2. That the decision on the Korean question be entrusted to the Korean people themselves.

All the Soviet Union wants is to get the American Armed Forces out of Asia. Then time and the fifth column will do the rest.

Every peace proposal by the administration or its supporters fits that design precisely.

For months the administration's artists in propaganda have been softening us up in preparation for a Yalta peace in the Far East, for a settlement which at first would look like a victory but, like Yalta, would in reality be a sell-out.

Of course, the administration will put in a few harsh words against aggression. But the Soviet leaders understand double talk quite as well as do our own experts in the State Department.

You see what the Soviet proposal means, Mr. President. It means the American troops will withdraw from Korea, and the Chinese troops will withdraw in the north. They will leave the Communist forces of North Korea, armed and trained by the U. S. S. R. The South Koreans will have their ruins. The fifth column will be put to work to soften up the South Koreans, the American Communists will throw dust in our eyes, and behind the curtain of dust South Korea will crumble. Soon it will vote itself into a Communist government, or the North Korean armed forces will take over.

Formosa will be left with an American military mission under State Department control. How long will 8,000,000 Formosans defend themselves if Korea is taken over?

This peace proposal of the Soviet Union on December 9 would give the U. S. S. R. every single thing it could possibly want in the Pacific. Yet I say to you, Mr. President, that every step taken by our administration since that date has fitted exactly into the Soviet plan for letting the coastal nations of Asia fall, without letting it look as if we pushed them.

Let me list, Mr. President, the curious steps by which our Government has interfered with our winning a victory through negotiation in Korea.

First. They heard, without raising objection, that our allies wanted to give Formosa to Red China.

Second. They announced, without objection, that our allies wanted to give Free China's seat in the U. N. and on the Security Council to Red China.

Third. When American public opinion protested, they said Red China could not fight its way into the U. N.—meaning it could be admitted the day after the peace settlement.

Fourth. They said the question of Formosa would be postponed—until the dust rose again, apparently.

Fifth. They announced we would not veto the seating of Red China because the Red invasion of China was a procedural matter.

Sixth. They let newspaper commentators spread stories that peace was near even as early as last spring.

Seventh. They dismissed General MacArthur when he tried to make a peace on American terms.

How many men have been needlessly killed or disabled for life, Mr. President, since General MacArthur offered American terms for a genuine cease-fire in Korea?

Again I ask you, Mr. President, is this carelessness, stupidity, or sabotage of the peace? Again I say that carelessness and stupidity are not consistent and continuous. When a policy—however skillfully disguised from day to day—has worked consistently and continuously for our complete defeat in the Pacific, I say it is sabotage.

THE STRANGE PEACE IN JAPAN

I have already discussed recently on this floor the strange peace treaty with Japan.

As I pointed out a month ago this treaty conforms in every way to the Soviet peace terms laid down in December 1950, although the camouflage in which it is hidden makes it appear at first glance like something quite different.

This treaty, skillfully ignores Free China, causes her to lose face, and, far more important, to lose hope. It offers Red China the promise of revived trade with Japan as soon as the peace is completed in Korea.

The treaty puts Japan completely under the control of U. N. which has already proposed the recognition of Red China.

It provides in article 8 that—

Japan will recognize the full force of all treaties now or hereafter concluded by the Allied Powers for terminating the state of war * * * as well—

Note well—

as any other arrangements by the Allied Powers for or in connection with the restoration of peace.

If that does not mean that we insist on the validation of Yalta, Tehran, and Potsdam, what does it mean?

We signed a mutual-aid treaty at San Francisco with such great haste that Senators could not see an advance copy. But that mutual-aid treaty says—article IV:

This treaty shall expire whenever in the opinion of the Governments of the United States of America and of Japan, there shall have come into force such United Nations arrangements * * * as will satisfactorily provide for the maintenance by the United Nations or otherwise of international peace and security in the Japan area.

As I read this clause it says to me that whenever the United States Government decides to accept U. N. arrangements for

a peace in the Japan area, the mutual security pact comes to an end, our flag is hauled down in Japan, our forces are turned into U. N. forces by a stroke of the pen, and any time the Soviet Union decides to contribute its quota of peace-loving troops to the U. N. in Japan, we shall have no right to object.

August 24, a month ago, I said on this floor, Mr. President:

Maybe you believe that every step in our State Department's peace plan filled this Soviet design, but no one in the State Department was in collusion with the Soviet leaders. I do not believe it, Mr. President.

A month has passed. The State Department has held what a pro-Fair Deal reported called the medicine show at San Francisco. The stage management was perfect, the handling of the press was perfect. Mr. Acheson was perfect—in the role he chose for himself. As the Senator from Nevada said, if he loses his job in the State Department, he can always get a job running a steam roller.

Perhaps other Senators liked the exhibition at San Francisco. Perhaps they like the United States delegation to ride like a steam roller over all dissent. Perhaps they believe Mr. Gromyko really tried to sabotage the proceedings. But I do not, Mr. President. I think it was one of the most disgraceful exhibitions in all our history. And I say further, that as the spell cast by this spectacle wears away, it will be seen that the Japanese peace treaty conforms perfectly to the Soviet peace plan of December 1950, to get our troops out of Asia or entangled in the spider web of U. N., and to let the Soviet fifth columns take over.

Mr. President, what does the Japanese peace treaty mean for peace in the Orient? Japan, with her 90,000,000 people, was represented at the San Francisco conference because she was the loser in the war. Neither free China nor Red China were there, although free China was still our ally and a member of the United Nations. They represent another 400,000,000 or 450,000,000 people. Russia, of course, opposed the peace treaty. She represents another 300,000,000 people in the East. Burma boycotted the treaty. India boycotted it. Indochina will never ratify it. There we have a total of 1,000,000,000 people who said "No" at San Francisco, or were not represented, or who boycotted the meeting. Yet our press says, "What a glorious peace treaty was signed at San Francisco." Well, it is a peace treaty for the western nations signed at a conference over which Mr. Acheson presided in all his glory, surrounded by a group of allied nations holding their hands out and saying "Gimme", and having to say "Yes" because they dared not say "No." We bought and paid for them. We are still buying them. How much did Premier de Gasperi want today? It may not be in his speech, but he will get it sooner or later—probably sooner.

What do we have as a result of the bravery of our fighting men in Korea, the 6-year-long occupation in Japan? The American flag which flew over the masthead of the ships which opened up Japan, and over ships which opened up Korea nearly a century ago, the flag which was so proudly hailed by the

Chinese from the days of the Boxer Rebellion to the Himalayan airlift, which was raised at Iwo Jima and Okinawa, which thrilled all Asia when our young men left their own country in June of 1950 and fought in the rice paddies and over the rough mountains of Korea, that flag will be lowered in Asia, and the flag of the U. N. will take its place.

THE BATTLE FOR ASIA

To understand the latest chapters in our strange policy in Asia we must go back to the series of events in 1942-43, when in the midst of war, the Institute of Pacific Relations issued a bitter denunciation of our ally, Chiang Kai-shek. From that time on, American policy in Asia has been the battleground between our great American policy in Asia and the policy set in "Pacific affairs" and "Amerasia" that so closely fitted the aims of the Soviet Union.

The Soviet Union knew after Stalin-grad in December 1942 that the Axis was certain to be defeated. Their leaders did exactly what Lenin and Stalin had said in all their public pronouncements they would do. They turned the war between the nations into an "anti-imperialist war." They followed their blueprint for inciting world-wide civil war in all nations.

There was never a moment's excuse for any American official to miss what was happening. We hear a great deal about how our leaders misunderstood, because the U. S. S. R. was an ally. But she had been an ally of Hitler's only 2 years before, and we knew alliances sat lightly upon her. We had been allied with Soviet Russia in 1917, but we did not admit her spies into our Government or feel it necessary to imitate her, or apologize for our political principles.

In mid-1945 we had in the Pacific a mighty fleet, air armada, and ground forces. We had—in command of our Armed Forces and of the Japanese occupation—our ablest general, who had fought brilliantly in both our wars, and in between had devoted his talents to helping spread American ideas and ideals in the Philippines. We had General Wedemeyer, one of our best strategists, in command of the China theater, where we had trained several Chinese divisions. We had General Chennault, who trained the Flying Tigers. We had a naval base at Tsingtao. We had the Cairo agreement which promised China complete restoration of her territory.

In spite of all these advantages we suffered in a few years in Asia the greatest military defeat that has ever been suffered by the American people while their fighting men fought as bravely as Americans have ever fought.

Let us look for a minute at the actual situation in China in 1945 when the struggle between the Soviet Politburo and the Western World set in.

China was poor and devastated by war. But she was rich in some important things. She had achieved a unified national government. When, in 1937, the Japanese attacked, Chiang is said to have called his generals together and asked them the state of the armies. They replied they could not possibly hold against the Japanese. "Then we will fight to

the uttermost," said the generalissimo. The Chinese people remember.

Forced back by the trained armies of Japan, deprived of all their coastal cities and their supplies from the outside world, the Nationalist armies fought on. When we entered the war against Japan, they were pinning down 2,000,000 Japanese soldiers who, if it were not for the Chinese armies, would have been fighting our men on Okinawa and Iwo Jima. Do not Senators think the casualty lists on Iwo Jima were long enough? Do Senators want to imagine what the bloody total would have been if Japan could have used 2,000,000 more trained soldiers to hold the islands against our amphibious attack?

Nationalist China had something else. It was training a new generation of flyers at Kelly Field, of naval officers at Miami, of engineers in our various colleges and industrial plants.

These young people had only one dream. They thought only of how soon they could win the war and turn to the tasks of reconstruction. They wanted to harness the Yellow River, "China's sorrow." They wanted to build roads and airfields, to improve agriculture, to start small industries. They wanted to build a first-rate-defense army and the industries necessary to supply it. In a report on postwar reconstruction in 1943 by the Chinese Institute of Engineers, one of the speakers showed that in 5 years after the war's end, China could be self-sufficient in the chemicals needed for her weapons. The Chinese Government wanted to do everything possible to modernize the country quickly.

In 1945 China was, like Germany after the Napoleonic Wars, on the threshold of a vast development.

The Soviet leaders knew that China could be made militarily independent in a relatively short time. They knew they must work fast. They alerted their agents and their dupes in the American Government, in the American press, and radio and magazines and professional circles. They gave the order, and their forces moved with military precision.

China fell. Next we abandoned Korea. Then we were entangled without warning in a land war in Asia—the Soviet's fondest dream—and when General MacArthur did not lose the war he was removed, just before we signed the peace treaty with Japan.

I cannot recapitulate the whole China story. Senators have heard it well told in this Chamber many times. But because of the very wealth of evidence there is a chance that we may lose sight of the essential simplicity of the story.

I want to high light one or two critical episodes because they show the grand design underlying all the subsequent events.

In December 1945 the highest military officer of the United States was sent over to China to put into effect the timetable for destruction of our principal ally in Asia.

President Truman sent General Marshall to China with instructions to insist that the Nationalist Government set up a united front government with the Communists, like what we had im-

posed on Poland at Russia's demand. Our President and our Chief of Staff were used by someone to compel Chiang to bring all the Alger Hisses, the Earl Browders, the Eugene Dennises, the Fuchses of China into the Nationalist, anti-Communist government. But Marshall also set to work to blunt the military power of Free China. He forced disbandment of most of the Nationalist armies and stopped their supply of ammunition and gasoline, at a time when they were much stronger than the Communists and could have defeated them.

The House Foreign Affairs Committee held a hearing June 19, 1946, on H. R. 6795, a State Department bill "to provide military advice and assistance to the Republic of China." The bill was really an attempt to get Congress inadvertently to rubber stamp its approval of the dispersal of the Chinese armies.

At that hearing, the then Secretary of War, Robert L. Patterson, said that "with a view of developing a more efficient Chinese Army, General Marshall has effected an agreement which reduces the strength of the Chinese Army from its present strength of over 250 divisions to 60 divisions within a period of 18 months."

Let us get the picture straight. The Chinese Hisses and Browders had an army in being and occupied a large area of North China. They were attacking the Nationalist armies, and Chiang was counterattacking with 250 divisions. General Marshall, representing the power and dignity of the United States Government, virtually ordered the President of China to reduce his forces—in the face of the enemy—from 250 to 60 divisions. Then the soldiers who were left were to be forced into a single joint army with the Communist forces.

I myself have heard accounts of the bitterness and chagrin of the Chinese officers when they were ordered to abandon their siege of the Communist strongholds. They believe that President Chiang was able, at that time, to conquer the Chinese Communists, and he was prevented from defeating them only by the orders Marshall carried from someone in our Government to the President of China.

Under Secretary of State Dean Acheson stated at the same hearings that the Communist forces in China were one-fourth the size of the Nationalist forces. When Marshall intervened, Chiang's army was four times as large as that of the Communists.

Not content with disbanding the Nationalist forces, General Marshall took part in an agreement that the Communist forces would be trained and equipped by the United States Government. Under Secretary of State Acheson said:

The Communist leaders have asked and General Marshall has agreed that their integration with the other forces be preceded by a brief period of United States training and by a supply of minimum quantities of equipment.

Under Secretary of State Acheson is our authority for the statement that the administration wanted to arm and train

the Communists before they joined the Nationalist armies.

Why? Because Acheson said they lacked training and equipment. They were not the equal of the National forces in either numbers or quality.

Acheson ended his testimony with:

No such demobilization is being carried on anywhere else in the world * * * it will produce order in its own area.

Today we know what Mr. Acheson meant by order.

Let us make no mistake about it. Millions of words have been spilled on this China question. I am trying to get to the critical, decisive step. I want to leave with you the picture of General Marshall ordering our Chinese allies to break up their armies, cut them down 80 percent, just as the Communists began their all-out drive to capture the whole of China.

Of course, I do not think General Marshall knew what he was doing. He was picked because he did not know. Someone, some inner group, in the administration knew what Marshall was doing. They knew because they knew the blueprint for our destruction which had been laid down in outline by Lenin in 1915. That inner group is now in actual command of our fighting men in Korea and will determine their fate, unless we in Congress stop them.

Marshall disbanded a large part of the 4,000,000 fighting men in free China. He scattered them to all parts of China. He imposed an embargo on the shipments of arms to China—to stop the war—he said. He helped the Chinese Communists get control of huge armies.

When he came home he was made Secretary of State in place of James F. Byrnes, whom Wallace had been ordered to force out. But Dean Acheson, the head of the pro-Soviet bloc in the State Department, still remained as Under Secretary.

The Communists waited till all was ready. Then they began the blockade of Berlin—to rivet our attention on Europe. They called a shipping strike on the west coast. They knew we were absorbed in the election. They gave the orders for the final push. China fell.

Mr. President, you know what happened next, how 300,000 of our men were sent into Korea to fight, many without training, without arms, even without winter clothing. And they are there yet, to face what fate we do not know, when the cold of winter descends again.

THE COMMUNIST BLUEPRINT FOR ASIA

Let us get this question of our Asia policy straight once and for all. It is truly the heart of our problem. The real reason for the Communist success in Asia is that the U. S. S. R. has for 35 years had a simple and clear-cut strategic plan for destroying Europe and the United States by a flank attack through Asia.

There is one final authority for this belief. His name is Nicholas Lenin.

Let us accept Lenin as sufficient authority for the statement the Communist plan is to take Europe and the United States through the soft flank of Asia. Let us spend our precious time trying to understand this plan.

Lenin saw that capitalism had not collapsed as Marx had predicted. He decided to find out why. He found his explanation in the works of the German economists and the writings of the British Socialist, J. A. Hobson.

They said that capitalism in the twentieth century was becoming "monopoly capitalism." Free enterprise was disappearing, to be replaced by "finance capitalism" in which a few huge banks and investment houses directed production through vast cartels or combines.

This new finance capitalism was restricting output at home but was saved from collapse by a new safety valve, they said, by heavy investments in undeveloped countries. These foreign investments enabled the western countries to buy raw products cheap and sell railroad equipment, machinery, and other manufactured products, dear.

Lenin wrote the classic description of this system under the name of imperialism.

We know the economic side of the argument because it has been taught in our colleges and propagandized by our Government for decades.

Lenin's real discovery was not economic but political. He saw if the Communists could win over the peasants of Asia, tell them they were exploited, and add them to the toiling masses in western factories, the Communists would have billions instead of millions of potential members for their revolutionary conspiracy. The Communist plot was no longer confined to the western nations but was world-wide, or to use the Marxian language of Arthur Rosenberg, author of the standard history of bolshevism, "The tribute-paying slaves of imperialism are not only the European factory hands, but 90 percent of mankind."

Then Lenin, the military strategist, worked out his grand design. If the Communists could win over the people of the colonial countries, they would do far more than capture Asia and Africa. They could sabotage the trade of Europe and the United States, and make their foreign investments worthless. The capitalist nations could not find work for their rising population, profits would disappear, values would fall and riots and revolution would soften up the imperialist powers for the final blow. Thus the Communist stake in Asia was not conquest of Asia but of the world.

THE COMMUNIST CHESSBOARD

Every Soviet move in world politics since 1917 has been related to Lenin's grand design for conquering the western world through revolt in Asia.

To the Communist leaders, the world is a vast chessboard, and every move is related to every other as precisely as the parts of a strategic plan for a military offensive. In fact, every Communist move is military. Lenin's so-called economic theories are nothing but a vast strategic plan for conquest of the world by economic civil war in every country.

Let us get clear this picture of Stalin and Molotov bent over their maps, which are their global chessboard, moving their little human pawns, in strict accordance

with this design, from one square to another, in Asia, Africa, Europe, and the United States, wherever they can see a chance to advance in their war against the civilized world.

Let us get the picture clear and let us never forget it, as long as there is a totalitarian dictatorship in the U. S. S. R., because the fate of our country, the lives of our sons, the hopes of children yet unborn, depend on our remembering it.

Every move that has been made by the Communists has fitted this grand design and practically every move makes them a more dangerous threat to us.

For over a generation they have been training every official in Russia, every member of the Communist network in foreign countries, the scholars and students of every country, in this grand strategy for destruction of the capitalist nations of the west.

Earl Browder was trained in this military strategy, and William Z. Foster, and Hiss must have been steeped in it. Marzani, and all the other members of the network aiding the Communist plotters were schooled in this plan.

Every man, woman, and youth in this country is vitally concerned with this strategy because it explains why we could not bomb the Communist bases in Manchuria, why our sons have to fight along without the help of the two million Asian troops who are eager to fight communism in their homelands.

There is no essential difference between the strategy laid down by Lenin in 1915 and the foreign policy of Truman, Acheson, and Marshall, for permitting Asia to fall without letting it look as if we pushed her.

I sometimes wonder, when I listen to apologists for the administration, whether they are innocents who do not know what the real Soviet design is, or whether they are cold, calculating Alger Hisses who know only too well. I sometimes wonder, when I listen to my honored colleagues on this floor defend the public statements of the administration propaganda experts, how they will feel when the American people realize the truth.

China was always the keystone in the Communist plans for Asia. Some of the best Communist organizers were sent to China in 1920 to seize control of the nationalist movement, penetrate into it, use it for propaganda, and, when the day came, smash it, to make way for the Communist revolution.

For 30 years some of the ablest young Chinese were sent to Moscow, to be trained in Communist strategy and tactics, and to return to lead the Asian uprising.

They won over Chiang Kai-shek; but he saw that their interest was not in China, but only in Russia. Chiang broke with his Soviet advisers in 1926 and 1927, and destroyed every vestige of Soviet power in China. The dream of world conquest was shattered.

Mr. President, do you see why for 25 years the Communists have never forgotten for one moment that their first move on the world chessboard was to destroy Chiang Kai-shek? Do you see why, 20 years ago, American college stu-

dents were parroting orders from Moscow that Chiang must go?

The sixth world congress of the Communist International shows how far the grand design had progressed by 1928. While we were thinking of the price of stocks, the sixth world congress of the Communist International was telling its agents, "The cooperation of the revolutionary proletariat of the whole world and the toiling masses of the colonies represents the surest guarantee of victory." Before Hoover was President, American and European Communists were ordered to work for the overthrow of imperialism, overthrow of the Koumintang, confiscation of foreign enterprises, the 8-hour day, social insurance, seizure of property of landlords, a single, progressive income tax, and an alliance with Soviet Russia. Do not they have a modern ring, Mr. President?

Do you remember how suddenly in June 1950 we became interested in Korea, the names of its rivers and towns, the height of its mountains? The Communist rulers were interested in the agrarian revolution in Korea and in denouncing Korean Nationalist leaders, long before that.

The same 1928 sixth world congress ordered its agents in Korea to increase their work with the proletariat and the farmers, to carry on a patient revolutionary education work "within the religiously motivated trade unions, to liberate them from the influence of the national reformist leaders." I am quoting that sixth world congress.

Instead of creating a Communist Party, they were to penetrate all Nationalist groups and form them into a united front, criticizing the half-heartedness of the Nationalist leaders, and "continually unmasking them before the masses." Again I am quoting the Sixth World Congress. Cannot we see there in 1928 the clear outlines of the Acheson-Lattimore policy of abandoning Syngman Rhee, "the little inferior Chiang Kai-shek," as a reactionary?

Whenever we wish to find the grand strategy that determines the administration's Asian policy, we find it clearly laid down in the theses of the Sixth World Congress of the Communist International before many of our young fighting men were born.

The foreign and domestic policies of this administration in Asia conform absolutely to the blueprint for the destruction of the western nations devised by Lenin in 1915. That was a brilliant military plan for one purpose, and one purpose only, namely, to enable the Communists to capture China and use it and other colonial countries to pull down the economic and political system of the west before the Communist armies closed in for the kill.

I am not going to discuss our European policies now; but every step in our post-war European policy, except Greek-Turkish military aid, followed exactly the blueprint for destruction of the "imperialist nations."

Let me point out only one detail. Remember the primary purpose of the communization of Asia was to capture the

trade, the "tribute" which the capitalist nations needed to employ their people. Look at Europe's Asian trade today. China is lost, the French possessions are in rebellion, Britain has given up India, the Indonesian Republic is detached from Holland. What is left to keep Europe's head above water, to feed and employ the surplus population of overcrowded Europe? But it will be said that Europe has not collapsed, but is stronger than ever. Yes, it is, on the surface. Europe does not yet feel this creeping paralysis. It does not know its margin for error is gone. Why does Europe not realize its plight? Well, think a minute. Then we shall remember. The Marshall plan—that is, the taxpayers of the United States—are giving Europe the billions to cover its deficit, to hide from its people their true situation, to keep them from making the strenuous effort needed to begin a new industrial era, as England did after the Napoleonic wars and as we did after the Civil War and World War I.

Do not you see, Mr. President, the ironic humor in having the Americans pay the losses of Europe for a few years, until the Soviet Union is ready to pull the rug from under us and we all go down together?

I say to you that Congress cannot do anything to modify, to repair, to improve our present foreign policy. It cannot take part in any bipartisan mockery to pull the wool over the eyes of the American people while their sons are dying in Korea.

I say that we, in Congress, cannot do anything with the foreign policy and the military policy of this administration except to tear them out by the roots, destroy them utterly, and start over. We cannot tax the American people to pay for two foreign policies in Asia, one in the American tradition and one designed to destroy us.

AMERICAN POLICY IN ASIA

As I said, there is no confusion about our foreign policy. Our people are confused by the cloud of witnesses, by the confusion of tongues, but those witnesses are merely the hired propagandists of the administration, their words echoed by people who do not yet recognize propaganda when they hear and see it.

We have, as I said, two policies in Asia. The President, his Secretary of State, most of the Joint Chiefs and the unofficial advisers, such as Owen Lattimore, have one policy. That policy is identical with Lenin's grand design for the conquest of the world. Our generals, such as MacArthur and Wedemeyer, our fighting men, and the American people have another policy. That is our great historic foreign policy in Asia.

We need stop here to paint another picture. While the cloud of darkness and hate and violence was forming on the European horizon, to spread out from Moscow over most of the world, light and warmth and hope were spreading from the United States westward over Hawaii, the Philippines, and China.

As I said on March 19, we spend too much time in this body talking about the

Roosevelt-Truman doctrines, which have been corrupting this country since 1929. It makes no difference whether we praise the Fair Dealers or condemn them. Whenever we let our minds dwell on their proposals, we are acting as propagandists for the poisonous ideas they want to spread. We are falling into the Fair Deal booby trap, carefully set to induce us to talk about what is frustrating and weakening, and never under any circumstances to talk about the greatness of our American past, and the reservoir of hope and experience on which we may draw for the future.

I am not going to be caught in that propaganda booby trap. I ask Senators to turn back with me to look at the magnificent policy which the United States has always followed in Asia.

We opened Korea to the world. We opened Japan to the world. We had a treaty of peace with China in the mid-nineteenth century.

When the great powers had completed their partition of Africa and turned to China as the last field of conquest, the United States Government rose up to interpose its strength between China and the great powers. John Hay, our Secretary of State under President McKinley, stated our policy:

To insure to the commerce of all nations in China the undoubted benefits which should accrue from a formal recognition by the various powers claiming spheres of interest that (all nations) shall enjoy perfect equality of treatment within such spheres.

This in effect served notice on the great powers that they could gain nothing by dismembering China as they had dismembered Africa.

That is the open-door policy for Asia, the Monroe Doctrine for the Far East. It marked the farthest extension of the foreign policy which President Monroe had announced in 1823, and which Jefferson had hailed as pointing "the course which we are to steer through the ocean of time opening on us."

Our Asian policy, as in the case of our policy in South America, rested on respect for the integrity of nations, strong or weak, and on peaceful intercourse through trade and cultural exchange. We could permit no great powers to conquer nations within our danger zone, but, for ourselves, we had no desire of conquest but only the hope of liberty for others as we enjoyed it for ourselves.

A severe crisis arose in our Asian policy after the Spanish War. Voices were then raised telling us to plunge into the same imperialistic expansion which the great powers of Europe were following. But other and wiser voices said no, we did not want to conquer anyone, we did not want Americans going abroad as consuls for the purpose of conquering other nations, only to return at the head of armies to take from us the liberty they had taken from our subjects.

We entered the Philippines, not for the purpose of organizing a conquered province, but to teach the Filipinos what we had learned of liberty, obedience to law, education and the productive arts. We trained their armies for defense

under our former Chief of Staff, General Douglas MacArthur.

At every stage in our history, from 1789 to 1940, our policy in Asia has been to spread eastward as much of our experience of liberty and productivity as we could share.

From 1945 to today we have been witnessing in Asia not only a struggle between the Soviet Union and the west, but also a more tragic struggle between American officials who were upholding the great American tradition in Asia, and those who intentionally or otherwise were following Lenin's blueprint for our destruction through Asia.

The people of Asia are awakening. They see the struggle even more clearly than we do. They knew that General MacArthur, General Wedemeyer, and Admiral Badger represented the same America which had returned the Boxer indemnity, prevented the partition of China, and lifted the Filipinos to a liberty and a prosperity which the Asians had never known. They knew that General Marshall and the State Department's bright young men were following exactly the moves Lenin and Stalin laid down on their chessboard.

They knew the young men who came into Korea and fought so bravely were of the true American breed. What they think of our peace terms in Korea and of the Japanese Peace Treaty, we can only guess. But fine young officers of the Chinese Army on Formosa committed suicide when they heard the terms of that treaty.

THE TWO AMERICAN GOVERNMENTS

I have gone into detail to describe what this administration has done in Asia, with \$400,000,000,000 to spend, because it is in substance exactly what has happened in our foreign policy in Europe, in our defense policies, in our political program at home, and in our dealing with economic problems.

Instead of confusion, Mr. President, we have clarity. We have two clear-cut policies, wholly different one from the other, and meeting head on. One is an American policy designed for our protection; the other, a series of moves which exactly fit the Soviet Union's blueprint for our destruction.

The administration has closed the books on our Asian policy with the spectacle of the Japanese peace conference. It hopes not to hear of Asia again until the campaign is over. It is spectacularly turning our attention to Europe. We have another general sent to Europe on a political mission, for the purpose of building a system of alliances. But we know that the European defense system, from England to Greece, rests on a hotbed of political discontent. We know that Germany is on the verge of a political upset, with American officials attempting to revive the Morgenthau plan to break up German steel-mill operating units at a time when we need to increase the steel output by 25 percent.

Our military defense rests on the same double train of thought. Immediately after Admiral Sherman's death, the Washington Times-Herald printed a story of Sherman's doubts about our

military program. He believed a friend reported—

1. That the presence of American troops in Europe, although necessary as a temporary bulwark, would produce hostility and resentment.

2. That pressures from the military for new increases in defense spending to build the Army, Navy, and Air Force beyond original plans would endanger the Nation's economy.

3. That the ring of air bases proposed as part of the new \$5,600,000,000 military-construction program could provoke Soviet Russia to war.

4. That the occupation by American troops or bases on European countries with the American flag flying on foreign soil would stir hatred of the Americans as interlopers or invaders.

He saw the seeds of European resentment in having American troops in Europe with more spending money than the European soldiers. An American sergeant receives more money than does a French commissioned officer.

These are not my opinions, Mr. President. They are the opinions of a member of President Truman's Joint Chiefs of Staff.

This haunting fear over the defense program was the heart-breaking strain that brought the admiral's death, according to this friend.

Our defense program suffers from a sort of elephantiasis. Everything is swollen. The figures get bigger and bigger, the costs higher and higher, the promise of new weapons more fantastic than ever. But the Soviet Union can entangle our troops on a battleground at the farthest distance from their homeland, in a terrain where their mechanized vehicles are at the greatest disadvantage, at a time when the weather neutralizes our air superiority. They keep us there, an open sore for over a year, and when our superior fire power is about to win the war for us they can remove our ablest general, entangle us in a propaganda booby trap, and keep up peace negotiations indefinitely. If they end the see-saw in Korea, it will probably be because they are ready to begin in Iran, or some other place.

It is high time we asked how our American Government can be directed to two quite different ends.

When I put the pieces of our European policy together, I do not get welfare, or defense. I have discussed on this floor the Marshall plan, the NATO, troops for Europe and point 4. I have said of each of them that it would not cure the difficulty it was designed to cure, and it would be followed by demands for bigger expenditures for more help to Europe. Senators heard today a speech confirming that prediction.

We cannot cure the economic difficulties of Europe because the Soviet Union has been draining off the lifeblood of Europe in China, in India, in southeast Asia, in Indonesia. Then we give Europe transfusion after transfusion in the vain hope that the patient will rally.

When we view the destruction caused by the fifth column in our Government; when we see the tight grip with which its tentacles hold on to its power, it is time to abandon the idea that we are

dealing with a Communist Party, a group of misguided idealists, some unpleasant radicals from Union Square or even a fifth column remote from its home base.

We are dealing, I believe, with something quite different. The Soviet Union is engaged in continuous expansion of its territory. It plants beachheads in the territory of the enemy and uses them as a basis for further offensives.

I think we must now recognize the Communist apparatus in the United States is in reality a military operation on American soil, engaged in seizing territory, setting up bases, and expanding its operations, just as the American soldiers did in Normandy. As its units establish their beachheads in our Government departments and in private associations, they are coordinated to form an invading force operating under Soviet law in the United States. We are dealing, in other words, with a dual sovereignty wherever the Soviet apparatus operates on American soil.

We saw an extreme example of dual sovereignty in the Soviet-planned raid on Peekskill, N. Y., when Soviet armed guards were brought in in buses, armed with baseball bats to break heads, and pop bottles to cut throats, and marched in formation to guard a piece of American soil. But I say, the Soviet colonies in our Government departments are equally a part of the Soviet sovereign domain. It is their task to get hold of American resources and to use them to waste our substance, confuse our minds, and bend or twist or inflate our policies.

Our \$400,000,000,000 has been wasted because only a small part of it was directed to American policy-making. The rest, the larger half, was siphoned off by this alien sovereignty in our midst, and used for our destruction as completely as any military force could have worked to destroy us.

The hiding place of these invaders is in the vast bureaucracy which has been built up in the Federal Government in the past 18 years. This is not an enlarged version of the American Government, but is a transformation of our Government into an imitation of the European dictatorships on which Communism has been fed.

I am not going to tell Senators who in the administration are the masterminds of this conspiracy. The Senator from South Dakota [Mr. MUNDT] and the Senator from California [Mr. NIXON] have helped uncover the story. Members of the House, such as Dr. Judd, and the Un-American Activities Committee, have helped build up the record.

The Senator from Wisconsin [Mr. McCARTHY] has recently given us a long restatement of the evidence. Now the Internal Security Subcommittee of the Senate Judiciary Committee under the chairmanship of the Senator from Nevada [Mr. McCARRAN] is going still deeper into the hidden network.

I hope the individual masterminds of this conspiracy will be exposed to the public, to be pilloried before the public gaze and take their place in the list of traitors to our country which so far contains only one name, that of Benedict Arnold.

I am not trying to identify the conspirators. I am dealing with only one question—what can Congress do to end this betrayal?

I am thinking of the hundreds of young men who will die this week in Korea, because we have delayed, the hundreds who will die next week because we have delayed, all the golden youth who will die if we do not hurry, hurry, hurry.

WHAT CONGRESS CAN DO

Mr. President, I am not willing to limit myself to destructive criticism at a time when our men are meeting the Communist fire in Korea, when we do not know at what moment the whole fire power of the Communists will be opened up against them.

I believe we shall have no difficulty at all if we free ourselves from the illusions produced by Government propaganda. Our problem is a return to our own great tradition in military policy, in foreign policy, and on domestic issues.

It is easy to define that policy, but before Congress can impose it on the executive arm, it is necessary for us to do some legislative work of our own.

The first step in rebuilding the Federal Government is to return to the principle of the Federal-State balance of power.

Over the past 25 years the Federal-State balance of power has been completely destroyed, and the Federal Government has absorbed an ever-increasing share of the work formerly carried by private citizens or local governments. But we must not forget that diminished the power of Congress also. Congress cannot even see the work of Federal agencies unless their powers are limited. If Federal money is spent on relief cases in our cities and the training of relief workers in collectivist doctrines, Congress will soon be unable to control the relief agencies. Hatton Summers warned the public, in an article in the Reader's Digest, that we could not get good legislation from Congress until we returned to State and local governments the work they ought to do.

That problem was important in 1945. As former Representative Summers said, why should we carry on a war to fight the Nazis if we intended to adopt national socialism while our soldiers were away? But the issue is far more serious today. There is no possibility of eradicating the fifth column within the American Government, no possibility of preventing a sell-out to the Soviet Union, unless we limit the Federal Government to its duties under the Constitution.

One of the task forces of the Hoover Commission was concerned with Federal-State relationships. It found the Federal Government had been absorbing tax sources that belonged equally to the States and then doling out the State's own money to be spent only as the Federal Government wished. The remedy is to preserve certain taxes for the States, and take the corresponding responsibilities from the Federal Government. Health, education, housing, and welfare the Commission found were properly the domain of the State or private citizens. If they are returned to the States in

toto, and the corresponding taxes preempted for the States, the load of Congress will be lightened immeasurably, and we can turn our attention more fully to our proper tasks.

We do not know what is going on today. We have become too vague, too confused, and too entangled—and let no one tell us we are not.

The proposal has already been made in this session to set up a committee on Federal-State relationships. Congress can authorize this committee to go immediately to work and to bring in a preliminary report by January 15. Then we can proceed at once to draft the necessary legislation in the coming session and notify the State and city governments that all grants will cease after the briefest necessary interval. Then we can clinch the constitutional balance of power between Federal and local government by drafting a constitutional amendment forbidding the Federal Government to make grants to any other branch or level of government for any other purpose whatever.

The administration has skillfully worked to extend its power also by making grants to private agencies, colleges, research agencies, hospitals, and the like. A committee has already been proposed to make a study of all legislation for new authorizations over the last few years to defeat the increase in nondefense spending at the source. Once these authorizations have been listed, Congress could rescind them all, and then reenact any which could be proved to be essential in the cold war.

This committee, or another, could also be given instructions to end all Federal grants to private agencies and individuals, to be followed by a constitutional amendment to close the question.

The State Department is today making grants, or their equivalent, to colleges for courses in foreign relations, to libraries, to magazine publishers and book publishers, to free-lance writers and radio announcers. Every dollar given by the Federal Government to private agencies is a chain binding those private agencies to the Federal Government.

Another committee should be assigned the task of reporting on January 15, the plan for a sinking fund into which a predetermined share of all Federal revenues would be paid for retirement of the public debt. A large share of our public debt is held by banks, insurance companies, private firms, educational and other nonprofit organizations, and State and local governments. If our bonds grow weaker every enterprise in the Nation is weakened. The establishment of a sinking fund would greatly strengthen private enterprise and provide a much-needed cushion against the day when the economy turns downward. The savings from ending Federal grants to private agencies would more than pay for the sinking fund.

Another committee should be assigned the task of reporting on the changes in Federal financing since 1933, especially the Federal corporation and the practice of issuing bonds to the Treasury. Treasury high finance should be dismantled so that all Federal operations

rest on direct appropriations and nothing else.

A committee already has been proposed for a thorough study of the organization of the State Department, and another on the administration of our overseas operations. We need a thorough study of Agriculture and of Interior. We need to establish a clear line of demarcation between the State Department and the military, so the defense chiefs can report their opinions direct to Congress uncensored by the State Department.

I am not going to try to suggest all the studies and reports that might be useful. I am proposing that Congress take upon itself immediately the task of dismantling our vast Federal establishment as the quickest way to reduce costs, reduce expenditures, and bring light into the dark places of the remaining agencies.

I believe this is the first task before Congress—before it lays any more taxes or appropriates any money for 1952–53. I propose that we devote the months between sessions to the work of these committees, and that we devote the first 4 or 5 months of 1952 to putting these reforms into effect.

That work will need to be done only once. When it is done we can turn to the making of an American foreign policy, a strong defense policy and a sound fiscal policy, with genuine hope of success.

If it is not done, we can be quite sure of one thing. The administrative pyramid will soon be of a size we cannot control. It will have grown so great and so powerful that Congress can never regain its power. But if the representatives of the people do not control the Government's purse, if they do not control the size and shape of the executive establishment, who will control them? They will be controlled by an inner circle within the vast executive establishment and the cleverest, most unscrupulous, most Machiavellian of those inner circles is the one which is steered from Moscow.

I am not making this appeal to Republicans or to Democrats. It is not a party issue. I am making this appeal to the Members of this body and to the Members of the House of Representatives. I believe a majority of those men and women are willing, regardless of party, to take the steps necessary to reduce the Federal establishment to its proper functions, cut the cost of Government to the bone, and then impose a truly American policy on the operations which properly belong to the National Government in Washington.

Most important of all, Mr. President, we must be willing to do the work this year, complete it before we vote the appropriations for next year and reduce our swollen overextended Federal Government before the critical tests of the next election, the impending economic crisis and the threat of hostile attack from abroad.

I do not want to split our country in two. I do not want the men fighting in Korea to hear their country is divided and embittered. I only desire to bring the invisible government which is de-

stroying the United States out into the open and uproot it. I want to tear down the superstructure in which the saboteurs can hide and rebuild it according to the design of the Constitution. I want to clean all traitors and Communist agents out of our Government before we are softened up for destruction.

We can set a clear course the administration can follow if it wishes. If it does not, we must turn our policy into statute law and, by the power of the purse, compel the Executive to obey it.

We had a Territorial Governor of Indiana, William Henry Harrison, later President Harrison. He was taken ill with pneumonia and his physician came to sit by him while he slept. Suddenly he awoke. He spoke, the physician said, very solemnly, as if he was talking to his successor. He said, "I ask you to understand the Government of the United States. I ask you to obey it." Then he fell back dead.

That is all we asked of the President, to understand the Government of the United States and to obey it.

If the President will not do it, if, as I fear, he is hopelessly bound and tied by this inner clique, then I say Congress must do it. Congress must abolish every last vestige of this hidden secret government which devised our Asian policy to fit perfectly Lenin's blueprint for our destruction and is doing the same thing in Europe and at home. Congress must lead the way to a genuine American policy with American sea, air, and essential ground forces to hold our defense perimeter, and a Monroe Doctrine offering peace and liberty for every nation within that area.

We do not need to tax our people into serfdom to protect our homeland against attack or to win allies among the nations of the world. We need to return to the ideals and the principles of the men who made our great tradition.

When the American Republic stands once more for liberty, for honor, for courage in high places, we shall be able to use unhampered the true strength of the American people, and other nations will join with us gladly.

Mr. McFARLAND. I suggest the absence of a quorum.

The PRESIDING OFFICER (Mr. CLEMENTS in the chair). The clerk will call the roll.

The Chief Clerk called the roll, and the following Senators answered to their names:

Aiken	Flanders	Lehman
Bennett	Frear	Lodge
Benton	Fulbright	Long
Brewster	George	Malone
Bricker	Gillette	Martin
Butler, Md.	Green	Maybank
Butler, Nebr.	Hayden	McCarran
Byrd	Hendrickson	McCarthy
Cain	Hennings	McClellan
Capehart	Hickenlooper	McFarland
Carlson	Hill	McKellar
Case	Hoey	McMahon
Clements	Holland	Millikin
Connally	Humphrey	Monroney
Cordon	Ives	Moody
Dirksen	Jenner	Morse
Douglas	Johnson, Colo.	Murray
Duff	Johnson, Tex.	Neely
Dworshak	Johnston, S. C.	Nixon
Eastland	Kem	O'Connor
Eaton	Kerr	O'Mahoney
Ellender	Kilgore	Pastore
Ferguson	Knowland	Robertson

Russell	Smith, N. C.	Watkins
Saltonstall	Sparkman	Welker
Schoeppel	Stennis	Wiley
Smathers	Taft	Williams
Smith, Maine	Thye	
Smith, N. J.	Underwood	

Mr. JOHNSON of Texas. I announce that the Senator from New Mexico [Mr. ANDERSON] is absent by leave of the Senate.

The Senator from New Mexico [Mr. CHAVEZ], the Senator from Wyoming [Mr. HUNT], the Senator from Tennessee [Mr. KEFAUVER], and the Senator from Washington [Mr. MAGNUSON] are absent on official business.

Mr. SALTONSTALL. I announce that the Senator from North Dakota [Mr. YOUNG] is absent by leave of the Senate.

The Senator from Nebraska [Mr. WHERRY] is necessarily absent.

The Senator from New Hampshire [Mr. TOBEY] is absent because of illness.

The Senator from New Hampshire [Mr. BRIDGES] is absent because of illness in his immediate family.

The Senator from North Dakota [Mr. LANGER] and the Senator from South Dakota [Mr. MUNDT] are absent on official business.

The PRESIDING OFFICER. A quorum is present. The question is on agreeing to the committee amendment on page 142, line 11, as amended.

Mr. SALTONSTALL. Mr. President, I rise to address a parliamentary question to the Chair.

The PRESIDING OFFICER. The Senator will state it.

Mr. SALTONSTALL. Am I correct in my understanding that the question now before the Senate is the savings-bank section of the bill, as amended by the Capehart amendment, and that the question comes on agreeing to that section as amended?

The PRESIDING OFFICER. The Senator from Massachusetts is correct. The question is on agreeing to section 313, as amended.

Mr. SALTONSTALL. If the section is agreed to as amended, will a motion to strike out the whole section be in order at a later time?

The PRESIDING OFFICER. The Chair is advised by the Parliamentarian that it could be done only within a 2-day period on a motion to reconsider.

Mr. SALTONSTALL. So that before a motion to strike out could be made, if the section as amended is agreed to this afternoon, a motion to reconsider would have to be made within 2 days, and such a motion to reconsider would have to prevail before a motion to strike out could be made.

The PRESIDING OFFICER. The Chair is advised by the Parliamentarian that a negative vote would accomplish that result.

Mr. SALTONSTALL. A negative vote on the question of agreeing to the section, as amended, would accomplish the same result?

The PRESIDING OFFICER. The Chair is advised that that is correct.

Mr. SALTONSTALL. I thank the Chair.

Mr. BUTLER of Maryland. Mr. President, a parliamentary inquiry.

The PRESIDING OFFICER. The Senator will state it.

Mr. BUTLER of Maryland. May we have the amendment, as amended, stated by the clerk?

The PRESIDING OFFICER. The clerk will state the amendment as amended.

The Chief Clerk read as follows:

SEC. 313. Mutual savings banks, building and loan associations, cooperative banks.

(a) Mutual savings banks: Section 101 (2) (relating to exemption from tax of mutual savings banks) is hereby repealed.

(b) Building and loan associations and cooperative banks: Section 101 (4) (relating to exemption from tax of building and loan associations and cooperative banks) is hereby amended to read as follows:

"(4) Credit unions without capital stock organized and operated for mutual purposes and without profit."

(c) Federal savings and loan associations: Section 5 (h) of the Home Owners' Loan Act of 1933, as amended (12 U. S. C. 1464 (h)), is hereby amended by striking out "date" and inserting in lieu thereof the following: "date, and except, in the case of taxable years beginning after December 31, 1951, income, war-profits, and excess-profits taxes)."

(d) Bad debt reserves: Section 23 (k) (1) (relating to deduction from gross income of bad debts) is hereby amended by adding at the end thereof the following: "In the case of a mutual savings bank not having capital stock represented by shares, a domestic building and loan association, and a cooperative bank without capital stock organized and operated for mutual purposes and without profit, the reasonable addition to a reserve for bad debts shall be determined with due regard to the amount of the taxpayer's surplus or bad-debt reserves existing at the close of December 31, 1951."

In no case shall the reasonable addition to a reserve for bad debts determined under the preceding sentence be less for any taxable year than 15 percent of the taxpayer's net earnings during such taxable year (computed without the deduction of such addition to reserves), but an excess of such 15-percent amount shall be allowable if it is determined by the institution that an additional amount is necessary to require an adequate reserve, except that such an addition to a reserve shall not be deductible under this sentence if the total amount of the taxpayer's surplus, undivided profits, and reserves (computed without the amount of the addition) equals or exceeds 10 percent of the taxpayer's total deposits or accounts on the last day of its taxable year.

Mr. McFARLAND. Mr. President, a parliamentary inquiry.

The PRESIDING OFFICER. The Senator from Arizona will state it.

Mr. McFARLAND. Was not the Capehart amendment of this section adopted by the Senate on Saturday?

The PRESIDING OFFICER. The Capehart amendment was agreed to.

Mr. McFARLAND. Then was not the section, as amended, adopted by the Senate?

The PRESIDING OFFICER. It was not.

Mr. McFARLAND. The question now is on whether—

The PRESIDING OFFICER. The question before the Senate is on agreeing to the committee amendment, as amended by the Capehart amendment.

Mr. BUTLER of Maryland. The question is on agreeing to section 313, as amended?

The PRESIDING OFFICER. The Senator from Maryland is correct.

Mr. SALTONSTALL. Mr. President, I ask for the yeas and nays.

The yeas and nays were ordered.

Mr. IVES. Mr. President, I do not wish to delay action on the amendment, but I wish to point out again—

Mr. President, may we have order?

The PRESIDING OFFICER. The Senator will suspend until Senators resume their seats. Members of the Senate who desire to converse with other Members will kindly retire from the Chamber.

Mr. KERR. Mr. President, a parliamentary inquiry.

The PRESIDING OFFICER. The Senator from Oklahoma will state it.

Mr. KERR. In the opinion of the Chair, can it be properly be construed that much of the confusion on the floor is due to the fact that what is now to be voted on is not exactly clear?

Mr. IVES. Mr. President, I believe I have the floor.

The PRESIDING OFFICER. The Senator from New York has the floor.

Let the Chair state the pending question.

Mr. IVES. I am glad to suspend for that purpose.

The PRESIDING OFFICER. The question now before the Senate is on agreeing to section 313 as amended by the Capehart amendment, which was adopted on Saturday.

Mr. IVES. Mr. President, as I started to say, I do not wish to delay unnecessarily the action of the Senate. However, I feel that I must point out the situation as I see it.

The vote we are about to take is virtually identical with a vote to strike out section 313, except for the fact that the particular vote we are about to take is, in effect, the reverse of striking out. If section 313 containing the Capehart amendment, as already referred to, is voted on favorably, then presumably it will be impossible later to vote to strike out of the bill section 313 either in its present form or in any other form.

That situation is of considerable consequence to those of us who are disturbed by section 313 in its present form, just as we were disturbed by section 313 in its original form. In fact, as section has been amended, it will undoubtedly be very troublesome and will cause more difficulty for the States in which savings-banks operate than would section 313 in its original form. Certainly it will cause a great deal of difficulty for our program in the State of New York, and I do not believe the State of New York is the only State which will be affected adversely.

As was indicated during the debate on Saturday, the State of New York is trying to increase its reserve requirements for savings banks. The present law requires a reserve amounting to 10 percent of deposits. In addition, we are requiring additional reserves for the funds which are in the mortgage portfolios, and on the whole those additional reserves cannot average more than 7 percent of the mortgage portfolios.

In other words, in the State of New York we are trying to increase our legal reserves to approximately 17 percent of

deposits at the present time. To be sure, legislation to that end has not been enacted by the State, and it would not be advisable to enact it immediately, because thus far more than one-third of the savings banks in New York State have not yet qualified to meet the 10-percent requirement; and even more than that number, far more than half of the savings banks in the State of New York, have not yet met the request of the superintendent of banks regarding the particular reserves to cover mortgage portfolios.

Therefore, the pending provision, if adopted, would leave the State of New York in a position in which presumably it would never, so long as this provision remained in the statute, be able to get the reserves to the point where they should be.

I am not certain, but I do not believe New York is the only State in the Union that will be affected at some time by a shrinkage in the value of the mortgage portfolios of the savings banks, due to losses in those portfolios. The time may come, Mr. President, when real-estate values will show a considerable amount of depreciation, when many mortgages themselves will have to be foreclosed, and when there will be substantial losses to mortgage holders, such as occurred in the 1930's, when many savings banks were thus affected.

Mr. President, I am merely saying that, unless the way is left open for these reserves to be increased without interference, without being blocked by a Federal statute which virtually will prohibit an increase in the reserves, the savings banks in New York State and presumably those in many other States will very likely find themselves in real difficulty.

Mr. HENDRICKSON. Mr. President, will the Senator from New York yield?

Mr. IVES. I yield to the Senator from New Jersey for a question.

Mr. HENDRICKSON. I am sure the distinguished Senator from New York is aware that the situation in New Jersey is precisely the same as that in New York.

Mr. IVES. I take it that is a question; and I certainly am aware of that situation, and I am grateful to the Senator from New Jersey for asking the question and thereby bringing the point to a focus.

I understand also that the savings banks in Massachusetts and in other New England States are in the same situation. I gathered from the remarks to which I listened the other day that New York and the New England States are not the only States in the Union that are affected in this way. I dare say that, while perhaps not half of the States of the Union are so affected, almost nearly that many are affected, in one way or another, so far as their savings banks and savings institutions are concerned.

Mr. President, it has been suggested, and I can well understand how the suggestion can very honestly be made, that we can enact the bill with this section as amended in it, and it will then be possible, after the 10-percent reserve requirement has been met and after such

a tax as may be found due on the earnings will have been levied, still to set aside for these institutions additional amounts for reserve purposes. However, Mr. President, I wish to say that such amounts undoubtedly never would we set aside, because in reality they probably never could be set aside.

Mr. SALTONSTALL. Mr. President, will the Senator from New York yield at this point?

Mr. IVES. Yes, I yield for a question.

Mr. SALTONSTALL. Is it not true that the reverse effect would ensue, namely, instead of having a 13-percent reserve increase, it would decrease to 10 percent?

Mr. IVES. Yes; I am reasonably sure that that would happen, and that States which now have reserves of 13 percent would find themselves very soon without reserves of 13 percent, and that States, such as New York, where today there are average reserves of 11.4 percent, would find themselves without that average percentage.

Mr. BUTLER of Maryland. Mr. President, will the Senator from New York yield?

Mr. IVES. I yield.

Mr. BUTLER of Maryland. I thought it was understood that each year's operation would stand on its own feet, and that the percentage of reserves would be calculated on the basis of each year's operation, so that if the reserve were 10 percent, it would not decrease each year.

Mr. IVES. It would not go down below 10 percent; but the Senator from Massachusetts was referring to the 13 percent in reserves which exist today in Massachusetts, and I was referring to the average 11.4-percent reserves which we now have in the State of New York. There may be other States which have reserves which are above 10 percent at the present time.

However, I think both the Senator from Maryland and the Senator from Massachusetts will agree that we do not wish to find ourselves in a predicament where we never can have reserves of more than 10 percent, as would probably be the case if this provision were finally to be in operation when we would find out definitely what its interpretation would be.

As I say, Mr. President, there is a possibility that the reserves could be increased after the section here proposed would have been enacted and after the tax would have been levied on the net earnings, whatever those earnings are found to be; but I say that in all probability that eventually never would happen, because if it were to occur, if the procedure followed were such that the reserves could be built up only after the 10-percent reserve point had been reached, then in reality it would be necessary for the savings bank institutions to cut their interest rates. That matter has been fairly well covered during the present debate. I can see what would happen, and so can anyone else who is acquainted with savings banks and savings institutions: Very shortly the deposits would begin to shrink, shrink, shrink, until finally there could

be no savings banks worthy of the name with reserves of more than 10 percent.

The consequence of adequate reserves in New York, for instance, under the proposed section is a tough one, because it would mean the elimination of the one vehicle available to the little home owner, the person who may need to obtain a small mortgage loan, the person who still believes we should handle these things through the operation of private industry and private enterprise. He might be deprived of the most desirable vehicle by which to obtain the money he would need if he were to be able to build his home. In the final analysis that condition would mean that this whole matter would rest once more with government; and I say "once more" because there seems to have been a trend in recent years toward turning these matters over to government, and only this year we have begun to turn away from it. I hope that the time will never come when we have to turn to government, either State or Federal, for the financing of private undertakings which should be financed privately, not by government.

Mr. President, that is why I want to say that I, myself, am going to vote against agreeing to the committee amendment as amended, and I assume that my distinguished colleague from New York will also vote against agreeing to it, because as I have said before, it means ultimately the end of institutions of this kind in our State. Oh, yes, they may continue for a number of years, but if this proposal is carried out as it can be carried out, as it may be carried out, they will continue, in dwindling amount, in dwindling importance, in dwindling ability to take care of the responsibilities with which they may be faced. I cannot go along with this kind of program.

Mr. SALTONSTALL. Mr. President, will the Senator yield for a question?

Mr. IVES. I yield.

Mr. SALTONSTALL. In Massachusetts, with a population of 4,700,000, we have 3,300,000 depositors in savings banks and 485,000 shareholders in cooperative banks. Is it not true that the State of New York has the same general proportion?

Mr. IVES. I thank the Senator from Massachusetts for that question, because as has been pointed out several times in this debate, in New York, with approximately 15,000,000 people at this time, there are approximately 9,000,000 depositors and borrowers in these particular institutions.

Mr. President, this is the one kind of institution above all others where persons of moderate means and youngsters in school, whether in grade school or in high school, can put their money for savings purposes, and see it increase from time to time and from year to year as interest accumulates and they have more to deposit, until finally they get the idea of thrift and the idea of independence, the idea of standing on their own feet, not turning always to someone else to help them out when they may get into a little financial difficulty. There is a great deal at stake in the par-

ticular question which is now before the Senate, far more than can ever be at stake in a matter of taxation per se.

Mr. President, I urge the Senate to reject this particular section of the bill, as amended.

Mr. LEHMAN. Mr. President, it seems strange to me and illogical that after we have for a hundred years or more encouraged the people of the State of New York and of other States of the Nation—

Mr. GEORGE. Mr. President, if the Senator will permit. I gave notice that I would invoke the rule. I hesitate to do so, since the motion is in slightly different form, but, according to my count, this is the ninth time the distinguished senior Senator from New York has spoken on this same question on the same legislative day, and on the same issue.

Mr. IVES rose.

Mr. GEORGE. I am not making an objection, but I shall do so hereafter.

Mr. IVES. Mr. President, a parliamentary inquiry.

The PRESIDING OFFICER. The Senator will state the inquiry.

Mr. IVES. The inquiry I make is this: It was my understanding that in the previous statements I made on this subject I was speaking on the basic amendment offered by the Senator from Vermont to strike this section from the bill, prior to the time the Capehart amendment had been added to it; which seems to me to be slightly different from the subject which is now before us.

Mr. GEORGE. Mr. President, the distinguished Senator has spoken on the amendment originally offered, on the Capehart amendment, on the amendment to the Capehart amendment, and he has now spoken again, and I have raised no issue; but I shall hereafter invoke the rules of the Senate. I gave that notice this morning. I do not want to do so without due notice. But I shall do it hereafter.

Mr. IVES. Mr. President, a further parliamentary inquiry.

The PRESIDING OFFICER. The Senator will state it.

Mr. IVES. Is a Senator deprived of speaking on any new proposition which may come along, and on any old proposition which may be before the Senate and which has been revised, even though the main subject, the bill itself, has been before us for a period of time, and he may have spoken on that?

The PRESIDING OFFICER. Under the rules of the Senate, every Member of the Senate is entitled to speak twice on the same question.

Mr. IVES. Is not the subject before us, then, the question of adopting section 313, as amended?

The PRESIDING OFFICER. That is the question.

Mr. GEORGE. It is the same question, and I said I was not raising the point now.

Mr. IVES. I am trying to clarify the matter.

Mr. GEORGE. I shall make the objection later on, if the Senator wants to speak again, and we can then clarify it, if it takes all summer.

The PRESIDING OFFICER. Is the position of the Chair clear on it?

Mr. IVES. The Senator from New York would still like further clarification of the situation. Is the Senator from New York deprived of the opportunity to speak again on the particular proposal which is now before the Senate, in other words, the adoption of section 313, as amended?

The PRESIDING OFFICER. The Chair understands the Senator from New York can speak twice, and that every other Senator may speak twice, on every question.

Mr. IVES. Then the Senator from New York is correct, is he, that he can still speak once more on this particular question?

The PRESIDING OFFICER. The Senator from New York knows how many times he has spoken on the matter. He is entitled to speak twice on any question.

Mr. IVES. I have not spoken twice.

The PRESIDING OFFICER. The junior Senator from New York is now recognized.

Mr. LEHMAN. Mr. President, it seems strange and somewhat illogical that, having for more than a hundred years encouraged the people in New York State and in other States of the Union to practice thrift through savings—and I consider the institutions in question to be the most important means of attaining thrift—that we should now seek to make the savings banks less able to protect their depositors against emergencies, contingencies, and possible depression than appears wise in the minds of the managers of the banks. As has been pointed out, we have 9,000,000 depositors in the savings institutions of New York State. The 10 percent limit which is now included in section 313 because of the adoption of the Capehart amendment, while not defined as a ceiling, to all intents and purposes will constitute a ceiling for the reserves which may be set up in every State in the Union.

To me the question of reserves is not a theory, it is a practical matter, a subject which was brought bitterly, vigorously, and urgently to my attention during the depression. At that time we had in New York a reserve of somewhat more than 10 percent, but I can tell you, Mr. President, that had the Federal Government not come forward to assist the banks, that reserve would have been wiped out, without any question. We recall that at that time even Government bonds suffered a serious decline. Approximately 50 percent of the assets of our savings institutions are in Government bonds. I need not remind anyone who has had any dealings regarding mortgages that at that time mortgages were absolutely unsalable. Several had a ruinous discount, a discount which frequently ran to 10, 20, or 30 percent of the face value of the mortgages. These institutions would not have a chance of surviving, save for the intervention and assistance of the Federal Government. We are now trying to build up these reserves, in order to make these savings institutions stand on their own feet, and in order to protect the interests of millions and millions of

depositors, of whom at least 9,000,000, as I have said, reside in New York, of the total number throughout the country of 50,000,000, 60,000,000, or 70,000,000.

It seems to me, Mr. President, it would be definitely a step backward if we now made it impossible for the managers of these banks to act in the interests of the depositors, not the stockholders, but exclusively in the interests of the depositors, through the setting up of increased reserves which would make the situation at least as safe as could humanly be the case.

I very much hope that the committee amendment, as amended by the amendment of the Senator from Indiana, will be defeated.

Mr. FLANDERS. Mr. President, I should like to call up my amendment identified as "9-21-51-C."

Mr. MILLIKIN. Mr. President, a parliamentary inquiry.

The PRESIDING OFFICER. The Senator will state it.

Mr. MILLIKIN. What is the exact question before the Senate at this time?

The PRESIDING OFFICER. The question before the Senate is on agreeing to section 313, as amended by the Capehart amendment; and the Senator from Vermont proposes another amendment.

Mr. MILLIKIN. What is it that the Senator from Vermont proposes to do?

Mr. FLANDERS. Further to amend section 313.

The PRESIDING OFFICER. The clerk will state the amendment offered by the Senator from Vermont.

The LEGISLATIVE CLERK. On page 144, line 13, it is proposed to strike out the period and insert the following: "or by any mutual fund established under the authority of the laws of any State."

Mr. FLANDERS. Mr. President, I should like to explain the purpose of the amendment briefly.

Mr. GEORGE. Mr. President, I stated to the Senator from Vermont that I would accept his amendment and take it to conference if the Senate should agree to it. I think the Senator has explained it, but if he wishes to explain it again, I have no objection.

Mr. FLANDERS. Mr. President, I shall explain my amendment very briefly, without taking too much of the time of the Senate.

A number of New York and Massachusetts banks got RFC capital when their own capital was impaired. Then the New York and Massachusetts State laws established mutual funds, to which mutual banks in each State contributed. In New York several banks which had RFC capital borrowed from the mutual funds and repaid the RFC. They should, therefore, it seems quite evident, come under the provisions on page 144 of the bill, commencing with line 3, under the heading "Deduction for repayment to the United States of certain loans." These banks are in the same position as are the banks which still have RFC loans. There is approximately \$3,000,000 still due on these funds in Massachusetts, and approximately \$5,876,000 due in the State of New York.

My amendment will put them on the same basis as if they borrowed directly from the RFC, instead of, as in some cases, having borrowed from the mutual funds to repay.

Mr. MILLIKIN. Mr. President, I am very happy that the distinguished chairman of the Finance Committee is willing to take the amendment to conference, and I hope it will prevail.

Mr. GEORGE. Mr. President, I should like to ask the Senator from Vermont one question. His amendment applies only to loans made as in the case of RFC loans prior to September 1, 1951, not subsequent loans. Is that correct?

Mr. FLANDERS. That is correct.

Mr. GEORGE. With that understanding, Mr. President, the committee has no objection to taking the amendment to conference.

Mr. SALTONSTALL. Mr. President, while the Senator from Georgia is on his feet, will he yield for a question?

Mr. GEORGE. The Senator may ask me a question, though I do not have the floor.

Mr. SALTONSTALL. There is one other amendment concerning savings banks which the Senator from Georgia, in conversation with me, stated was not included in section 313. I want to be sure that we protect ourselves in States where there is savings bank life insurance. I understand that that is covered in another section, and will be open to amendment at another time if section 313 is finally voted into the bill.

Mr. GEORGE. That is correct. I shall ask that the provision be reopened for that purpose, if necessary, because I stated that I thought the life-insurance department should be separated from the savings department, and savings bank life-insurance companies should be taxed as are mutual-insurance companies.

Mr. SALTONSTALL. I thank the Senator very much.

Mr. GEORGE. I shall be happy to see that that is done.

Mr. SALTONSTALL. Would the Senator be willing to take an amendment of that character to conference when it is properly presented?

Mr. GEORGE. Oh, yes; I stated that I would. I think it should be done.

Mr. SALTONSTALL. I thank the Senator from Georgia.

Mr. GEORGE. -Mr. President, I do not wish to be unduly acrimonious, but I do desire to say that if there is any sincerity on this side of the aisle in the proposal to increase taxes under this bill to \$9,500,000,000, then there is no consistency in opposing section 313, as amended. The section will raise approximately from \$140,000,000 to \$150,000,000, and it will do it on the most just basis of taxation that was ever submitted to the American people. There is not a thing unfair in the section.

Ardent advocates of more taxes being paid by the American people mean they should be imposed if they are not to come out of the savings banks of New York State. Mr. President, I am pretty frank about it—

Mr. LEHMAN. Mr. President, will the Senator yield?

Mr. GEORGE. For a question; yes. Mr. LEHMAN. May I first make an observation?

Mr. GEORGE. No; not now. The Senator has made on this subject observations for the past 4 days.

Mr. LEHMAN. I wonder—

Mr. GEORGE. I do not yield for an observation.

Mr. LEHMAN. Mr. President, will the Senator yield for a question?

Mr. GEORGE. I yield for a question.

Mr. LEHMAN. I wonder whether the Senator does not realize that, at least so far as the junior Senator from New York is concerned, in urging higher revenues he also specifically stated that he felt that the revenue bill should be equitable and fair to all persons.

Mr. GEORGE. Oh, yes. It is equitable and fair. There are institutions in this country which have had \$20,000,000,000 in assets in 1949 and which have more today. They had more than \$2,000,000,000 in surplus in 1949, and they have more today, on which, plus \$14,000,000,000 in the building and loan associations, and \$1,100,000,000 in accumulated surpluses, undistributed, not one single cent of Federal taxes has ever been paid. Do not talk to me about raising additional revenue out of the American people. Senators who do so mean it shall be raised if it does not come out of the swollen profits of great New York institutions. That is all they mean.

Mr. President, I had never expected to make a statement of this kind, but in the face of the record in this matter, it is time someone said that New York and one or two other States should not be permitted to make the tax policies of the United States.

Mr. President, what is provided in the bill? We propose to give to the savings institutions and the building and loan associations, first, a deduction for every penny of interest and dividends which they pay, or which they pass as a credit to their depositors. We propose to let them deduct the ordinary expense of operating, without a cent of tax. Not only that, but we propose to set aside a reserve, to be fixed, in the first instance, by the authorities of the Government, as a reasonable reserve against all their liabilities, their total deposits, their total accounts, and then, by the Capehart amendment as amended by the distinguished Senator from Colorado, it is provided that the reserves shall never be less than 10 percent of the total deposits and accounts and they may be more, in the discretion of the Commissioner of Internal Revenue, and furthermore, each year these institutions can set aside at least 15 percent of their earnings.

What more is desired? What more special privileges do the special-privilege groups seek? With what tenacity the special-privilege boys who have grown fat off of this country hold onto those special privileges.

Mr. President, for 4 days we have talked about this issue. Let Senators vote it down if they care to, and everyone who does it, will face it as the one

big issue in his next campaign, because it is proposed to continue a tax exemption for a special class in the face of the fairest proposal that was ever made in a legislative body. In this very bill we are proposing to provide regarding the little farm cooperatives, in the same way we act toward the savings and loan institutions, except that we will make the little farm cooperatives pay a tax on their reserves. But these great, mammoth concentrations of wealth, with all their economic power, will pay no tax on their reserves until they reach 10 percent, and even more, if more is necessary to enable them to remain in a solvent, stable condition.

I have been patient, Mr. President, but in the face of these repeated arguments—

Mr. LEHMAN rose.

Mr. GEORGE. Does the Senator wish to interrupt me again?

Mr. LEHMAN. No. I am waiting to be recognized in my own time.

Mr. GEORGE. Mr. President, the Senator may be recognized, but I guarantee that he cannot say a single thing on this question he has not said at least a dozen times since last Wednesday afternoon.

I am willing to have the Senate to vote upon the question, but I do not want anybody to talk to me about closing loopholes if he will not vote to tax these untaxed groups in America. I am unwilling that they should go untaxed. But I am getting no help from some of the gentlemen who are urgently supporting the proposal to close other loopholes, and to raise an immense amount of additional taxes out of the American people.

Mr. LEHMAN. Mr. President—

The PRESIDING OFFICER. The Senator from New York.

Mr. LEHMAN. It is well known that I am one of the sponsors of a number of amendments to raise additional revenues in order to eliminate, or at least greatly reduce, the tremendous deficit with which the Government is faced, a deficit which, in my opinion, will lead to inflation and to a great weakening of the entire fiscal structure in the country.

I have listened with great interest to what the distinguished chairman of the Finance Committee has said. I can only express the hope that he will be equally as concerned with the special privileges claimed by many corporations and many organizations, privileges which undoubtedly exist, and which my associates and I will be able to demonstrate exist, as he is with the alleged privileges given to the depositors in the savings banks.

I think what the Senator from Georgia still does not understand is the great difference between the structure of a mutual savings institution and the structure of commercial banks and of other corporations which operate in the United States. The large commercial banks, the great corporations, such as the United States Steel Corp., the Standard Oil companies, General Motors, and scores of others which I could

mention, are owned by a relatively small group of stockholders. The mutual savings banks are owned by nobody save the depositors themselves. Nobody else can possibly profit a single red cent by anything that may be done by the savings banks and building and loan associations. The reserves are a protection for the depositors in the savings banks, who, in the main, are men and women and children—people without large means.

Of the 9,000,000 depositors in New York to whom my colleague, the senior Senator from New York and I have referred, more than 1,000,000 are children, and the average deposit of those children is less than \$26 apiece. Are we to say to these men and women and children, who, by their thrift, have been able to build up small savings deposits, in spite of the fact that their earnings are at best meager, "You must either accept a cut in your interest rate or permit of a lowering of the reserves, to such a point that they will fail to protect your deposits to the degree the managers have decided is important and essential"?

Mr. President, I submit that in spite of my respect for the ability of the Senator from Georgia, the chairman of the Finance Committee, there is no analogy whatsoever between a savings bank or a building and loan association owned by the small depositors, and the great banking institutions, such as the National City Bank, the Chase National Bank, the Guaranty Trust Co., and the Bank of America. I do not think there is any analogy whatsoever between the savings associations owned by small people, people of moderate means, and the great corporations which are today making more money than they ever have made in their history, or in the history of the country.

I do not intend to pursue this subject further. I am sorry the Senator from Georgia said what he did, because he knows that I have always differentiated, and I am differentiating now, between those who can and should pay and those who merely deposit their meager savings in these savings and loan institutions.

I wish to say again that while I believe with all my heart that we would be making a grievous mistake by not increasing the revenues which come to the Treasury of the United States during these trying, dangerous, and critical times, so as to avoid a ruinous deficit, I also feel strongly in my heart that this tax bill must be equitable. It must do justice to everyone. It cannot dare to be unjust to a large group of our people, the backbone of the country, who over the years, over the generations, have sought to secure at least a reasonable competence through the savings which they deposit in the institutions which they own.

Mr. HUMPHREY. Mr. President, I have listened to the heated and informative debate which has taken place on the issues with respect to the savings and loan associations and the mutual savings banks. Under date of September 21, at a time when the Senator from

Vermont [Mr. FLANDERS] was discussing his proposal, the Senator from Minnesota asked this question:

Mr. HUMPHREY. I wonder whether or not the Senator from Vermont has given thought and consideration to the possibility of offering an amendment along the line of subjecting surpluses or reserves to the tax, as proposed in the bill, when the surpluses and reserves are either 10 percent or meet the statutory requirements of the respective States on the basis of whichever one is greater.

I believe that the committee proposal as amended meets the requirements of the suggestion which I offered on that date, in the early part of this discussion.

Mr. President, there has been an honest difference of opinion as to the nature of these institutions. I think it is fair to say that those who have supported the position taken by the Senator from Vermont [Mr. FLANDERS] properly differentiate between a commercial bank on the one hand and the type of mutual savings or cooperative institution on the other hand. I also feel that the argument has properly centered around the question of what is an adequate reserve.

I am going to support the committee amendment as amended. I am going to do so because I have not been sufficiently persuaded by the arguments which have been made on the part of those who want complete exemption. However, I do think it is fair to note that there is a substantial difference between a corporate enterprise, the average business enterprise, and the mutual savings type of enterprise which is now under discussion.

I have heard very precise, determined, and vigorous words about closing tax loopholes. Let me say that the loophole that is being closed here is a very small loophole. I want it closed. My position is going to be consistent on every one of the amendments designed to close loopholes. But when we come to loopholes which will soon be brought up in connection with the tax bill, and loopholes which are in the law now on the books, I want to see the same vigor, the same courage, the same determination of purpose, which we exemplify in connection with this particular issue.

The Senator from New York [Mr. LEHMAN] has joined with us in the effort to close loopholes with respect to institutions in his own State—tremendous financial powers in his own State. The Senator from New York feels that in this instance the savings of millions of small depositors might be jeopardized. There are those of us who disagree with that opinion. We disagree with it because I, for one, feel that the safeguards now provided in the amendment are adequate; and if they are not adequate, the Commissioner of Internal Revenue may alter the reserve requirement, as the chairman of the committee has pointed out.

When we come to the issue of stock options, when we come to the issue of capital gains, when we come to the issue of the extension of capital gains treatment to many new products, when we

come to the issue of one of the great scandals in our tax laws, family partnerships, which have been abused, and which are always used in every war period, or defense period, when we come to the issue of setting the effective date of the corporate tax at January 1, 1951, instead of April 1, and when we come to the matter of withholding with respect to dividends and corporate bond interest, I want to see the same determination, the same vigor, the same fearlessness, applied to the treatment of those issues as we now apply to the issue involving savings banks and building and loan associations.

It is not easy for us to take this position, but I am going to take it; and, believe me, Mr. President, I am going to fight down the line on the other issues, which will bring in billions of dollars, whereas this provision of the amendment will bring in but a few million dollars.

This is all a part of the great struggle in America to gain equity in the tax system. This particular amendment deals with bank reserves. This particular amendment deals with the lifetime savings of millions of people. But when it comes to some of the "gimmicks" found in the tax laws, they do not deal with the savings of millions of people. They deal with the special privileges of a handful of people who need no special privilege.

So let us join the issue. Let us have a vote. When the roll is called down here—not up yonder—I will be voting yea on this amendment. But when the roll is called on the other amendments, I want to hear the yeas because by the other amendments we gain at least \$2,000,000,000 from those who can well afford to pay, without jeopardizing any reserves, without injuring private economy one bit, without in any way diluting the economic solvency of America. At the same time, we can stop the vicious process of inflation which is consuming the economy, on the one hand, and put the defense program, in its initial stages, on a pay-as-you-go basis, on the other hand.

The issue is not whether or not we are going to have large reserves for mutual savings banks. I think that situation has been protected in the amendments which the Senator from Indiana [Mr. CAPEHART], and the Senator from Colorado [Mr. MILLIKIN] proposed. The issue is whether those who are capable of paying their fair share of taxes are going to do it. If this bill is enacted as now written, they are not going to be paying it. I warn the Senate that this will be the toughest issue that ever faced any electorate or any group of people in public office. The mutual-savings issue is not going to be the big issue. The big issue is whether or not we are going to have written and placed on the statute books a new tax law which opens up loopholes for a handful—less than 2 percent—of the taxpayers of the country. Remember, we are going to raise the tax rates on all the little folks. Let us find out whether we have the courage to close up the loopholes through which the big folks rush like a bulldozer. That is what the issue is.

SEVERAL SENATORS. Vote! Vote!

Mr. McFARLAND. Mr. President, I hope we can vote, and I hope that we can make more progress than we have been making. This amendment surely does not need any further debate. When we complete the vote I intend to propose a unanimous-consent agreement to limit debate. I hope the Senate will show that it can enact legislation within a reasonable time.

The PRESIDING OFFICER. The question is on agreeing to the amendment offered by the Senator from Vermont [Mr. FLANDERS] to the committee amendment.

Mr. FLANDERS. Mr. President, I should like to make a very brief statement, without delaying the Senate unduly on this or any other vote.

I have two or three more amendments still at the desk, which, in the interest of rapid procedure, I am not going to call up. However, I wish to say a word as to why I shall vote against section 313. It had to be amended on the floor. Not all the necessary points are yet taken care of. It had to be amended on the floor because the committee amendment as presented to the Senate, was hastily drawn, ill-conceived, and offered under misapprehension. That made it necessary to spend all this time in debating it. It would have been much better if these questions could have been worked out in committee, but the misapprehensions were so strong that it was impossible for those of use who felt that we knew and had experience with these institutions to remove the misapprehensions.

There is one other point I wish to make. At no time have I felt, as a matter of principle that these institutions should not be taxed. I felt only that the hasty, ill-conceived, and misapprehended legislation presented before the committee and presented by the committee to the Senate should not have been presented, but should have been left for a more complete, active, logical, and informative study, as the House provided.

So, for the reasons stated, I shall vote against the amendment.

Not yet is it cleared up as it should be.

I wish to say one other thing, and I say it with a great deal of hesitation, but I feel I should say it. I am sorry that the chairman of the Committee on Finance again demonstrated to the whole Senate his misapprehension of the institutions to be affected by the amendment. He spoke of them on the floor of the Senate, as he had spoken of them in committee, as enormous aggregations of power—I believe at one time he used the description "power hungry"—and said that they were trying to escape their due share of the obligation to support the Federal Government.

I suppose that the largest institution of this kind in the world is the Bowery Savings Bank in New York. If anyone can find any indication of its use of enormous financial power in any other way than in the public interest, I should like to have that instance brought forth. The greatest exercise of power of that great institution I have seen is its exercise of logic and reason in protecting

its humble depositors. Believe me, Mr. President, its depositors are humble. They are not the great of the earth. They are not of the rich. They are not of the mighty.

So it seems to me, Mr. President, that this afternoon we have had, I regret to say, the best exhibition and the best example of the misapprehension which has followed this proposal from the beginning.

The PRESIDING OFFICER. The question is on agreeing to the amendment offered by the Senator from Vermont [Mr. FLANDERS] to the committee amendment on page 142, line 11. [Putting the question.] The ayes seem to have it.

Mr. GEORGE. There is no objection to that amendment.

The PRESIDING OFFICER. Even if there is no objection to the amendment, the Chair will state the question.

The question is on agreeing to the amendment offered by the Senator from Vermont to the committee amendment on page 142, line 11. [Putting the question.] The ayes have it, and the amendment is agreed to.

The question now is on agreeing to the committee amendment as amended.

Mr. HUMPHREY. Mr. President, a parliamentary inquiry.

The PRESIDING OFFICER. The Senator will state it.

Mr. HUMPHREY. What was the amendment of the Senator from Vermont [Mr. FLANDERS] on which the Senate has just now voted?

Mr. GEORGE. I may state to the Senator from Minnesota that the committee had provided for the repayment of loans made by the RFC to the mutual savings banks without affecting their reserves or their tax liability. The amendment which has been agreed to merely includes payments made to a common fund which had been set up in some States, principally New York and Massachusetts, to make loans to those same institutions. We thought they should all be treated on the same basis.

Mr. HUMPHREY. I thank the Senator from Georgia.

Mr. KERR. Mr. President, a parliamentary inquiry.

The PRESIDING OFFICER. The Senator will state it.

Mr. KERR. Agreeing to the amendment offered by the Senator from Vermont [Mr. FLANDERS] was in no wise connected with the motion previously made by the Senator from Vermont to strike the section from the bill.

Mr. GEORGE. No; not at all.

The PRESIDING OFFICER. If there are no further amendments to be offered to the committee amendment, the question is on agreeing to the committee on page 142, line 11, as amended. The yeas and nays have been ordered, and the clerk will call the roll.

Mr. MILLIKIN. Mr. President, the Capehart amendment, as amended, to the committee amendment, was agreed to, was it not?

The PRESIDING OFFICER. Yes; the Capehart amendment, as amended, was agreed to. The clerk will call the roll.

The legislative clerk proceeded to call the roll.

Mr. HENDRICKSON (when his name was called). Mr. President, for the same reasons which I assigned on last Saturday, I request the privilege of being excused from voting.

The PRESIDING OFFICER. Without objection, the Senator from New Jersey is excused from voting.

The roll call was concluded.

Mr. CAIN. On this vote I have a pair with the senior Senator from New Hampshire [Mr. BRIDGES]. If the Senator from New Hampshire were present and voting, he would vote "nay." If I were at liberty to vote, I would vote "yea." I withhold my vote.

Mr. JOHNSON of Texas. I announce that the Senator from New Mexico [Mr. ANDERSON] is absent by leave of the Senate.

The Senator from New Mexico [Mr. CHAVEZ], the Senator from Wyoming [Mr. HUNT], the Senator from Tennessee [Mr. KEFAUVER], and the Senator from Washington [Mr. MAGNUSON] are absent on official business.

I announce further that if present and voting, the Senator from New Mexico [Mr. CHAVEZ] and the Senator from Washington [Mr. MAGNUSON] would vote "yea."

Mr. SALTONSTALL. I announce that the Senator from North Dakota [Mr. YOUNG] is absent by leave of the Senate.

The Senator from Nebraska [Mr. WHERRY] is necessarily absent.

The Senator from New Hampshire [Mr. TOBEY] is absent because of illness.

The Senator from New Hampshire [Mr. BRIDGES] is absent because of illness in his immediate family, and his pair has been announced previously by the Senator from Washington [Mr. CAIN].

The Senator from North Dakota [Mr. LANGER] and the Senator from South Dakota [Mr. MUNDT] are absent on official business. If present and voting, the Senator from South Dakota [Mr. MUNDT] would vote "yea."

The Senator from Illinois [Mr. DIRKSEN], the Senator from Massachusetts [Mr. LODGE], the Senator from Nevada [Mr. MALONE], and the Senator from Oregon [Mr. MORSE] are detained on official business.

On this vote, the Senator from Oregon [Mr. MORSE] is paired with the Senator from Massachusetts [Mr. LODGE]. If present and voting, the Senator from Oregon would vote "yea" and the Senator from Massachusetts would vote "nay."

The result was announced—yeas 60, nays 19, as follows:

YEAS—60

Aiken	Ellender	Kerr
Bennett	Ferguson	Knowland
Benton	Frear	Long
Butler, Md.	Fulbright	Maybank
Butler, Nebr.	George	McCarran
Byrd	Gillette	McClellan
Capehart	Hayden	McFarland
Carlson	Hennings	McKellar
Case	Hickenlooper	McMahon
Clements	Hill	Millikin
Connally	Hoey	Monroney
Cordon	Holland	Moody
Douglas	Humphrey	Nixon
Duff	Johnson, Colo.	O'Connor
Dworshak	Johnson, Tex.	O'Mahoney
Eastland	Johnston, S. C.	Robertson
Eaton	Kern	Russell

Smathers
Smith, N. C.
Sparkman

Taft
Thye
Underwood

Watkins
Wiley
Williams

NAYS—19

Brewster
Bricker
Flanders
Green
Ives
Jenner
Kilgore

Lehman
Martin
McCarthy
Murray
Neely
Pastore
Saltonstall

Schoeppel
Smith, Maine
Smith, N. J.
Stennis
Welker

NOT VOTING—17

Anderson
Bridges
Cain
Chavez
Dirksen
Hendrickson

Hunt
Kefauver
Langer
Lodge
Magnuson
Malone

Morse
Mundt
Tobey
Wherry
Young

So the committee amendment, as amended, was agreed to.

Mr. McFARLAND. Mr. President, I ask unanimous consent that in the future all amendments submitted or motions or appeals based thereon be subject to a 40-minute limitation of debate, with 20 minutes thereof to be allowed to each side, and to be controlled, respectively, by the proponent of the amendment or motion and the distinguished senior Senator from Georgia [Mr. GEORGE], if he is opposed to the amendment; or in the event he is not opposed to the amendment, then by the acting minority leader; and that debate on the bill be limited to 2 hours, to be controlled, respectively, by the senior Senator from Georgia [Mr. GEORGE], and the acting minority leader or any Senator whom he may designate.

Mr. HUMPHREY. Mr. President, reserving the right to object—

The PRESIDING OFFICER (Mr. STENNIS in the chair). The Senator from Minnesota will suspend for a moment, please.

Those who are not Members of the Senate or employees officially on the floor of Senate will please find seats in the rear of the Chamber; or, if not, the Chair is sure there is room in the galleries for those who are not engaged in official duties on the floor.

The Senator from Minnesota reserves the right to object.

Mr. HUMPHREY. Mr. President, reserving the right to object, I merely wish to make a suggestion or two to the majority leader in reference to his unanimous-consent request.

There are several amendments—in fact, there are four amendments—which have been submitted by a group of Senators, each amendment having from four to a dozen cosponsors. We believe that for that for those amendments a minimum of 1 hour for each side should be allowed for purposes of debate.

Those amendments are, first, the amendment to restore the effective date for the corporate tax to January 1; second, the amendment for withholding dividends and corporate-bond interest; third, the amendment proposing a reduction of the percentage depletion allowance; and, fourth, the amendment proposing an increase in the capital gains tax rate, namely, to increase the capital gains tax from 25 percent to 20 percent.

There are 11 other amendments which this group of Senators have placed on the table and wish to call up. For

those amendments, we would like to have half an hour allowed to each side, recognizing that in many instances we would not use that much time, but we would at least like to have that much time allowed.

I say this because once the Senate adopts the committee amendments en bloc, even though, of course, the right to return to the consideration of those amendment is always reserved, a bit of psychological advantage accrues to the committee, and the burden of proof rests upon the proponent of an amendment to a committee amendment which has been adopted under such circumstances. Otherwise the burden of proof would rest upon the committee to prove its case.

We feel that these amendments require that much time.

On that basis, if the majority leader is willing to make such a modification of his request, and also reserving the right to submit new amendments, and with the understanding that there will be a requirement of germaneness for all amendments, I would have no objection; but otherwise I would have to object.

Mr. McFARLAND. Mr. President, I intended to include a provision that all amendments must be germane; and I modify the request accordingly.

Mr. President, I think the Senator from Minnesota has just requested a great deal of time.

Mr. ROBERTSON. Mr. President, will the Senator yield?

Mr. McFARLAND. I yield.

Mr. ROBERTSON. I merely wish to say that we were 1 week late beginning the consideration of this bill. Now we have taken 1 week in general debate, primarily debate by those who now wish to have 2 hours allowed for further debate on each amendment that is proposed.

There have been virtually no Senators on the floor of the Senate to hear the general debate thus far. We cannot keep Members on the floor to hear 2-hour debates on amendments. Such an arrangement would only needlessly prolong the session and the consideration of this measure.

There are 42 amendments, all told, exclusive of others which will be submitted before the consideration of this bill is concluded. If we have to sit here for 2 hours of debate on each of a number of the amendments, and for 1 hour of debate on a number more, we shall not finish with this bill this week. I hope very much the distinguished Senator from Minnesota will not insist upon opposing what I view as a most reasonable request by the majority leader.

Mr. McFARLAND. Mr. President, the Senator from Massachusetts tells me that he will have to object. Under those circumstances, there is no use in attempting to modify the request which has been made.

Mr. SALTONSTALL. Mr. President, reserving the right to object to the request which has been made, let me say that as acting minority leader I have tried to consult with as many of the Members on this side of the aisle as I could. I know of at least three, two of whom are not now in the Chamber, who

feel that at the present time we should have general discussion of the bill, without limitation on debate.

Therefore, for those reasons, but in the hope that the majority leader will renew his request a little later, I object.

The PRESIDING OFFICER. Objection is heard.

Mr. McFARLAND. Mr. President, I regret very much that the objection is made.

I wish to say that the Senate now has been in continuous session for 9 months, without any vacation, without rest. All I am trying to do is to expedite the consideration of the proposed legislation, and to do so on a basis which will afford ample time for any Senator to debate the subject before the Senate.

I was willing to modify the request in any reasonable manner. We have already been working long hours, Mr. President. We began the consideration of the bill last Wednesday, and it was explained on Wednesday. We started debate at 10 o'clock on Thursday, continuing in session until about 6 o'clock, and we did the same on Friday. On Saturday we were in session from 10 a. m. until 7 o'clock in the evening. That means that for 4 days the Senate has already been considering this bill. Debate started at 10 o'clock this morning, and it is now 15 minutes of 4. Up to this time, we have disposed of but one section, that is all—one committee amendment, as amended.

I do not want any Senator to be deprived of his opportunity to say anything he desires to say on the Senate floor, but I suggest to my friends that if they want the Senate to listen to them they had better cut down their speeches a little, because otherwise Senators will not listen to them. Senators may remain here and talk for 18 hours a day, if they desire, and I am willing to stay on the Senate floor.

Mr. LONG. Mr. President, will the Senator yield for a question?

Mr. McFARLAND. I yield to the Senator from Louisiana.

Mr. LONG. I wonder whether the Senator would ask at this time that debate be germane to the issue, or germane to the tax bill. If he would do that, I believe that that in itself would help to expedite the debate.

Mr. McFARLAND. Mr. President, such a rule is very difficult to enforce. It is very difficult to say what is germane and what is not. We have tried to read such an agreement once or twice, but I hope a limitation of debate can be brought about. I hope the distinguished acting minority leader will talk to the Senators on his side who have objected. We are willing to be reasonable. If they will but tell us how much time they want, we shall be able to make some progress. Surely any Senator who desires to speak can indicate how much time he wants.

Mr. SALTONSTALL. Mr. President, will the Senator yield for a question?

Mr. McFARLAND. I yield to the Senator from Massachusetts.

Mr. SALTONSTALL. I am sure the Senator from Arizona agrees that the bill before the Senate is a very important

measure. I agree with him that there is general agreement that this session of Congress should be ended as soon as possible. As I have stated to the Senator, I hope that he will bring up the subject again, but at the present time there are several Senators on my side of the aisle, who are perfectly sincere, who believe that the pending measure is extremely important, and who are not yet ready to agree to a limitation of debate. So I hope that the majority leader will not push the request at this time, and that he will not imply that anyone is deliberately intending to delay Senate action on this very important bill, which we know must be passed.

Mr. CAPEHART. Mr. President, will the Senator from Arizona yield for a question?

The PRESIDING OFFICER. Does the Senator from Arizona yield to the Senator from Indiana?

Mr. McFARLAND. I will yield in a moment.

The PRESIDING OFFICER. The Senator from Arizona declines to yield.

Mr. McFARLAND. I was not endeavoring to imply anything. The facts speak for themselves. Each Senator can come to his own conclusion in regard to the matter. I know that every Senator is going to follow the dictates of his own conscience, and far be it from me to criticize any Senator who does so. All I am asking is that Senators cooperate in order that we may expedite the consideration of the pending bill, and in order that we may bring the session to an end. I admit that careful consideration of the bill is more important than an early adjournment of the session, but I merely want to say to my good friend, in reply to his question, that I will try again and again and again, as he suggested, and perhaps at some time we shall be able to get a unanimous-consent agreement on this subject.

Mr. CAPEHART. Mr. President, will the Senator yield?

Mr. McFARLAND. I yield to the Senator from Indiana in a moment. But I hope Senators will be reasonable in their requests. I have tried to be reasonable. I now yield to the Senator from Indiana.

Mr. CAPEHART. Mr. President, would the majority leader accept a suggestion that we hold night sessions each night this week?

Mr. McFARLAND. I may say to the Senator that we shall probably be here pretty late. We have been convening at 10 o'clock in the morning in an effort to continue in session long hours, and to consider the pending legislation carefully, without jeopardizing the health of any Senator. We shall continue in session as long as I think the Senate should work; and it will be rather long today.

Mr. MILLIKIN. Mr. President, will the Senator yield for a question?

Mr. McFARLAND. I yield to the Senator from Colorado.

Mr. MILLIKIN. Mr. President, I think the last suggestion of the distinguished majority leader, that the time desired by any Senator who is at the present time objecting to an agreement be ascertained, is a good one. It seems to me that, with such information, it ought

to be easy to bring about an agreement. I am in hearty accord with doing that, at the same time preserving the rights of those who want to speak. I think it is a practical problem, and there should be no difficulty in working it out.

Mr. McFARLAND. I thank the Senator.

Mr. HUMPHREY. Mr. President, will the Senator yield?

Mr. McFARLAND. I yield to the Senator from Minnesota.

Mr. HUMPHREY. I hope the Senator from Arizona understands that the suggestions I made were, in the minds of those for whom I speak reasonable.

Mr. McFARLAND. I did not intend to imply that they were not reasonable, and I would have accepted them at this time, had there not been objection. I trust Senators will consider the possibility of cutting down the requests for time, a little later on, following this discussion.

Mr. HUMPHREY. I should like to tell the Senator from Arizona that so far as this Senator is concerned, I want to cooperate. As I told him 2 or 3 days ago, we shall do everything we can to minimize the time, at the same time endeavoring to permit discussion of those amendments which we think are most vital. I would merely say that we have four amendments which we feel are basic, and it is on those that we would like the greater amount of discussion. The others, I am sure, can be handled without any difficulty.

Mr. McFARLAND. I thank the Senator from Minnesota.

Mr. President, I interrupted the senior Senator from Georgia, who had certain perfecting amendments he wanted to offer. I now yield, that he may offer the amendments.

Mr. GEORGE. Mr. President—

The PRESIDING OFFICER. Does the Senator from Arizona yield to the Senator from Georgia?

Mr. McFARLAND. Mr. President, I yield the floor.

The PRESIDING OFFICER. The Senator from Georgia.

Mr. GEORGE. Mr. President, I thought we should follow up the section relating to mutual savings banks and building and loan associations with the consideration of the section relative to farm cooperatives. In that connection there is one amendment which I desire to offer. On page 146, line 19, the committee amendment as it was drawn gave to the cooperatives until the 15th day of the third month following the close of their fiscal year to make their distribution.

The PRESIDING OFFICER. The Senator from Georgia will suspend for a moment, please. The Chair is certain that although the Senator has a strong voice, which carries unusually well, there are many Senators on the floor who, through no fault of their own, are unable to hear.

Mr. GEORGE. Mr. President, I was saying that the bill as it was prepared by the Senate Finance Committee gave to the cooperatives until the 15th day of the third month after the close of their fiscal year to make their distribution or rebates of allocations of earnings.

On reflections and on further inquiry, I submit that the time is too short within which farm cooperatives can have audits made of their books and notify their large number of shareholders and patrons. In the case of the cotton cooperative in my own State, the number of patrons is nearly 123,000. Obviously, it would take some time to send out notices.

After a conference with quite a number of cooperative leaders, I have reached the conclusion that this section should be amended. I am proposing to strike the word "third" and insert the word "ninth," so that the cooperatives would have until the middle of the ninth month after their fiscal year began to complete their audits, make their distributions and allocations, and notify their members. I think that all Senators who are familiar with the farm cooperative groups will agree that that is possibly a necessary extension of time within which they may comply.

Mr. AIKEN. Mr. President, will the Senator from Georgia yield?

Mr. GEORGE. I yield.

Mr. AIKEN. I appreciate the fact that the Senator from Georgia is willing to give the cooperatives 9 months in which to distribute their earnings back to the members to whom the earnings properly belong, because it would be physically impossible for many of them to comply with the 3-month period provided for in the bill.

Mr. GEORGE. I think that is true, particularly under war or emergency conditions, when it is so difficult to obtain auditors.

Mr. AIKEN. It is my information that 9 months would probably allow adequate time.

Mr. GEORGE. I am so advised.

Mr. CASE. Mr. President, will the Senator from Georgia yield?

Mr. GEORGE. I yield.

Mr. CASE. The point which the able Senator from Georgia has brought out I am sure will be appreciated. However, a question arises in my mind relative to the tax which would be applicable, and I should like to have it clarified for the RECORD. Suppose the fiscal year runs concurrently with the calendar year. As I understand, the cooperatives would then have until the 15th day of the ninth month of the new year. The tax report of the average farmer would have been made long before that time. How will the farmer adjust his tax liability if this part of his income for the prior year is not made collectible until the ninth month?

Mr. GEORGE. He would not pick it up in his income tax until he received it or received notice of the allocation. That can be taken care of. Taxpayers make their returns on either a cash basis or an accrual basis. Farmers generally are on a cash basis, I think. I believe it would be the interpretation that they would not pay a tax until the year following the actual receipt of the dividend or allocation.

Mr. CASE. That might mean that in the fourth quarter of the year the farmer who received a dividend would find two increases in his taxes for the portion payable in the last quarter.

Mr. GEORGE. I think that is true. That can be made clear if it is not now clear. He would not have to include the refund until an actual receipt or notice of allocation was received.

Mr. AIKEN. Mr. President, will the Senator from Georgia yield?

Mr. GEORGE. I yield.

Mr. AIKEN. In other words, the refund does not become taxable until the member of the cooperative either receives the money, or receives notice that it has been allocated to his credit for some other purpose.

Mr. GEORGE. That is correct. It would not be taxable until he actually received the notice.

Mr. THYE. Mr. President, will the Senator yield?

Mr. GEORGE. I yield.

Mr. THYE. The question I should like to ask of the distinguished chairman is this: If a patronage refund agreed upon is allocated to a patron in the month of July 1951, it would then be necessary for him to report such income in his report in the calendar year of 1952. Is that correct?

Mr. GEORGE. I would think that would be correct, because he could not report it until he has a letter of credit stating it has been allocated to him. Any other rule would be unfair.

Mr. THYE. He would report it in the following calendar year. Is that correct?

Mr. GEORGE. Yes. If he should be on a fiscal-year basis, he would report it in his fiscal year, but most farmers—I would not say it is the universal practice—report on a calendar-year basis. There is no change in existing law in that respect.

Mr. WILLIAMS. Mr. President, will the Senator yield?

Mr. GEORGE. I yield.

Mr. WILLIAMS. Is the Senator from Georgia going to insist upon the consideration of this section tonight? I have an amendment which I was going to offer which I should like to have go over until tomorrow.

Mr. GEORGE. I wanted to offer my amendment tonight.

The PRESIDING OFFICER. The section will still be open to amendment.

Mr. GEORGE. Yes. I was simply perfecting the section.

Mr. WILLIAMS. If I correctly understand, the perfecting of the section is to extend the report period from 75 days to 9 months.

Mr. GEORGE. To 8½ months, to the fifteenth day of the ninth month.

Mr. WILLIAMS. Instead of 75 days?

Mr. GEORGE. Yes.

Mr. WILLIAMS. I have no objection to the amendment. While I do not agree with what the committee has done, if the bill is going to be passed, it should be passed in a workable form.

Mr. GEORGE. I was only perfecting the committee amendment, and I am not insisting on considering the whole subject tonight unless the Senate is ready to proceed.

Mr. WILLIAMS. I had an amendment which I wanted to offer to that particular section.

Mr. GEORGE. There may be some further questions about this particular section.

Mr. KERR. Mr. President, will the Senator yield for a question?

Mr. GEORGE. I yield.

Mr. KERR. It has long been the practice of the Treasury and the Bureau of Internal Revenue to recognize patronage allocations by cooperatives as not being income to the cooperative. This principle was first stated soon after the adoption of the sixteenth amendment.

Under the Revenue Act of 1913, Treasury Decision No. 1996, issued in 1914, announced the principle that farm cooperative associations which were not eligible for exemption under the 1913 act were permitted to exclude patronage dividends from gross income—memorandum of Mr. Lynch, general counsel of Treasury, pages 2858-2859 of hearings before Ways and Means Committee, revenue revision of 1951. This principle was restated soon after the enactment of the second income-tax law following the adoption of the sixteenth amendment to the Constitution. Treasury Decision No. 2737, approved June 19, 1918, interpreting that statute, announced this principle. A long series of Treasury rulings and court cases have followed this principle without deviation, and it has been a long-established administrative practice.

One of the better known Treasury rulings is General Counsel Memorandum No. 17895, issued in 1937, in which the following statement appears:

For the purposes of the administration of the Federal income-tax laws, such distributions have been treated as deductions in determining the taxable net income of the distributing cooperative organization. Such distributions, however, when made pursuant to a prior agreement between the cooperative organization and its patrons are more properly to be treated as exclusions from gross income of the cooperative organization.

One of the leading cases of the United States Tax Court is that of *United Cooperatives, Inc. v. Commissioner*, decided December 29, 1944 (4 T. C. 93). In that case the Court said:

It would follow in the usual case that the so-called patronage dividends would be treated for tax purposes by the Treasury Department as rebates upon the business transacted by its members, and would therefore be excluded from gross income in computing net income subject to tax.

The Court, of course, was referring to whether the cooperative was taxable.

It is my understanding that the income-tax treatment of cooperatives contained in section 314 of the bill confirms and follows this long-established administrative practice as stated in the ruling and court decision from which I have just quoted. Am I correct in this understanding?

Mr. GEORGE. The Senator from Oklahoma is correct. Patronage allocations by cooperatives are not income to the cooperatives under this section of the bill, but are excluded from gross income of the cooperative organization.

Mr. KERR. Then, is it true that the language of the bill on page 146, on line 14, referring to cooperatives where the expression is used, "taken into account," means that cooperatives, whether tax exempt or nonexempt, shall continue to treat patronage refunds, under whatever form issued, as at present?

Mr. GEORGE. That is the correct interpretation, and it is the intent of the committee.

Mr. KERR. And is it true that this means that such patronage allocated to patrons shall continue to be excluded in computing gross income of the cooperative?

Mr. GEORGE. Yes; that is entirely correct.

Mr. KERR. And this then means that patronage refunds or rebates, allocated to patrons pursuant to a pre-existing contract between patrons and the cooperative, shall not be deemed to be income to the cooperative or be included in computing its net or gross income as has been true for many years past.

Mr. GEORGE. That is a correct interpretation of the language of the bill. There is no intention whatever to treat funds allocated to patrons in any new or different way but to continue to treat them as in the past.

Mr. KERR. Mr. President, I thank the distinguished chairman of the committee.

Mr. CASE. Mr. President, will the Senator yield for another question?

Mr. GEORGE. I yield?

Mr. CASE. Would the distinguished chairman of the committee explain to me what will be required of the person who received the patronage determined so far as the reporting is concerned, or will the reporting be handled entirely by the cooperative?

Mr. GEORGE. This provision does not change the existing law as to the patron. There is no change whatever as to the patron. Of course, if it is income to him, he would be required to include it, as he does under existing law.

Mr. CASE. When will he report it, if he has already made his return for the prior year and he does not receive this income until the ninth month?

Mr. GEORGE. As I understand existing law, which is not changed by this bill, he should report such patronage refund, if includible in gross income, in the year he receives notice of the allocation.

Mr. CASE. And it will be subject to the rate of taxation for which year?

Mr. GEORGE. It will be subject to the rate of taxation applicable to the individual taxpayer in the year in which he reported it—that is, in the year he received notice of allocation. The bill does not change that.

Mr. CASE. In the year which he received the notice?

Mr. GEORGE. In the year in which he received notice of the allocation, as I understand existing law, which is not changed by the bill.

The PRESIDING OFFICER. The question is on agreeing to the amendment of the Senator from Georgia [Mr. GEORGE] to the committee amendment on page 146, line 19.

Mr. GEORGE. Mr. President, the Senator from Delaware [Mr. WILLIAMS] has an amendment he wishes to offer.

Mr. WILLIAMS. I suggest the absence of a quorum.

Mr. GEORGE. If the Senator has his amendment ready, perhaps he can take it up now.

Mr. WILLIAMS. The legislative counsel is engaged in perfecting my amendment, and I believe will have it ready by the time a quorum has been had.

Mr. CASE. Mr. President, a parliamentary inquiry.

The PRESIDING OFFICER. The Senator will state it.

Mr. CASE. Has the amendment already been modified by substituting the word "ninth" for "third"?

The PRESIDING OFFICER. That is the pending question before the Senate now.

Mr. WILLIAMS. I have no objection to voting on the modification.

The PRESIDING OFFICER. Does the Senator from Delaware withhold his suggestion of the absence of a quorum?

Mr. WILLIAMS. Yes.

The PRESIDING OFFICER. The question is on the adoption of the amendment of the Senator from Georgia [Mr. GEORGE] to the committee amendment on page 146, line 19.

The amendment to the amendment was agreed to.

The PRESIDING OFFICER. The Senator from Delaware has been recognized.

Mr. AIKEN. Will the Senator withhold the suggestion of the absence of a quorum?

Mr. WILLIAMS. Yes.

Mr. AIKEN. I had not seen the proposed amendment by the Senator from Delaware until 5 minutes ago. I should very much like that no action be taken on it this afternoon, so we may have an opportunity to read it.

Mr. WILLIAMS. That is the reason I suggested that the amendment go over until tomorrow.

Mr. AIKEN. I may have time to read the amendment of the Senator from Delaware while the roll is being called.

Mr. WILLIAMS. I suggest the absence of a quorum. When the presence of a quorum has been established, if the Senator from Georgia wants the amendment to go over, very well.

Mr. AIKEN. I am sorry I had not had an opportunity to see the amendment until a few moments ago.

The PRESIDING OFFICER. The clerk will call the roll.

The legislative clerk called the roll, and the following Senators answered to their names:

Aiken	Eastland	Ives
Bennett	Eaton	Jenner
Benton	Ellender	Johnson, Colo.
Brewster	Ferguson	Johnson, Tex.
Bricker	Flanders	Johnston, S. C.
Butler, Md.	Frear	Kerr
Butler, Nebr.	Fulbright	Kilgore
Byrd	George	Knowland
Cain	Gillette	Lehman
Capehart	Green	Long
Carlson	Hayden	Magnuson
Case	Hendrickson	Malone
Clements	Hennings	Martin
Connally	Hickenlooper	Maybank
Cordon	Hill	McCaftan
Douglas	Hoey	McCarthy
Duff	Holland	McClellan
Dworshak	Humphrey	

McFarland	O'Connor	Smith, N. C.
McKellar	O'Mahoney	Sparkman
McMahon	Pastore	Stennis
Millikin	Robertson	Taft
Monroney	Russell	Thye
Moody	Saltonstall	Underwood
Morse	Schoeppel	Watkins
Murray	Smathers	Welker
Neely	Smith, Maine	Wiley
Nixon	Smith, N. J.	Williams

The PRESIDING OFFICER. A quorum is present.

MESSAGE FROM THE HOUSE

A message from the House of Representatives, by Mr. Snader, its assistant reading clerk, announced that the House had passed, without amendment, the bill (S. 1349) to establish a Department of Food Services in the public schools of the District of Columbia and for other purposes.

The PRESIDING OFFICER. The Senator from Delaware [Mr. WILLIAMS] has the floor, as the Chair understands.

SHORTAGE OF POWER FOR ALUMINUM PRODUCTION IN THE PACIFIC NORTHWEST

Mr. MAGNUSON. Mr. President, will the Senator from Delaware yield to me for a unanimous-consent request?

Mr. WILLIAMS. I yield.

Mr. MAGNUSON. Mr. President, on Saturday Mr. Charles E. Wilson, Director of the Office of Defense Mobilization, sent telegrams to various aluminum producers in the Pacific Northwest suggesting, because of an acute power shortage, a certain amount of curtailment and a possible movement of the aluminum plants from the Northwest to other sections.

Mr. KERR. Mr. President, will the Senator yield?

Mr. MAGNUSON. I yield for a question.

Mr. KERR. Is it not a fact that there is adequate power in Oklahoma to take care of all the needs which might not be provided for in the great State of the Senator from Washington?

Mr. MAGNUSON. I will answer the Senator in this way: There is not adequate power in Oklahoma or anywhere else in the United States to take care of the existing aluminum potlines. The aluminum production of the Pacific Northwest requires a great amount of power.

The PRESIDING OFFICER. The Senator can yield only for a question.

Mr. MAGNUSON. The Senator from Delaware yielded to me for the purpose of making a unanimous-consent request, which I was about to propound.

The PRESIDING OFFICER. The Senator can yield only for a question.

Mr. MAGNUSON. I ask unanimous consent that the Senator from Delaware be allowed to yield to me so that I may place something in the RECORD.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. MAGNUSON. I answer my good friend from Oklahoma to the effect that there is not sufficient power in this country to handle the aluminum problem.

If the State of Oklahoma would like to get some of these plants in the fu-

ture, I shall be very happy to aid the Senator in getting them. I was speaking of the power situation in the Pacific Northwest. We want to keep the plants we have. If it shall be desired in the future to add more aluminum plants, I shall be glad to aid the Senator from Oklahoma in obtaining them for his State, if it has the power to operate them.

Mr. KERR. I hope the distinguished Senator from Washington correctly understood the Senator from Oklahoma to say that there was ample power in Oklahoma to take care of such plants as the power facilities in the State of my distinguished colleague could not take care of.

Mr. MAGNUSON. I agree with the Senator. The trouble is that we have never had enough power in this country.

Mr. KERR. The Senator is eminently correct.

Mr. MAGNUSON. We have not developed our power resources at the speed at which we should have developed them. It is most difficult to get Congress to develop power projects, although I must admit that it has been very generous to the Pacific Northwest. Projecting the situation 10 years into the future, we could go ahead with all the power projects now authorized, and at the end of 10 years we would still be short of power.

I agree with the Senator from Oklahoma. I know that he has always been favorable to the development of our hydroelectric resources. I hope that in the future, as the great area in Oklahoma and along the Arkansas River is developed, together with all the other potentials, that area may have some of the light-metal plants.

At any rate, Mr. Wilson sent out the letter to which I have referred, making the suggestion that if after review the power situation in the Pacific Northwest were found to be acute, it might be necessary to have some dispersal of the so-called light-metal plants. I think Mr. Wilson is right when he talks about the acute power shortage. I think he is completely wrong when he talks about moving plants.

With that in mind, I have today sent a letter to Mr. Wilson, signed by myself, by the distinguished Senator from Montana [Mr. MURRAY], and by Representatives HENRY M. JACKSON and HUGH B. MITCHELL, of my State, and MIKE MANSFIELD, of Montana. I ask unanimous consent that the letter be printed in the body of the RECORD at this point as a part of my remarks.

There being no objection, the letter was ordered to be printed in the record, as follows:

SEPTEMBER 23, 1951.

Hon. CHARLES E. WILSON,
Director, Office of Defense Mobilization,
Washington, D. C.

DEAR MR. WILSON: We desire to meet with you at the earliest possible time to discuss a matter of utmost importance. Before our meeting we would appreciate your close attention to the contents of this letter.

We are deeply concerned with your suggestion that it may be necessary to move existing aluminum potlines from the Pacific Northwest to other areas. This suggestion has created a great deal of furor and confusion in the Pacific Northwest. The furor

results from the possibility of losing an industry important to the economy and the confusion results from lack of knowledge as to the motives behind such a proposal.

While we are confident that your sole desire is to increase production of aluminum and do what is best for the defense effort, you should know that other motives have been ascribed to your proposal. Here are some of them.

This is an attempt (1) to prevent an independent aluminum producer from coming into the area and becoming a competitor to any one, or all, of the "big three" producers; (2) to prevent one of the present big producers from obtaining a continuous and low-cost source of power for its expansion program; (3) to generate strife between public and private power agencies serving the Northwest area; (4) to retard or halt the further development of hydroelectric power resources in the Pacific Northwest; (5) to create the impression that there is not, and never will be electric power in the Northwest for further expansion of the aluminum industry.

We have no evidence that these alleged motives are true, and reiterate our belief that you personally are interested in only one objective, namely, to insure maximum production of aluminum and other critical defense materials. Accordingly, we have analyzed your action on this premise and have come to the strongest conviction that the program implied in your wire to Kaiser and Reynolds would produce a result directly contrary to that you desire.

First, let us assess the argument for leaving in the Northwest all aluminum production facilities now capable of operation and proceeding on the expansion program as scheduled. Then let us evaluate the alternative you have suggested.

In doing this, Northwest possibilities and probabilities must be balanced against: (1) the probability of obtaining an adequate power supply in another section of the country, (2) the costs of moving production facilities to a new location, and (3) the loss of aluminum production during the transition period.

Aluminum plants presently located in the Northwest consist of some 22 potlines with an annual capacity of 386,000 tons, or approximately 50 percent of our national production. In full operation they consume 763,000 kilowatts. Of this 571,000 is firm power, 192,000 interruptible—all covered by contractual arrangement with Bonneville Power Administration. To this date loss of production in the Northwest is far less than has already occurred in the Southeast from the same causes—low water conditions.

Further reductions in the Northwest are entirely conjectural. Stream flows normally decline at the close of the summer runoff period. In that regard this year is no exception. Stream flows usually pick up with the fall rains, beginning September 15 to October 15. Hydrological information from the Northwest indicates water conditions are above critical and in no event will reach the "most critical" state this year.

Whereas it is always prudent to formulate plans for meeting "most adverse conditions," normal rains may make the situation look entirely different within 15 to 30 days. For example, in 1948 it was necessary to interrupt aluminum production for about 30 days under circumstances identical with those now prevailing. In subsequent months, however, there was power available surplus to the demands of the entire grid system.

The odds are 20 to 1 against the Northwest experiencing most adverse conditions this year. Records show that only once in 20 years is a minimum flow to be expected.

Assuming the worst should happen, the Northwest systems in the next 6 months will lack 500,000 kilowatts of meeting their total demand. While a shortage of this magnitude is improbable, plans must be

formulated to meet it in the unlikely event it occurs.

Total loads in the region break roughly as follows:

	Kilowatts
Aluminum.....	728,000
Heavy industry.....	800,000
Commercial, domestic, and light industry.....	2,260,000

The possibility of effecting reduction in commercial, domestic, and light industry is minor—not more than 100,000 kilowatts. Major portion of the deficit, therefore, must come from aluminum and heavy industry. To take the entire deficit from heavy industry, other than aluminum, however, would have disastrous effects upon employment and the economic life of the Northwest. Hence, aluminum must bear a heavy share of any cuts that prove necessary.

Original assumptions indicated a possible minimum cut of 600,000 kilowatts in Northwest power consumption, of which aluminum might reasonably be expected to bear about half. More recent hydrological information, however, points to a maximum cut of 500,000 kilowatts or about 250,000 kilowatts for aluminum. On this assumption loss of production for the 6 months' critical period could amount to 62,500 tons—something less than 10 percent of our national production.

For purposes of comparison, later on, it is desirable to express this loss in terms of potline capacity. On a 6 months' basis—the critical Northwest water period—this is equivalent to the production of about six lines. On the assumption, therefore, that your proposal is to relocate that portion of the Northwest capacity that, under most adverse conditions, could not be operated the year around, you would have to dismantle six potlines and set them up elsewhere.

Against these potential losses of production in the Northwest (62,500 tons, or six potlines for 6 months) in a minimum water year, we can estimate with fair accuracy the losses involved in moving potlines to other locations. Competent engineers have advised us that the direct dollar cost of moving and setting up a single potline ready for operation at a new location is approximately four to five million dollars. The time involved in physically moving a potline is at least 9 months—9 months of lost production equals 17,000 tons of aluminum per potline moved. Actually it would require nearer 18 months to get a line in operation—judging by present delivery experience on transmission lines and transformation equipment which in the final analysis are controlling factors. Eighteen months of lost production equals 34,000 tons loss per potline moved.

In summary, a potline left in the Northwest might represent a loss of 11,000 tons of production out of its annual capacity of 22,000 tons; while a moved potline represents a certain loss of 17,000 tons and a probable loss of 34,000 tons.

As a basis of direct comparison, if 6 potlines were inactivated in the Northwest in the winter of 1951-52 we would lose 62,500 tons of production, while 6 potlines removed to another location would result in a certain loss of 102,000 tons and a probable loss of 204,000 tons. When we also consider that these 6 potlines, if left in the Northwest, would produce some 66,000 tons of aluminum in the summer of 1952, the impracticability of moving them is readily apparent—even without taking into account the twenty-five-to-thirty-million-dollar cost of removal and reinstallation, plus the additional cost per ton of the aluminum itself attributable to the difference between Northwest power rates and those obtainable in any other locality.

Further, all information available to us indicates that no supply of power exists anywhere in the United States adequate to support another aluminum plant. A check with

the Defense Electric Power Administration has verified this statement. In fact, we are advised that huge shortages already exist in the Southeast and Southwest and that a general shortage throughout the country is in prospect.

That being the case no potline can be moved without a supplemental source of new power. Presumably such a source would be new steam plants or dams elsewhere in the country, which brings us to our final point.

New electric energy facilities are under construction in the Northwest which will alleviate this situation within 2 to 3 years—in fact in less time than new facilities could be constructed elsewhere. We refer specifically to Albeni Falls, Hungry Horse, and Cabinet Gorge Dams which will materially improve the Northwest power situation in 1952 and 1953, and to Detroit, Meridian, and McNary Dams which will almost entirely relieve it in 1954. Chief Joseph, The Dalles, and Ice Harbor Dams, while not coming into production before 1955, assure that this problem will not again face us. Further, there is now before the Congress a proposal to construct 400,000 kilowatts of steam capacity in the Northwest, which would assure absolute firming of all existing and projected Northwest loads, including aluminum, by 1954.

We do not deny that the Northwest power situation has become critical. In our considered judgment, however, your proposal, as reported, is no solution to the problem. On the contrary, it could be very harmful to the national defense, to the Northwest economy, and to the economic future of the Nation.

It seems obvious to us that our solution lies in another direction, namely active and concerted support of Northwest power facilities already programed. We would appreciate an early opportunity to discuss these matters with you.

Sincerely yours,

WARREN G. MAGNUSON,
United States Senator.
JAMES MURRAY,
United States Senator.
HENRY M. JACKSON,
Member of Congress.
HUGH B. MITCHELL,
Member of Congress.
MIKE MANSFIELD,
Member of Congress.

REVENUE ACT OF 1951

The Senate resumed the consideration of the bill (H. R. 4473) to provide revenue, and for other purposes.

The PRESIDING OFFICER. The bill is open to further amendment.

Mr. WILLIAMS. Mr. President, I have an amendment at the desk, which I ask the Clerk to state.

The PRESIDING OFFICER. Will the Senator indicate the amendment to which he refers?

Mr. WILLIAMS. It is the amendment relating to cooperatives.

The PRESIDING OFFICER. With respect to section 314?

The PRESIDING OFFICER. Does the Senator from Delaware consent to have the amendment printed in the RECORD at this point instead of reading it?

Mr. WILLIAMS. Yes. I have a modification to the amendment which I now send to the desk. I ask that the modification be printed with the amendment.

Mr. CASE. Mr. President, will the Senator yield?

Mr. WILLIAMS. Yes.

Mr. CASE. May I ask whether the Senator is referring to his amendment identified as 9-22-51-22?

Mr. WILLIAMS. That is correct.

The PRESIDING OFFICER. The Chair understands the Senator from Delaware consents that the amendment as modified be printed in the RECORD at this point, instead of having it read.

Mr. WILLIAMS. That is correct.

Mr. AIKEN. Mr. President, will the Senator yield?

Mr. WILLIAMS. Yes.

Mr. AIKEN. Is the Senator's modification applicable to paragraph 2, on page 6 of the Senator's amendment?

Mr. WILLIAMS. No; it is a new paragraph at the end. This is a highly technical amendment and in order to make it plain, I asked the member of the committee staff who prepared the amendment to write out in layman's language exactly what the amendment will do. I will read that explanation to the Senate.

Mr. AIKEN. Is the modification to paragraph (2), page 6, of the amendment?

Mr. WILLIAMS. Yes. It comes in on page 9.

The PRESIDING OFFICER. Without objection, the amendment as modified, offered by the Senator from Delaware [Mr. WILLIAMS] will be printed in the RECORD without being read.

The amendment, as modified, proposed by Mr. WILLIAMS, was ordered to be printed in the RECORD, as follows:

SEC. 314. Income tax treatment of cooperatives and patronage distributions.

(a) Tax exempt cooperatives: Section 101 (12) (relating to exemptions from tax on corporations) is hereby amended to read as follows:

"(12) Farmers', fruit growers', or like associations organized and operated on a cooperative basis (a) for the purpose of marketing the products of members or other producers, and turning back to them the proceeds of sales, less the necessary marketing expenses, on basis of either the quantity or the value of the products furnished by them, or (b) for the purpose of purchasing supplies and equipment for the use of members or other persons, and turning over such supplies and equipment to them at actual cost, plus necessary expenses, but only if, in the case of any such association—

"(A) the sum of the value of the products marketed during the taxable year for members who are individuals plus the value of the supplies and equipment sold during the taxable years to members who are individuals is at least 95 percent of the sum of the value of the products marketed during the taxable year for all its members plus the value of the supplies and equipment sold during the taxable year to all its members; and

"(B) the average of its daily assets (excluding inventory) for the taxable year does not exceed \$100,000. The daily assets for any day shall be determined as of the beginning of the day, and the amount attributable to each asset shall be determined by ascertaining the adjusted basis thereof (or, in the case of money, the amount thereof) and the adjusted basis shall be the adjusted basis for determining gain upon sale or exchange.

"Exemption shall not be denied any such association because it has capital stock, if the dividend rate of such stock is fixed at not to exceed the legal rate of interest in the State of incorporation or 8 percent per annum, whichever is greater, on the value of the consideration for which the stock was issued, and if substantially all such stock (other than nonvoting preferred stock, the owners of which are not entitled or permitted to participate, directly or indirectly, in the profits of the association, upon dissolution

or otherwise, beyond the fixed dividends) is owned by producers who market their products or purchase their supplies and equipment through the association; nor shall exemption be denied any such association because there is accumulated and maintained by it a reserve required by State law or a reasonable reserve for any necessary purpose. Such an association may market the products of nonmembers in an amount the value of which does not exceed the value of the products marketed for members, and may purchase supplies and equipment for nonmembers in an amount the value of which does not exceed the value of the supplies and equipment purchased for members, provided the value of the purchases made for persons who are neither members nor producers does not exceed 15 percent of the value of all its purchases. For the purposes of the preceding sentence, business done for the United States or any of its agencies shall be disregarded."

(b) Patronage distributions: Chapter 1 is hereby amended by inserting after section 424 the following new supplement:

"SUPPLEMENT V—PATRONAGE DISTRIBUTIONS "SEC. 426. Definition of patronage distributions.

"For the purposes of this supplement the term 'patronage distribution' means an allocation or distribution paid or payable by a corporation (other than a corporation exempt from taxation under section 101, a mutual insurance company, a mutual savings bank, a savings and loan association, a building and loan association, or any other mutual or cooperative financial association or organization), whether or not in money and whether described as a refund, rebate, price adjustment, or payment of a balance due under a marketing agreement, to patrons of the corporation on some basis related to their sales to or purchases from the corporation during the taxable year, but only if the allocation or distribution is made pursuant to an agreement or representation by the corporation that patronage with the corporation will or may entitle the patron to such allocation or distribution or to an equity interest in any of the corporation's assets, and if (1) the allocation or distribution is conditional (A) upon profits or margins being earned by the corporation from all its operations or a class of its operations during its taxable year, or (B) upon income attributable to resale of the patron's products along with products of a class or classes of products of some other patrons less any deductions determination of which is within the discretion of the corporation, or (2) the amount of the allocation or distribution can be determined only with reference to the amount of the profits, margins, or income earned, or (3) the amount of the allocation or distribution can be determined only after declaration or payment of dividends on any class of stock of the corporation or only after the fixing of sums to be transferred to capital, reserve, or surplus.

"SEC. 427. Deduction by corporation of patronage distributions.

"(a) In general: In the case of any corporation making a patronage distribution—

"(1) there shall be allowable to the corporation as a deduction from gross income, to the extent provided in subsection (b), the amount of such distribution made by it during the taxable year; and

"(2) in no case shall the patronage distribution be treated or considered by the corporation (A) as cost of goods sold, (B) as a reduction, return, or rebate of the amount received for goods sold or services rendered by it, or (C) in any other manner as an item to be taken into account in computing its gross income.

"(b) Deduction of patronage distributions: A patronage distribution made after December 31, 1951, by a corporation shall be allow-

able to the corporation as a deduction from gross income if and only if—

"(1) the patronage distribution is made during the taxable year in cash or merchandise and there are no conditions either precedent or subsequent as to the application or use of such distribution by the recipient; or

"(2) the patronage distribution made during the taxable year is evidenced by a promissory note, irrevocably due and payable not later than 2 years after the close of the taxable year, and there are no conditions either precedent or subsequent as to the application or use of such distribution; but the amount of the deduction allowable for any taxable year for such patronage distribution so made shall not exceed an amount equal to 50 percent of the net income for the taxable year computed without regard to the deductions allowed by this subsection.

No deduction shall be allowable under this subsection with respect to the redemption of scrip, certificates, notes, or any other written evidence or notice of a patronage distribution. If any portion of the amount of a patronage distribution described in this subsection is attributable to the patronage of patrons not receiving the distribution, the amount of the deduction provided by this subsection shall be computed by excluding such portion.

"(c) Rules for application of subsection (b): For the purpose of subsection (b), patronage distributions made after the close of the taxable year and on or before the last day of the twelfth month following such close shall be considered as made on the last day of such taxable year to the extent the patronage distribution is attributable to patronage occurring before the close of such year.

"Sec. 428. Treatment by patron of patronage distributions

"Patronage distributions received in cash or merchandise, or in the form of a note described in section 427 (b) (2), shall be taken into account in computing net income for the taxable year in which the cash, merchandise, or note is received. A patronage distribution received in any other form shall not be taken into account in computing net income for the taxable year when the distribution is received, but any amount received upon a redemption or payment of the scrip, certificate, note, or other evidence of such distribution shall be included in gross income for the taxable year in which such redemption or payment occurs, and such amount shall be disregarded in computing for any taxable year cost of goods, supplies, services, or equipment purchased. With respect to such an amount received upon the redemption or payment of scrip, certificate, note, or other evidence of a distribution other than a distribution described in section 427 (b) (2), there shall be allowed against both the normal tax and the surtax a credit equal to the tax which would have been due and payable by the corporation making the distribution in redemption, computed as if such amount were taxable to the corporation in the taxable year in which the redemption is made. In no case shall the credit computed under the preceding sentence exceed the excess of (1) the tax computed without allowance of such credit, over (2) the tax computed without allowance of such credit and without inclusion in gross income of the amount received in redemption. No refund shall be allowable with respect to any overpayment of tax arising solely by application of the credit allowable under the two preceding sentences. This section shall not apply with respect to any patronage distribution received by an individual unless such distribution is attributable to patronage of the taxpayer in connection with his trade or business or with a transaction entered into for profit.

SEC. 429. Effective date.

"The provision of this supplement shall be applicable only with respect to patronage distributions made after December 31, 1951, except that the provisions of section 427 shall not be applicable to a patronage distribution made after such date if the net income of the corporation for any taxable year ending prior to January 1, 1952, is determined (without regard to the net operating loss deduction provided in section 23 (s)) by taking into account such patronage distribution."

(c) Technical amendments:

(1) Section 22 (relating to gross income) is hereby amended by adding at the end thereof the following new subsection:

"(p) Patronage dividends or distributions: For treatment of patronage distributions as defined in section 426, see supplement V."

(2) Section 23 (relating to deductions from gross income) is hereby amended by adding at the end thereof the following new subsection:

"(dd) For deduction of patronage distributions (as defined in section 426) paid by corporations, see section 427."

(d) The amendments made by this section shall not, in any case, be construed to disallow the deduction from gross income by a producers' cooperative of patronage dividends evidenced by a promissory note, irrevocably due and payable not later than 5 years after the close of the taxable year, if the amounts so allocated are irrevocably placed in a revolving fund for the 5-year period until due.

(e) Effective dates: The amendment made by subsection (a) of this section shall be applicable only with respect to taxable years beginning after December 31, 1951. The amendments made by subsections (b) and (c) of this section shall be applicable only with respect to taxable year ending after December 31, 1951.

Mr. CASE. Mr. President, will the Senator yield?

Mr. WILLIAMS. Yes.

Mr. CASE. Looking at page 6 of the amendment I note a reference to a promissory note which is irrevocably due and payable not later than 2 years after the close of the taxable year. What relationship does the Senator's modification of his amendment have with respect to that provision? Would the 2-year period be changed to a 5-year period?

Mr. WILLIAMS. If the Senator from South Dakota will withhold his question until after I have read the statement, I believe the situation will be clarified. I will say that the 5-year proposal applies to producer cooperatives only, such as milk producing, cotton, mushroom, or wheat growers.

Mr. CASE. The 5-year provision applies to producer cooperatives?

Mr. WILLIAMS. Yes. They, especially milk producers' co-ops, claim they need a 5-year revolving fund in order to operate. Under this they would be allowed to set aside a fund, with the understanding that they must keep it more or less as a trust fund, and that it must be allocated to the farmers in irrevocable certificates, payable in 5 years. If they follow this procedure they would continue to remain tax-exempt, but the certificate would be taxable to the farmers.

Mr. CASE. Would it apply to the Land O' Lakes Creamery?

Mr. WILLIAMS. I do not know whether it would apply to the Land O' Lakes Creamery. I am not familiar with their operations. It depends upon how they operate.

Mr. WATKINS. Mr. President, will the Senator yield?

Mr. WILLIAMS. If the Senator from Utah will withhold his question until I have read into the RECORD the legislative counsel's analysis of the amendment, I shall be very glad to yield to the Senator from Utah.

Mr. WATKINS. The Senator from Delaware may answer my question as he reads the explanation, so as to make it unnecessary for me to ask him to yield.

I read from the statement prepared by legislative counsel:

The attached amendment is believed to differ from the original action of the Finance Committee with respect to cooperatives only in the following respects.

1. The cooperative is allowed to deduct patronage dividends evidenced by a note due or payable within 2 years irrespective of any interest obligation on the note. The original Finance Committee action required that such a note, to be deductible, must bear interest at least at a rate of 3 percent per annum.

I digress from the reading of the statement to say that the only difference between that point and the original action of the Committee on Finance was that the Committee on Finance said that cooperatives could allocate one-half of their earnings on 2-year certificates if those certificates bore 3 percent interest. Some of the cooperatives pointed out that making semiannual payments of 3 percent on some of the smaller earnings would be administratively impossible. I am proposing to make it 2-year irrevocable certificates, but whether or not they shall bear interest is left optional to the cooperatives.

I continue reading from the statement:

2. A patronage dividend paid in cash or merchandise must be paid within one calendar year after the end of the taxable year in which the patronage occurred in order to be deductible.

I may say that under the Finance Committee action such distribution would have to be made within 75 days after the close of the taxable year. The Senator from Georgia [Mr. GEORGE] modified this a few minutes ago, when he made it 8½ months, because several of the cooperatives said that 75 days would be administratively impracticable, and that they could not operate, I supported that modification. Certainly I did not have any intention of restricting them unduly, so I said we would make it a full year, or 3½ months beyond the period which the Senator from Georgia has accepted.

Mr. President, I am not so much concerned with the exact date on which they should allocate the money. What I am concerned with is that I feel the cooperatives, if they want a tax exemption, should firmly allocate the money to be paid to the farmer outright within a reasonable period.

Mr. CASE. Mr. President, will the Senator yield?

Mr. WILLIAMS. Yes.

Mr. CASE. What does the Senator mean when he refers to the original action of the Finance Committee?

Mr. WILLIAMS. It is the action which was announced to the press by

the Committee on Finance about 3 weeks ago, which announcement was printed in the CONGRESSIONAL RECORD at the time.

Mr. CASE. The Senator from Delaware is not referring to the text of the bill as now printed?

Mr. WILLIAMS. No. When I refer to the action of the Finance Committee, I am referring to the action which was originally announced by the Committee on Finance. The language which appears in the bill now is meaningless except that it makes the load on the farmers more burdensome.

Mr. CASE. The text referred to is the so-called Kerr amendment.

Mr. WILLIAMS. That is correct. I shall now read paragraph No. 3.

3. Amounts received in redemption—

I am now speaking for all types of cooperatives, except the producer cooperative.

Mr. AIKEN. Mr. President, will the Senator yield?

Mr. WILLIAMS. In a moment. I am now calling attention to that phase of the bill spelling out that there will be no double taxation. When the cooperative keeps the money they pay the tax and the farmer is exempted.

This section was written in order to prohibit double taxation. Simply stated on the portion which the cooperative allocates in cash or bonafide certificates to the farmer, the farmer pays the tax. On the portion which the cooperative keeps, the cooperative pays the tax. Therefore, there would be no double taxation. If in 10 or 20 or 40 years from now those allocations upon which the cooperative now pays the tax are paid to the farmer, they go to the farmer tax exempt. The Treasury Department suggested that we should write in a proviso that if the farmer is in an income tax bracket higher than the existing corporate tax rate—normal and surtax rates combined—they would have to pay the extra. Otherwise, a group of extremely wealthy farmers could get together and form a cooperative in order to cut their tax rate down. Of course we would not want to correct one loophole by opening another one.

I continue reading:

Under the original plan of the Finance Committee, the cooperative would have been allowed a credit for such amounts paid in redemption and the recipient would have been fully taxable upon them.

The original cooperative tax provision, adopted in the committee by a vote of 9 to 4, provided for double taxation, in that when the cooperative paid the tax at the corporate tax level, the farmer's portion of the earnings would also be subject to taxation when it was received by the farmer.

It has always been my contention that the farmer should not be required to pay a tax on anything he does not receive either outright in cash or as an irrevocable certificate.

The other provision is that—

The amendments made by this section shall not, in any case, be construed to disallow the deduction from gross income by a producers' cooperative of patronage divi-

dends evidenced by a promissory note, irrevocably due and payable not later than 5 years after the close of the taxable year, if the amounts so allocated are irrevocably placed in a revolving fund for the 5-year period, until due.

That is designed to take care of the milk cooperatives and other groups of producers who claim they need 5-year revolving funds in order to operate. This provision would give them complete tax exemption if they allocate the money to the farmers in 5-year certificates. In that instance the money would not be subject to a tax on the cooperative, but the money would be taxable to the farmer; but the farmer would have a 5-year irrevocable certificate of indebtedness.

If this amendment is adopted, under no circumstances will farmers be required, as they would be under the so-called Kerr amendment, to pay taxes on something which neither they nor their grandchildren might ever receive. Under the present law or under the Kerr amendment, a cooperative could allocate its earnings on 30-year, 40-year, 50-year, or 100-year certificates, if it wished to do so. They do not even have to pay interest to the farmers on these certificates, yet the Senator from Oklahoma [Mr. KERR] wants the farmers taxed on them at face value. I am sure he would be the first to object it if someone proposed to tax his own income on that basis.

Many of the cooperatives are allocating such earnings in that way today, some are even marked to be paid at the time of liquidation of the cooperative, which might be 2 years or 10 years or 100 years from now. When the farmer dies, his estate has to pay an estate tax on it; and under the provisions of the Kerr amendment, the farmer's grandchildren would have to pay an estate tax on it unless the cooperative liquidates in the meantime. Two or three generations from now, after the cooperative has liquidated and after the farmer has paid the tax this year, and after his children and his grandchildren have paid several estate taxes on the money, they could have the tax refunded by the cooperative, if they could prove that they were the legal heirs which would be almost impossible by that time.

This amendment provides for an arrangement by which the one who keeps the money will pay the tax.

Mr. AIKEN. Mr. President, will the Senator from Delaware yield for a question?

Mr. WILLIAMS. I yield.

Mr. AIKEN. I understand that the amendment or modification proposed by the Senator provides that if a cooperative builds a milk plant out of this year's earnings, or, let us say, adds to the facilities of a milk plant out of this year's earnings, it will be required to pay off the certificates within 5 years' time.

However, suppose a cooperative adds to its grain-storage facility or its feed-mill facility. As I understand, those certificates would have to be paid in 2 years' time, under the provisions of the Senator's amendment. Is that correct?

Mr. WILLIAMS. That is correct, because then the cooperative would be getting away from the activities of a producer cooperative, and no longer would qualify as such.

Mr. AIKEN. Does the Senator from Delaware believe a cooperative could make such an investment in a feed mill and could pay for it in 2 years' time?

Mr. WILLIAMS. No, I do not think so. I do not think a farmer could do so; neither do I think any private corporation could, under the existing tax rate. However, the cooperative can keep that money indefinitely, exactly as can a corporation across the street, if it wishes to pay the tax on it. But if it wishes to keep the money for an extended period of time, and not pay it back to the farmer, why should it not pay the tax instead of passing the tax along to the farmer?

Mr. AIKEN. But I wonder about the effect on certain types of cooperatives. There are many types. The grain producers might have a grain-producer cooperative which would provide for storage of the grain until it could be marketed advantageously. We have food-grower cooperatives and nut-grower cooperatives, all of which are producer cooperatives.

Mr. WILLIAMS. Yes; they are producer cooperatives so long as they stay in the field in which they are supposed to be engaged. However, many cooperatives would not qualify under the provisions of this arrangement, because although they began as milk producing or grain producing cooperatives, they finally extended, as have many of the Midwest cooperatives, into the oil business or other nonrelated businesses, and thus have become regular business organizations. If a cooperative wished to operate oil wells—as does the Consumers' Cooperative of Kansas—plus 1,000 miles of pipe line, and hold back the earnings, the cooperatives would have to pay the tax exactly as does any other corporation of that sort. Why should it not do so? Does not the Senator from Vermont think it should?

Mr. AIKEN. The Senator from Delaware knows that thousands of farmers in the Midwest organized their own oil cooperative and built pipelines and finally built an oil refinery because, first, their cooperative was refused the right to purchase the gasoline in quantity to supply its members; and then it could not obtain the petroleum it needed, and it had to go all the way through the operation in order to keep the cooperative going, because the corporations with whom it dealt would not sell to it any more. The corporations said to the cooperative and its member farmers, "If you are going to get together and get the supplies at a lower price, we will put a squeeze on you." That was one reason for forming the cooperatives.

Mr. WILLIAMS. Mr. President, I do not want the Senator to understand that I am arguing against the use of cooperatives. I think they have served a useful purpose, and I believe there is a place for them today, to help the farmers. Certainly I would not want to do any-

thing to injure or destroy the cooperatives. However, to require them to pay their fair share of the taxes will not destroy them.

I point out to the Senator from Vermont that if the condition to which he has referred existed—and I do not dispute that it did—it existed because there has been sitting in Washington for 20 years a Secretary of Agriculture and an Attorney General of the United States who did not enforce the law. There is and has been for years on the statute books a law prohibiting any persons or groups from combining and refusing to buy or sell. Apparently some persons who were making political speeches about about what they would do for the farmers simply did not do their duty. If those persons had done one-half of their duty under the existing law, we would not need so many new laws.

Mr. AIKEN. The Senator from Delaware and I do not disagree on the matter of the failure of certain elected and appointed officials in Washington to do their duty.

Mr. WILLIAMS. The Senator from Vermont will agree with me, I am sure, that a law providing just what I have stated is in effect.

Mr. AIKEN. Yes; but I also know that the cooperatives have been more effective than laws in regulating fair prices and fair services for the farmers of the United States.

I would much prefer to have full support given to the cooperatives, so that the farmers can protect themselves through their own organizations, rather than to have the farmers have to turn to Washington for help, of whatever nature it might be, and thus be subject to the determination of whether they would or would not receive help from Washington.

Mr. WILLIAMS. I agree with the Senator from Vermont. Certainly I would not wish to write into the law anything which would prohibit a group of farmers from doing exactly what the cooperatives law provides; and it provides that a cooperative is set up for the purpose of making it possible for a group of farmers to join together as an organization, to pool their resources, to buy and sell their commodities, and to distribute the proceeds received therefrom.

However, there is not one thing in my amendment which would prohibit a group of farmers from carrying out all those functions, as now described in the law, and from obtaining 100 percent tax exemption.

The only time the amendment would affect the cooperatives would be when they began to hold back their earnings from the farmers and to give them certificates of indebtedness extending over a long period of time.

Mr. WATKINS. Mr. President, will the Senator yield for a question?

Mr. AIKEN. I may merely say finally that in my judgment there are some features of the Senator's amendment which would weaken the cooperatives, and at this time I do not think I can accept it.

Mr. WILLIAMS. Would the Senator point them out?

Mr. AIKEN. Certainly I would not be in favor of weakening cooperatives.

Mr. WILLIAMS. I wish the Senator from Vermont would point out any weakness there is in the amendment.

Mr. AIKEN. I am sure the Senator's desire will be gratified, either by the Senator from Vermont or by some of our colleagues.

Mr. WILLIAMS. I mean that respectfully. If there is anything in this amendment which would weaken the cooperatives, I wish the Senator would point it out. I think he has the responsibility of pointing it out.

Mr. AIKEN. The Senator from Vermont has now had only about one-half hour in which to study the amendment of the Senator from Delaware.

Mr. WILLIAMS. As I understand, the Senator from Vermont is sure there is something in the amendment which would weaken cooperatives. He does not know what it is. He has never read the amendment, but he is quite sure there is something of that kind in the amendment. Why not just say you are against any change in the existing law?

Mr. AIKEN. I have already noted some provisions of the Senator's amendment which I know would weaken the cooperatives, but I prefer to wait until I can tell the Senator all of the weak spots of his amendment. Certainly this is no time to drive the farmers to dependence upon the Federal Government in any way, shape or manner, to do for them those things which they can and ought to do for themselves.

Mr. WILLIAMS. Mr. President, I may say to the Senator from Vermont that I agree with him fully, and I am certainly not trying to restrict the farmers in their operations, nor am I standing on the floor of the Senate to say that if this amendment is accepted, it would not prove of some handicap to a cooperative in its operations. Any tax is always a handicap. I would be very glad to tell the Senator again what is in the amendment. If they have to pay the tax on the money which they keep, certainly it is going to reduce the amount of money they have with which to operate. There can be no argument about that. But it would mean that they are paying it, instead of the farmer. I point out to the Senator that when we pass this \$6,000,000,000 tax bill and set the corporate tax rates at 52 percent, or 70 percent in the case of excess profits, we shall be passing a bill which is going to handicap the operations of every businessman in this country; and if we pass a tax bill imposing on individuals rates up to 90 percent, we shall be passing a tax bill which will handicap every single individual in this country. To say that merely because we are proposing a tax on the cooperatives, we are against the cooperatives that we are against the farmer, is just as unrealistic as to say that when we advocate a tax on the American people, we are un-American, that we are against all the American people, because we impose a tax on them or that we are against the private-enterprise system of this country, because we vote for a corporation tax rate. Simply because we are voting for an equalization of the tax burden is no reason for suggesting that we are against a particular group. We are

supposed to divide the taxes across the board.

In this very bill which the Senator is endorsing on the Senate floor, he is advocating—or I suppose he is; the Senator has not yet suggested to strike it out—a provision to tax washing machines, a provision to tax vacuum cleaners, and a provision to tax the tires of baby carriages. That does not mean that the Senator is against the housewife, yet there has never been in the history of the country, that I know of, a tax on washing machines. They have always had the same tax exemption which the farm cooperatives have had. Why should it be said that because we talk about taxing a farm cooperative we are against the farm cooperatives? The Senator is not against all the American housewives, is he?

Mr. AIKEN. I have never heard anyone say the Senator from Delaware was against the farmers. I say there are certain provisions in his amendment which would weaken farm cooperatives, and that this is no time to weaken the cooperatives by telling them to go to the Federal Government to get protection, rather than attempting to get it through their own organizations. This is no time to cause them to go to the Federal Government to say, "You have got to protect us in the matter of price, service, and quality from the people with whom we deal." If we do that, the next thing we know our farmers will be going to the Federal Government, or we shall be telling them to go to the Federal Government to say, "You have got to give us a part of our income, in order that we may have a decent living for our families." That is what we shall be leading up to, if we do anything to weaken the cooperatives at this time.

Mr. WILLIAMS. I may say to the Senator from Vermont there is no disagreement between us on that point. I do not want to do anything that would weaken the bona fide cooperatives, and I have asked the Senator repeatedly to point out what there is in the amendment which would weaken them. It just is not there.

Mr. AIKEN. The Senator from Vermont is going to wait, because the Senator from Utah is on his feet, as I suspect, ready to begin pointing out the first of those harmful provisions. The \$100,000 limitation certainly would be harmful, because \$100,000 does not go very far toward enabling several thousand farmers to do business cooperatively in these days. There are also other objectionable provisions.

Mr. WILLIAMS. I may say to the Senator from Vermont that he is again mistaken. The \$100,000 provision has absolutely nothing to do with that phase of the cooperative taxing which we have been discussing. We are discussing the taxation of cooperatives as it will be applicable to those having more than \$100,000. The \$100,000 provision merely states that all cooperatives who have less than \$100,000 are not in any way affected by my amendment; they are exempted from it entirely. So we are only discussing what is going to happen to cooperatives, having in excess of \$100,000.

Those having less than \$100,000 can continue to operate exactly as they are now doing.

Mr. WATKINS. Mr. President, will the Senator yield?

Mr. WILLIAMS. I yield to the Senator from Utah.

Mr. WATKINS. Since I have just received a copy of the Senator's amendment, I am not in a position at this moment to point out anything that might hurt a cooperative, but I should like some definition of its terms. For the purpose of enforcing this amendment, precisely how would the Senator describe a producer's co-op? The Senator has mentioned dairy co-ops. Would a poultry co-op be included?

Mr. WILLIAMS. Mr. President, I should be perfectly willing to ask the legislative counsel to prepare a statement, but the only place we can get definitions of the different cooperatives is from the Treasury Department. I certainly will undertake to get them. However, if the poultry co-ops or any other cooperative confines their business to their own operations and refund their earnings to their customers they will be exempt.

Mr. WATKINS. But the Senator wants a vote on this amendment tonight. I must, therefore, make up my mind tonight.

Mr. WILLIAMS. No, I am perfectly willing that the amendment go over until tomorrow. I may say that, with all the experience which the Senator from Utah has, I think he certainly knows what a cooperative is, and he has seen my amendment before. You debated the same question over a year ago.

Mr. WATKINS. I know, but I merely want to find out how the Senator defines a producer's cooperative.

Mr. WILLIAMS. A producer's cooperative is a cooperative which is marketing produce for farmers.

Mr. WATKINS. Under the amendment what facilities would be considered legally to be a part of their business which they could amortize over a 5-year period?

Mr. WILLIAMS. Any part of the facilities they use, if bona fide.

Mr. WATKINS. Suppose they had a stage line, or a freight line to get their produce to market; would that be considered a part of it?

Mr. WILLIAMS. I never heard of a stage line being used. I thought you were farther advanced than that in Utah.

Mr. WATKINS. Or a truck line?

Mr. WILLIAMS. Yes, a truck line.

Mr. WATKINS. I can call the Senator's attention to dairy co-ops in my State which have to have regular truck lines in order to get their produce to market.

Mr. WILLIAMS. I think the Senator will find that dairy cooperatives, at least the ones I have been associated with, write off those expenses, and that they would not be allowed as a legitimate expense representing the cost of transporting the milk from the farm to the city. Such deductions can be made with or without this amendment. If milk is being moved by a cooperative, whether it

is moved in individual cans, trucks, or how, the entire expense is 100 percent deductible.

Mr. WATKINS. What about a cheese factory and a dairy cooperative? Would a cheese factory be included as part of the expenses that could come within the 5-year amortization period?

Mr. WILLIAMS. It depends upon whether the cooperative, to start with, was in the cheese business.

Mr. WATKINS. If it is producing milk, in order to market it they sometimes have to turn it into cheese. The cooperative cannot always market it as whole milk or as raw milk. The Senator understands that.

Mr. WILLIAMS. Is that the objection—

Mr. WATKINS. I may say to the Senator that I am merely asking questions for information. I am not objecting. I want to try to learn something about this amendment.

Mr. WILLIAMS. Am I persuading the Senator?

Mr. WATKINS. I will tell the Senator when I get through listening to him.

Mr. WILLIAMS. There is no use becoming technical. I think I understand what the Senator from Utah is driving at. If cooperatives are milk producers, there is nothing in this amendment that says whether they are to market the milk as fluid milk, or as butter, or in any other particular form. The only thing which is said is that they must confine themselves to the business they are in. If they are handling grain, there is nothing that requires the cooperative to sack it in a bag or a bushel basket, or in any other way.

Mr. WATKINS. Suppose they want to make it into flour.

Mr. WILLIAMS. They can make it into flour. But if they hold back part of the farmers' money and insert it in oil wells or railroads then they become taxable. Is there anything else bothering the Senator?

Mr. WATKINS. I am trying to find out what the Senator means by the language.

Mr. WILLIAMS. The Senator from Utah is not going to get me to define the different cooperatives any differently from the way the Treasury Department has defined them.

Mr. President, the amendment was printed on Saturday, but the Senators have not had time to study it. I am willing to withdraw it until tomorrow.

Mr. AIKEN. Mr. President, will the Senator withhold withdrawing his amendment for a moment?

Mr. WILLIAMS. I do not mind Senators pointing out what is wrong with the amendment, but when they admit they have never read it and do not know what is in it, but yet they are against it—

Mr. WATKINS. Who said that?

Mr. AIKEN. Mr. President, will the Senator yield?

Mr. WILLIAMS. I yield.

Mr. AIKEN. I should like to read from the Senator's amendment, beginning with line 6, page 1:

(12) Farmers', fruit growers', or like associations organized and operated on a co-

operative basis (a) for the purpose of marketing the products of members or other producers, and turning back to them the proceeds of sales, less the necessary marketing expenses, on the basis of either the quantity or the value of the products furnished by them, or (b) for the purpose of purchasing supplies and equipment for the use of members or other persons, and turning over such supplies and equipment to them at actual cost, plus necessary expenses, but only if, in the case of any such association—

(A) the sum of the value of the products marketed during the taxable year for members who are individuals plus the value of the supplies and equipment sold during the taxable year to members who are individuals is at least 95 percent of the sum of the value of the products marketed during the taxable year for all its members plus the value of the supplies and equipment sold during the taxable year to all its members.

The Senator from Vermont is seeking a little light on the meaning of the amendment. What would be the effect of this provision on so-called federations of cooperatives? There are in that category creameries which federate to market their products. I believe there are some grain-elevator companies which are included in that category.

Mr. WILLIAMS. It would stop the possibility of pyramiding one cooperative on top of another and still maintain complete exemption.

Mr. AIKEN. It would stop the federating of cooperatives.

Mr. WILLIAMS. If the Senator will read the next paragraph it will explain what I have in mind. That provision was written into the amendment at the request of the Secretary of the Treasury. It is the Treasury's recommendation as to how they thought it should read.

Mr. AIKEN. I am fully aware that the Secretary of the Treasury spearheaded the attack on cooperatives, and I do not like it at all.

Mr. WILLIAMS. All I can say is that the Secretary of the Treasury has not spearheaded any attack on the cooperatives any more than the Senator from Vermont and all other Senators who are in favor of putting a tax on vacuum cleaners and washing machines are spearheading an attack on American housewives.

Mr. AIKEN. If it is permissible to go over \$100,000—

Mr. WILLIAMS. There is nothing that would prohibit a cooperative from going beyond \$100,000, except that when they get over \$100,000 certain restrictions are provided to the effect that they must allocate their money to the farmers either in cash or irrevocable 2-year certificates or pay taxes. Why should they not pay the tax if they are going to keep the money? Some of them are making up to \$4,000,000. Why should they not pay a tax? In 1916 there was a corporation tax rate of 2 percent. Today it is 70 percent. There is a vast difference between exempting an organization at a 2-percent rate and exempting one at a 70-percent rate.

Mr. THYE. Mr. President, will the Senator yield for a question,

Mr. WILLIAMS. In a moment.

We have plugged loopholes. At the time this exemption was given, there was also an exemption for churches.

We have even written into the bill that if a church enters into a nonrelated business, such business is to be taxed at the corporate rate. That does not mean that the Members of the United States Senate are against the churches. We are only being realistic about the fact that we have taxed individual taxpayers and American business to the full extent of what they can pay, and unless we recognize that and plug up some of the loopholes, the Nation cannot continue to exist. I think the Senator from Vermont knows full well that he cannot operate a business on one side of the street and pay taxes, and compete with one across the street which is tax-exempt.

Mr. AIKEN. A church is completely exempt as to the property on which it operates.

Mr. THYE. Mr. President, will the Senator yield?

Mr. WILLIAMS. I now yield to the Senator from Minnesota.

Mr. THYE. I should like to ask the Senator how a small creamery could market its product, such as butter or powdered milk, in the event it were not permitted to become affiliated with a sales organization which could afford to advertise and sell the products not only on the world market, but in the larger metropolitan areas of the Nation? How could it become federated with any sales organization, under the proposed amendment?

Mr. WILLIAMS. The amendment would not prevent cooperatives from becoming affiliated with parent cooperatives, nor would it prevent them from joining together with a large group in connection with marketing. They would come under that section of the bill, assuming their assets were in excess of \$100,000 whereby they would have to allocate their earnings to the farmers either in cash or 2-year certificates or else pay the tax.

Mr. THYE. Is it not the intention of the Senator to tie the hands of the producer who has a small local processing plant, such as a creamery, and is he not endeavoring to tie the hands of small groups of farmers so that they cannot become affiliated with others in establishing a general sales organization which could intelligently and efficiently market their produce? In other words, what the Senator is trying to do is to confine the cooperative to a small processing unit, and then leave it to the middleman to go ahead and make the big harvest in the retail field.

Mr. WILLIAMS. If the Senator wants to accept that philosophy—

Mr. THYE. That is what the amendment provides.

Mr. WILLIAMS. No; it does not do anything of the kind.

Mr. THYE. Yes, it does.

Mr. WILLIAMS. The Senator from Minnesota made a speech in the form of a question. If he wants to adopt the premise that the amendment is against all the cooperatives, if he wants to follow the philosophy that taxing them to half the extent we tax corporations is going to destroy the cooperatives and the American farmers, and if he wants to

suggest that when a tax on baby carriages is advocated we are against babies or against the housewife if we put a tax on washing machines, or that it is considered a luxury to wash clothes, very well; but do not single out this amendment and put it on the basis that we are trying to destroy the cooperatives. No one is trying to destroy the cooperatives. I merely say, let the cooperatives pay the tax on that which they keep, and let the farmers in Minnesota pay a tax only on that which they receive. I venture to say that when the situation is well known to the American farmers, when the farmers in Minnesota find out that the question is not whether we are going to destroy cooperatives but whether they are going to continue to pay taxes on something they never get, instead of cooperatives paying it, the Senator is going to find that many of the individual members of the cooperatives in his own State are going to wish he had voted for this amendment, because under it the farmers in Minnesota, in Delaware, and in every other State of the Union, will actually pay less tax than they are paying under existing law.

Mr. THYE. Mr. President, will the Senator yield for another question?

Mr. WILLIAMS. Yes.

Mr. THYE. Would the amendment the Senator describes prevent a group either of mothers or expectant mothers from joining together and manufacturing baby carriages and distributing them to the users of such carriages? Would the Senator expect to extend the law so that they would have to pay a tax on the baby carriages they have all joined together to manufacture? Will the Senator from Delaware answer that question?

Mr. WILLIAMS. Is that the kind of cooperative in which the Senator from Minnesota is interested?

Mr. THYE. No. What I am interested in is the cooperative philosophy. The Senator cannot define it to be anything else than the philosophy of a group of men who join together either to process or market something for themselves. That is the cooperative philosophy which has been recognized in all the history of cooperatives. And if a group of mothers join together to manufacture baby carriages or process them, so long as it is for themselves and no one of them derives a profit from it, they, under the cooperative philosophy, would still be exempt. The Senator agrees with me, does he not?

Mr. WILLIAMS. Oh, yes; and they would still be exempt under my amendment. But I am speaking about where the tax is going to be imposed. There is nothing in my amendment that would stop any group of farmers from getting together and marketing their produce. We are not talking about a cooperative that is handling a farmer's merchandise for cost. In that instance there is no profit involved, and the tax bill means nothing to them.

I am talking about the cooperative that is holding out on the American farmers, keeping the money, writing a letter in which it says "There is \$500 due to you. You will get it whenever we decide to liquidate, maybe." The Ameri-

can farmer should not have to pay a tax on anything he does not get. If the cooperative, I do not care whether it is in Minnesota or Delaware, keeps the money from the American farmer, then the cooperative which keeps the money should pay the tax. That has always been the principle of taxation. That is what is back of the argument of the Treasury Department. They have recently ruled that the farmers will have to pay a tax on these phoney allocations, irrespective of how long the payment date might be in the future. The Treasury Department has taken the position that legally they must rule this way. Morally they think the farmer should not have to pay tax on that which he does not get. That is the reason why the Treasury Department advocate a change in the law. I agree with the change the Treasury Department proposes to have made in the law. We are just being realistic about this matter and putting the tax where it belongs.

Mr. THYE. Mr. President, will the Senator yield for another question?

Mr. WILLIAMS. I yield.

Mr. THYE. Does the Senator from Delaware belong to a cooperative?

Mr. WILLIAMS. I belong to three or four.

Mr. THYE. Many creameries have been compelled to do certain things in order efficiently to market their products in the larger metropolitan centers, where salesmanship is required, and where there must be delivery of the product at specified times, either on certain days or weeks, and if the Senator from Delaware is a member of cooperatives he knows that no individual or group of individuals take any part of a man's earning away from him unless, in accordance with the bylaws, there has been publicized notice of what it is intended to do. It may be proposed to change their business practice, or some business method. In the event that, at an annual meeting, a member votes to assign a certain percentage of his earnings to be used for a certain transaction, or for a certain expansion, in reality it is his money which he agrees that his own cooperative may use, to develop a sales organization, or to develop or expand the plant facilities, or do certain other things in the processing of the commodity, to meet the consumers' demand.

I am sure that if the Senator from Delaware is familiar with cooperatives—and he certainly is—he will recognize that at an annual meeting, when an individual votes to commit or to surrender a part of his patronage earnings, he is operating with his fellow members in a democratic manner, and in the cooperative manner and spirit. I am sure the Senator will agree with that.

Mr. WILLIAMS. The Senator from Minnesota, I take it for granted, is not a member of a cooperative.

Mr. THYE. The Senator from Minnesota has never been engaged in the retail business deriving the pleasure of the profits or the real harvest from a man's sweat, a man's toil. The Senator from Minnesota will say that he is qualified only as he has produced the product from which the middleman was en-

joying a handsome profit, until we decided to go into cooperative organization and processing and marketing ourselves. I have never been in the retail field, but in the cooperative movement.

Mr. WILLIAMS. I might say to the Senator from Minnesota that he and I are now both in the field where we are living off the sweat of the brow of the retail man and all other taxpayers. They are the men who are paying taxes to provide for our salaries. The Senator and I both are living today off the sweat of his brow, and, brother, that taxpayer is now sweating.

I point out to the Senator that he is completely in error, and that is why I said I did not think he was a member of a cooperative. I point out that cooperatives, not only in Delaware but in Minnesota—and the Farmers Union is one of the biggest cooperatives there—are allocating some of the money to the farmers in the form of nonvoting preferred stock. This stock does not always bear interest nor is it redeemable. That is particularly true of the Farmers Union in your own State. On the back of this preferred stock it is spelled out that the preferred stock is redeemable at the option of the board of directors, and that it does not carry any voting power.

Mr. THYE. Mr. President, will the Senator yield further?

Mr. WILLIAMS. Just a moment. The farmers in the Senator's State are taking these certificates. I am not saying they are not good, but they do not know when they are going to get the money. The certificates are payable solely at the discretion of the board of directors, and the farmers who take them have absolutely no more votes at the annual meeting than I do, and I am not a member. That practice is followed in entirely too many instances by the large cooperatives in Minnesota and all over this country. That is the reason why we are trying to stop the practice. If my amendment is adopted, it will result in the money being put back into the hands of the farmers who are supposed to have it. I know very well that the farmers do not have the control of these cooperatives.

I have here some of the certificates to which I referred. The Senator can check with any number of the farmers of his State and he will find that the money is being allocated in the manner I have described, and many of those farmers resent being taxed before they get the money.

Mr. THYE. Mr. President, will the Senator yield for a question?

Mr. WILLIAMS. Yes.

Mr. THYE. Has the Senator from Delaware examined the records of annual meetings of the organization to which he refers, to determine whether at an annual meeting they agreed that they would accept such documents as the Senator holds in his hands today?

Mr. WILLIAMS. Oh, yes. But what the farmers did not know was that if they disagreed there was not a thing they could do about it today. With nonvoting preferred stock, what can they do?

Mr. THYE. I will say that the farmers know more than the Senator is wil-

ling to concede they know. The farmer knew, certainly, when he committed himself to the acceptance of this document, what the document was going to represent.

Mr. WILLIAMS. I point out that the particular operation I described is represented by \$50,000 of common stock, and that there was \$25,000,000 worth of nonvoting preferred.

That is their capitalization. Their total capitalization is \$25,050,000. The \$50,000 carries all the voting power in the management of the corporation. The \$25,000,000 carries absolutely no votes at all.

Mr. WATKINS. Mr. President, will the Senator yield?

Mr. WILLIAMS. I should like to ask for the yeas and nays on this amendment, and then I will yield.

Mr. WATKINS. Mr. President, I should like to ask the Senator some questions.

Mr. WILLIAMS. First, I understand that some Senators wish to know whether or not this amendment is going to be voted on tonight. I am perfectly willing to have it voted on. If the yeas and nays could be ordered, then I shall be glad to yield.

The yeas and nays were not ordered.

Mr. WILLIAMS. Mr. President, I withdraw the amendment until tomorrow, I want a record vote in order that we might determine this question once and for all.

The PRESIDING OFFICER. The amendment is withdrawn.

Mr. O'MAHONEY. Mr. President, I desire to ask the Senator from Oklahoma [Mr. KERR] what the plan is for this evening with respect to the bill. I had intended to take the floor to present the excess-profits-tax problem. Two or three days ago I gave notice of my desire to take advantage of the unanimous-consent agreement, which ordered that any of the amendments which were adopted en bloc on the first day might be reopened for consideration. I so notified the Senator from Georgia [Mr. GEORGE] Saturday. Naturally I would not want to take up that question now without having a quorum call. It is now a quarter past 5. If I could get an explanation of what the plan is for the remainder of the session, it would be most helpful.

Mr. McFARLAND. Mr. President, I have just talked with the distinguished Senator from Delaware [Mr. WILLIAMS], and he states that he is willing to reoffer his amendment if he can obtain an order for the yeas and nays, and have the amendment voted upon.

Mr. WILLIAMS. Mr. President, if I may have the yeas and nays, I shall be willing to reoffer the amendment. I ask for the yeas and nays.

The PRESIDING OFFICER. Does the Senator from Wyoming yield for that purpose?

Mr. O'MAHONEY. I yield for that purpose.

Mr. WATKINS. Mr. President, does the Senator from Delaware intend to ask for a vote on his amendment tonight?

Mr. McFARLAND. Mr. President, I do not see any reason why we could not dispose of this amendment tonight.

Mr. KERR. Mr. President, will the Senator yield?

The PRESIDING OFFICER. The amendment has been withdrawn.

Mr. WILLIAMS. Mr. President, I understand that there are enough Senators in the Chamber to now give us the yeas and nays, so I reoffer the amendment and ask for the yeas and nays.

The PRESIDING OFFICER. The Senator from Delaware reoffers the amendment which he withdrew a few minutes ago, and now requests the yeas and nays on the amendment.

Mr. WILLIAMS. That is correct.

The yeas and nays were ordered.

Mr. MILLIKIN. Mr. President—

The PRESIDING OFFICER. Does the Senator from Wyoming yield to the Senator from Colorado?

Mr. O'MAHONEY. I yield to the Senator from Colorado.

Mr. MILLIKIN. Mr. President, I wonder if we may have the amendment stated.

Mr. TAFT. Mr. President, the amendment is 10 pages long.

Mr. MILLIKIN. Was not a modification offered?

Mr. WILLIAMS. This is the amendment which I withdrew. It is the modified amendment, it is merely a modification of what we considered in the Finance Committee.

Mr. MILLIKIN. I shall not ask that the amendment be read.

Mr. HUMPHREY. Mr. President, will the Senator yield?

Mr. O'MAHONEY. I shall be very happy to yield to the Senator from Minnesota. First let me say that I have no disposition to take the floor to prevent the calling of the yeas and nays. I rose for the purpose of discussing the committee amendments with respect to the excess-profits tax, which can be acted upon anew because of the unanimous-consent agreement which was entered into. However, I do not wish to raise this question in such a manner as to impede action on the pending amendment, or to prevent any Senator from speaking on the pending amendment.

The PRESIDING OFFICER. The question is on agreeing to the amendment offered by the Senator from Delaware. On this question the yeas and nays have been ordered, and the clerk will call the roll.

Mr. KERR. Mr. President, I should like to see a copy of the amendment which we are considering.

The PRESIDING OFFICER. The Senator from Oklahoma is recognized.

Mr. KERR. I should like to see a copy of the amendment.

Mr. TAFT. Mr. President, will the Senator yield?

Mr. KERR. I yield to the Senator from Ohio.

Mr. TAFT. The amendment is printed and is at the desk. It is the Williams amendment. It was submitted on September 22 and ordered to be printed and lie on the table. Near the end of the printed amendment, there is added the following:

(d) The amendments made by this section shall not, in any case, be construed to disallow the deduction from gross income by a producers' cooperative of patronage dividends evidenced by a promissory note, ir-

revocably due and payable not later than 5 years after the close of the taxable year, if the amounts so allocated are irrevocably placed in a revolving fund for the 5-year period until due.

That is a modification of the definition of "patronage dividends" in the amendment, as I understand.

The PRESIDING OFFICER. The Senator from Oklahoma is recognized.

Mr. KERR. I yield to the Senator from Ohio.

The PRESIDING OFFICER. Does the Senator from Oklahoma yield the floor?

Mr. KERR. For the moment.

Mr. TAFT. Mr. President, this particular amendment has been considered by the Senate committee for a long time. All through our hearings it was under consideration. Fundamentally the question before us goes back to the theory of what a cooperative is.

As I see it, the theory of a cooperative, which has been supported by the laws of the United States and by the laws of many States, is this.

It is felt that where there are a large number of individual bargaining units, or small operators—millions of farmers, and in particular communities thousands of farmers—dealing with a single individual in some cases, or dealing with a single free market in other cases, there is no equal bargaining power, which is the theory of the whole free price and wage system. So it has been felt that, in order to restore equal bargaining power, a number of small farmers should be entitled to act as a unit in dealing with those to whom they sell.

We have exactly the same principle in the labor law. We have found that because an employer could deal with a thousand workmen one after another as individuals, he had an advantage in determining the amount of wages to be paid. So both in the Wagner Act and the Taft-Hartley Act, Congress recognized the right of individual workmen—at some sacrifice of principle of individual liberty—to act as a unit in dealing with the employer. In principle the theory is exactly the same. I do not believe the cooperative theory is in any way socialistic. It seems to me that a group of individuals who deal are just as much a private enterprise as is any private dealer.

In effect, what we are saying to those men is, "You may act as partners. One hundred of you may act together as partners in dealing with those to whom you sell your goods, or with those from whom you buy your goods."

The general nature of a cooperative is a partnership. The distinguished Senator from Delaware has referred to the fact that under this theory the farmer is going to be taxed on something he does not get. All partners are taxed on something they do not get, so far as the income-tax law is concerned.

Mr. WILLIAMS. Mr. President, will the Senator yield?

Mr. TAFT. I prefer to make this entire statement, if I may, before I am interrupted.

Partners have the right, if they wish, to give themselves the money with which

to pay their taxes. So members of a cooperative, if they want to give themselves the money with which to pay the tax on the distribution of the accumulation of an interest in their behalf which they do not actually get, may do so.

They have full control of the cooperatives, and the cooperatives can distribute to them the money with which to pay the taxes, if the majority of the members of a cooperative desire it to be done. I believe that in fact the cases are few in which farmers are taxed on certificates when they are not also given the cash with which to pay the tax. I believe such cases are few and far between. If there are any such cases, certainly the members of the cooperative have the right to correct the situation.

I believe the whole theory of the Senator from Delaware [Mr. WILLIAMS] is that we are hurting the farmer in taxing certificates which cannot be turned into cash. It is a bugaboo. I do not believe it is a fear with which anyone need be concerned.

What the farmer has always felt is that he is discriminated against by the long system of distribution, under which he gets his goods to market and by which he buys goods at retail, while he sells them at wholesale. He has always felt that this discrimination has existed and he has always felt that a great many people are making profits under it. I believe that has been improved by cooperatives and other circumstances. The farmer gets about 50 percent today, on the average, of the retail price of the goods which he produces and sells. I believe it is his proper concern, and I believe that the reason there is that intense feeling on the subject is that he wants to be sure that he can get for his product an absolutely fair price without any economic weakness, from the fact that he is so far down at the end of the line.

It seems to me that this is no new theory, because the legislation of this country is full of statutes recognizing the general desirability of the cooperative movement, as are the laws of all the States, and it seems to me that the theory is sound.

What we are trying to undertake in this tax field is to say: "If you get together we are not going to require you to operate as a separate corporation, with the double taxation involved in a separate corporation." That is all that the provision of the committee would do. It says, "We are going to tax you once, if you make a profit out of this operation. If you make a profit, we will not tax you twice." There may be some argument for having the tax paid at the cooperative end instead of at the farmer end.

But that is opposed to the theory of cooperatives. The theory of cooperatives is one of partnership among a large number of individuals who get together for certain approved purposes. The tax, therefore, goes on the farmer members.

The distinguished Senator from Delaware [Mr. WILLIAMS] proposes a very complicated amendment. I believe I understand what it amounts to, because

it comes partly from the Treasury Department's proposal.

The Senator from Delaware proposes that we continue the complete exemption of some co-ops. As to these there would be no tax on the co-ops and no tax on the farmer for whom surpluses may be accumulated.

Mr. WILLIAMS. Mr. President, will the Senator yield?

Mr. TAFT. I yield to the Senator from Delaware because I want to know whether I correctly understand the Senator's amendment.

Mr. WILLIAMS. The Senator from Ohio is in error. The exemption on the \$100,000 co-ops does not say it is a complete exemption. It permits them to operate under the existing law. They can pay it out in cash or allocate it but they must do one or the other otherwise they will be taxed at corporation rates. Nor is there any double taxation under my amendment.

Mr. TAFT. Under the existing law there are two groups of cooperatives. One of them is the nontaxable cooperative. Such nontaxable cooperatives must meet certain requirements. I believe the requirements cover approximately two-thirds of all the cooperatives. The Senator from Delaware continues this whole theory, except that he proposes the condition that 95 percent of the members must be individuals, and that the total assets must not be more than \$100,000. For those there is a complete exemption under the Senator's amendment.

Mr. WILLIAMS. Mr. President, will the Senator yield?

Mr. TAFT. Yes.

Mr. WILLIAMS. Again I say the Senator from Ohio is in error, because it is clearly pointed out that not only do they have to pay in cash or allocate them to the members who will then pay the tax, but it even goes further and says that they—

Mr. TAFT. Patronage dividends have nothing to do with nontaxable cooperatives, in the amendment as drawn by the Senator from Delaware. The question of patronage distribution relates only to the so-called taxable cooperatives who cannot qualify under the first section as tax-exempt cooperatives.

So far as the Senator from Delaware [Mr. WILLIAMS] is concerned, he is leaving complete tax exemption to both the cooperative and to the farmer if the small cooperative has no corporation members, or practically none. What he does with respect to patronage distribution apparently is this. He says that a taxable cooperative shall be taxed on all of the money which it does not return to members in cash or in 2-year notes, according to his original amendment. Then he has a 5-year proposal. In other words, if the cooperative puts the money into an elevator, we will say, it is taxable under his amendment to the cooperative at the rate of 52 percent, which is the rate we are fixing in the bill.

Mr. WILLIAMS. Mr. President, will the Senator yield?

Mr. TAFT. Yes.

Mr. WILLIAMS. I have just conferred with the committee staff member who prepared my amendment. The Senator from Ohio is completely in error. The amendment does not provide any complete tax exemption for either one. In fact, I do not think that is your objection at all.

Mr. TAFT. Will the Senate note—

Mr. WILLIAMS. I will ask the staff member to point it out to the Senator from Ohio.

Mr. TAFT. There is no such proposal before the committee. The amendment which the Senator from Delaware advocated in the committee is this amendment, and it gave complete exemption to small cooperatives and its members.

Mr. WILLIAMS. The Senator from Ohio is in error and is merely seeking an excuse to oppose.

Mr. TAFT. Would the Senator from Delaware point out to me in section 314 any change from the existing law, or which changes the law on the taxation of exempt cooperatives?

Mr. WILLIAMS. Mr. President, if the Senator from Ohio will get the code, he will see it, or if he will consult the staff members. You have admitted that you never saw the amendment until a few minutes ago. You announced your opposition weeks ago.

Mr. TAFT. I have the code before me for that purpose. I cannot find anything in it. I cannot find any difference between the existing law and the Senator's amendment in that respect.

Mr. WILLIAMS. The Senator from Delaware asked the staff members to prepare the amendment. Those members are supposed to be qualified and expert in the law. I am stating what the amendment is supposed to do and what the staff says it will do. If it does not do what I intended to have it do, it can be straightened out in conference.

Mr. TAFT. Let the Senator from Delaware state what he wants to do with the small cooperatives. There is a difference between cooperatives of under \$100,000 and those over \$100,000.

Mr. WILLIAMS. On those over \$100,000 I provide that they can only allocate one-half of their earnings in 2-year certificates and get tax exemption. On the other half they must either pay it in cash merchandise or pay the tax. Those under \$100,000 can allocate in any manner they wish exactly as under the existing law.

Mr. TAFT. May I point out the wording of the Senator's amendment, which is exactly the same as the present law? I refer to page 3, lines 12 to 15:

Nor shall exemption be denied any such association because there is accumulated and maintained by it a reserve required by State law or a reasonable reserve for any necessary purpose.

This has been construed to mean any purpose, and it can be a reserve to build an indefinite number of buildings or elevators, or to buy anything at all. That is the wording under the existing law. The Senator has retained those words.

Mr. WILLIAMS. If that intent has been retained, that was done in error by the committee council and it is not my

intention. If you think you are more expert than they are, I suggest you assist them in preparing the appropriate language or else admit that this is not your objection but merely an excuse. Why not just admit you are against any change in the existing law?

Mr. TAFT. Mr. President, we are to vote on the amendment the Senator from Delaware has prepared after 2 months of study. If the Senator from Delaware does not know enough about the law to be able to write the amendment the way he wants it to be, and to be able to present it to the Senate in the way he wants the amendment to be, I think the Senator should withdraw the amendment altogether, and should not bring it up until the next session.

Mr. WILLIAMS. Mr. President, I have been preparing the amendment, ready to present it, for 2 months, and the Senator from Ohio has been against it for 2 months. The Senator from Ohio is simply attacking certain words of the amendment, just as often can be done successfully by lawyers when they cannot find a reasonable argument to support their position.

I have just conferred with the staff members on the floor and they say the amendment is drawn correctly, and the amendment stands. Those who oppose it can vote against it but at least we will take sides.

Mr. TAFT. I still do not understand what the Senator from Delaware seeks to accomplish. How is a cooperative with more than \$100,000 of assets different from a cooperative which has a smaller amount of assets? That is what I should like to know.

Mr. WILLIAMS. Under the amendment, a cooperative with over \$100,000 of assets has a right to allocate one-half of its earnings by means of 2-year certificates; and the remainder they must either distribute in cash or merchandise or else they are taxed. The tax on the amount allocated as allowed is payable by the farmer; the tax on the amount remaining in the cooperative is paid by the cooperative. On the other hand, a cooperative of less than \$100,000 assets can allocate any portion of its earnings, as can be done now. These smaller cooperatives can do so by means of issuing certificates for 2 years, 5 years, or as they wish, and still can obtain tax exemption. Of course the allocations are taxable to the farmers.

In other words, by means of this amendment we do not lay down rules as to how much a cooperative with less than \$100,000 of assets can allocate or for what term the certificates shall be.

Mr. TAFT. All the Senator from Delaware has done by means of the amendment is to say that the exempt cooperative will not have to allocate anything, and that the earnings are tax exempt if they are placed in the reserve. However, that provision is found in the law already, and apparently the Senator's amendment would retain that provision of the law.

Mr. WILLIAMS. No, that is not the case and you know it. The amendment provides that the cooperatives of less

than \$100,000 can allocate all their earnings or any portion of their earnings, but must pay taxes on any amount not allocated or paid out.

A few minutes ago the Senator from Ohio stated that a cooperative is similar to a partnership, or that the two cases are parallel. I do not wish to challenge the Senator's understanding of a partnership, but he simply does not understand how cooperatives operate or how partnerships operate. The Senator from Ohio knows that today or tomorrow any partner can call for an equal distribution of the assets, and that can be done with or without the consent of the other partner. If the other partner will not agree freely to a dissolution of the partnership, the partner wishing to have the partnership dissolved can go to court and there can force either a dissolution or the other partner to buy him out.

However, in the case of a cooperative, the individual members cannot do that. They are locked in with the cooperative holding their money and all you want to do is say, "Pay your tax and forget it."

Mr. TAFT. However, they can attend the meetings and, at the meetings, can vote for any change for which they wish to vote in the cooperative's by-laws. If the members thing they are receiving such allocations on which they are required to pay taxes, when the members receive the allocations from the cooperative they can require that the cooperative also pay them sufficient cash with which to pay the tax on the allocations or certificates.

The Senator from Delaware brought forward a rather imaginary condition in which many farmers might be required to pay taxes on something they never would receive. I say that such a condition does not exist. So far as I know, every time there has been an allocation of reserves to farmers who are members of a cooperative, they have received, with it, some cash, with which they could pay the taxes if they wished to do so.

The Senator from Delaware himself referred to a case in which the farmers received checks of a certain amount and allocations of a certain amount. Each farmer could use the check to pay the tax on the allocation, if he wished to do so.

Mr. WILLIAMS. Mr. President, will the Senator from Ohio yield?

Mr. TAFT. I yield.

Mr. WILLIAMS. The Senator from Ohio is familiar with the case I mentioned; namely, that of a cooperative which was paying the farmers about nine-tenths of the earnings in phoney allocations.

Mr. TAFT. Yes; and in each case the check the farmer received was much larger than the reserve, so the farmer would have ample funds with which to pay the tax on the reserve in that particular case.

Mr. WILLIAMS. Once again you are in error. I am talking about the same case; I showed the Senator from Ohio in the committee and again I hand him the check and allocation scrip.

Mr. TAFT. I find that I am somewhat in error, but the check shows that 87 cents was paid in cash and \$2.68 was paid in an allocation; and the 87 cents is more than sufficient to pay the tax on the \$2.68.

Mr. WILLIAMS. That depends on the particular tax bracket in which the farmer might find himself. You do not get far paying taxes with 87 cents.

Mr. TAFT. I think most farmers would be satisfied with a 30-percent bracket. I do not think we need fear about a farmer who has to pay a tax in a bracket over 30 percent.

Mr. WILLIAMS. I have sympathy for those paying over 30 percent. I may say that the particular cooperative to which I have referred did not pay any money for several years, but made all its payments in the form of phoney allocations.

I venture to say that if a cooperative were to offer the Senator from Ohio \$100,000 in phony allocations payable upon the liquidation of the cooperative at a projected date in the future—perhaps 50, 70, or 100 years from now, if the cooperative wished to make such an arrangement—the Senator from Ohio would not accept the offer and would not pay the income tax. You would not take the gamble as to whether they could ever collect a number of years from now.

Yet the Treasury Department says the farmers must pay the tax on something which the Senator from Ohio himself knows the farmers will never live to collect. That is not defending the farmer. You are only defending these giant cooperatives.

Mr. TAFT. Mr. President, let me point out that a farmer does not have to deal with a cooperative; or if he has joined it he can withdraw from it, if he wishes to do so, and can deal elsewhere if he wishes.

A farmer who joins a cooperative has a right to attend the meetings of the cooperative and there vote to change the rules or vote to have a larger distribution of cash made. That can be done by majority vote at the meetings. Certainly some proposals of that sort might be voted down; but the cooperative takes action by means of majority vote, just as is done in the case of labor unions or employees' groups under the Wagner Act, under which we permitted a majority of the employees to say who should be the bargaining agent, even if there were some employees who dissented.

So it seems to me that in a cooperative there is a perfect right for majority rule, a perfect right of democratic action.

The distinguished Senator from Delaware is criticizing the way in which cooperatives are run. Certainly the way to change the way they are run, it seems to me, is for the members to vote to change the way the cooperative is run. I do not see what that has to do with the question of the proper method of taxation of cooperatives.

Mr. WILLIAMS. Mr. President, will the Senator from Ohio yield further?

The PRESIDING OFFICER (Mr. SMITH of North Carolina in the chair).

Does the Senator from Ohio yield to the Senator from Delaware?

Mr. TAFT. I yield.

Mr. WILLIAMS. Again the Senator from Ohio has not studied this situation to the extent he should have, because I point out now that one of the largest cooperatives in the Midwest is making its allocations in the form of nonvoting preferred stock, in which case the farmer has no power—

Mr. TAFT. But the farmer already is a member of the cooperative, and as a member of the cooperative he has voting power, and he can vote either to have the preferred stock issued or not to have it issued.

Mr. WILLIAMS. The farmer does not have such voting power in respect to voting for or against the issuance of preferred stock as a distribution by the cooperative. In the case to which I refer, the preferred stock was issued, with no power on the part of the individual members to decide whether it would be issued. Besides I call your attention to the fact that not one small cooperative to my knowledge has opposed my amendment. They know they are not affected since they operate under the old law. Nor are the individual farmers against it when it will put a stop to their being required to pay tax on something they do not actually get. My amendment will correct this injustice and at the same time protect the competitive position of private industry. Many businessmen will be watching our votes here today.

Mr. WATKINS. Mr. President, will the Senator from Ohio yield to me?

Mr. TAFT. I yield.

Mr. WATKINS. As a matter of fact, in a cooperative each member has one vote, and he cannot transfer it or give his proxy to anyone else; is not that true?

Mr. TAFT. That is generally true. Of course, the law regarding cooperatives differs as between the various States.

Mr. WATKINS. The members of the cooperative have an agreement, just as partners in a partnership generally have an agreement; and members of the cooperative have to abide by the agreement which they voluntarily sign. Partners would be in the same situation.

Mr. TAFT. I think the Senator from Utah may be correct. A partner may have more power to dissolve a partnership or to withdraw from it; but a member of a cooperative can withdraw from the cooperative, too. He can leave the cooperative if he does not like the way the cooperative is doing business.

Mr. WATKINS. But a partner in a partnership would have to abide by the agreement into which he entered, even if he wished to withdraw.

Mr. TAFT. Yes; he would.

Mr. FULBRIGHT. Mr. President, will the Senator from Ohio yield?

Mr. TAFT. I yield to the Senator from Arkansas.

Mr. FULBRIGHT. If a member of a cooperative withdraws, what happens to the preferred stock? Is it transferable in the ordinary case?

Mr. TAFT. I do not know. I think that would depend upon the law in the particular State concerned. Each State has a different law. In fact, one difficulty we have had in dealing with this subject is that cooperatives are different in character and in nature in almost every State, and it is very difficult to lay down a general rule.

Mr. FULBRIGHT. I simply ask for information.

Mr. THYE. Mr. President, will the Senator from Ohio yield to me?

Mr. TAFT. I yield to the Senator from Minnesota, who knows about the law in his State.

Mr. THYE. I would say that the Senator from Ohio is correct; namely, there are different State laws.

However, one would have to examine the bylaws of the cooperative, in order to know how the cooperative would deal with any particular member.

In the case of a large dairy cooperative in Minnesota, the last time I examined its bylaws I found that the cooperative would allow each member a maximum amount of stock in the organization, to the extent of only \$1,000; and I do not know that that cooperative ever amended its bylaws at any annual meeting since I last examined the provisions.

However, the member must be a qualified producer; and when he ceases to be a qualified producer, he can make application to have a refund of his money in the organization, in the form of whatever stock he might hold, and that includes every penny of all sinking funds which have been deducted from that individual producer's accounts during the lifetime of the organization. So there is no question about it.

There are few old corporations which have not amended or perfected their bylaws and their administrative functions; and they may have failed to pay all their so-called outstanding stock because in some instances the families are deceased or have moved away, and the cooperative cannot find a record of their whereabouts. But in reality today, because of the Internal Revenue Bureau's investigation and checking on cooperatives, there are very few cooperatives which do not function correctly to the very dotting of the "i" and the crossing of the "t," insofar as the law is concerned.

I could go on to speak of elevators. They are operating in this way: For the patronage dividends which they have retained in the operating year 1951, they issue shares of stock covering the amount of patronage dividends earned. At the annual meeting they may vote to buy all outstanding stock issued in the year 1941, or in the year 1945, or in the year 1947; so that they keep the stocks current, and then the individual producer, who gets the refund, or who gets his stock paid up, will have to list it on his income returns within the calendar year in which he receives it.

The Twin City Milk Producers Cooperative is one of the oldest cooperatives of any major size we have in the State of Minnesota, and I know exactly how it functions. I have described it to the Senator. The cooperatives employ good

attorneys, and I think the Senator will find that the cooperatives are doing more business today than most of us imagine. For that reason, I am unable to concur in the views expressed by the able and distinguished Senator from Delaware on this amendment which is designed to tax cooperatives. Even though I like the Senator from Delaware immensely, and feel that he is exceedingly able, and that the work he has done in the Senate is most commendable, yet in this particular instance and on this particular question I do not exactly follow him, because I think his opinions and ideas on the question are slightly in error.

Mr. TAFT. Mr. President, I have only a word to add. The committee bill does wipe out the distinction between taxable and nontaxable cooperatives. All cooperatives are taxable in the manner prescribed in the bill. Under the bill, and, I think, according to all programs, patronage dividends paid in cash are deducted from the corporation's net income and are not taxable. The chief difference has come in the fact that under the committee bill, patronage dividends distributed in the form of scrip or certificates are not taxed, whereas the distinguished Senator from Delaware wants to tax them at the rate of 52 percent against the cooperative, as I see it, and finally, if they are distributed in cash, there is an elaborate provision by which the individual farmer, if he ever gets the actual cash distribution, takes credit for the taxes paid by the cooperative 2 or 3 years previously.

Mr. President, it seems to me that on the whole, just as in the case of savings banks, the accumulation of proper reserves is part of the cooperative movement. Reserves in the case of farm cooperatives are usually needed for facilities. Many farmers get together to market wheat, let us say. It may accomplish something for them to get together and deal as one, but certainly if they have an elevator of their own, they are going to have a more effective voice in the distribution of wheat. That is a very simple case, but that is the kind of thing these scrip certificates are for. The cooperative has kept the money to build an elevator, and it has issued scrip certificates to the members.

The difference between cooperatives and the general type of private enterprise is that they do not have working capital, and the only way for them to get capital, as in the case of the mutual savings banks about whom we have been talking, is to resort to the operations of the business.

So it has seemed to me that while we might place some limit somewhere on the amount of accumulated reserves, I do not think that we know at this time what limits are desirable, if any. But what the committee bill does, at least, is to provide that the reserves collected are distributed to the members, so that the elevator becomes the property of the members for their advantage, for all the time that the elevator is being operated. They get no cash from that, directly. They do get better earnings and better prices for their products. These reserves

are not taxed against the cooperative, but are taxed against the farmer as an accumulation of his facilities for the benefit of his business. There is an advantage, of course, when the tax is levied against the farmer, because he probably pays a lower rate than the corporation would pay. If an effort were made to shift the whole burden to the corporation, the result would be to take away from the farmer the very thing the cooperative movement attempts to give him, namely, the right to operate with his fellows as a unit without undertaking separate and peculiar burdens that fall upon a corporation.

So, Mr. President, I urge very strongly that the committee bill be sustained and that the amendment of the Senator from Delaware be voted down.

Mr. KNOWLAND. Mr. President, will the Senator from Ohio yield?

Mr. TAFT. I yield to the Senator from California.

Mr. KNOWLAND. I wonder whether the Senator would mind my saying that, at the time when it looked as though the Senate Finance Committee was going to put into the bill language substantially like that of the Williams amendment, the farm cooperatives in my State, along with many other farm cooperatives throughout the country, became greatly concerned. At that time the Agricultural Council of California, representing the principal marketing cooperative organizations of the State, prepared a statement pointing out what they believed to be the unsound features of the provision then in the Finance Committee's bill. It was later changed, but it relates substantially to the Williams amendment, and I would ask that the statement be printed in the RECORD at this point.

The PRESIDING OFFICER. Is there objection?

There being no objection, the statement was ordered to be printed in the RECORD, as follows:

STATEMENT BY AGRICULTURAL COUNCIL OF CALIFORNIA RE TENTATIVE DECISIONS ANNOUNCED BY SENATE FINANCE COMMITTEE ON TAXATION OF COOPERATIVES

The Agricultural Council of California—whose membership is composed of all of the principal farmer-cooperative organizations of the State and who represents 70,000 farmer members of these cooperatives, doing an annual business of nearly \$500,000,000—vigorously opposes the tentative decision made on H. R. 4473, the Revenue Act of 1951, as announced by the Senate Finance Committee on Wednesday morning, August 29, 1951. It is our considered judgment that if those decisions pertaining to the taxation of cooperatives are enacted into law, they could easily have the effect of breaking up most of the large cooperatives organized on a so-called federated basis, and would require complete reorganization, and in many cases even liquidation, of those cooperatives operating on a so-called centralized plan of operation.

From the very earliest development of the true farmer cooperative, it has been a consistent governmental policy to provide certain limited exemptions from income taxes as a means of encouraging agriculture as the basic industry of the country, although the cooperatives are subject to practically all other taxes imposed on general corpo-

rations. Federal tax exemption of farm cooperatives began with the War Revenue Act of 1898, and the eligibility for tax exemption is now spelled out in section 101 (12) of the Internal Revenue Code. Section 101 (12) as it now stands provides only very limited exemptions, and the very real restrictions which must be met to secure the exemptions offset much of their advantage. These restrictions are such that there is little chance of abuse by the cooperatives. Cooperatives qualifying for exemption must meet certain definite conditions, as set forth in the code and in certain specific Treasury regulations. Perhaps half of the farmer cooperatives in the Nation are exempt under the provisions of section 101 (12). The balance do not qualify for exemption, many of them relinquishing their exemption voluntarily. The proposals, therefore, of the Senate Finance Committee above referred to, if enacted into law, would represent a drastic change in national policy, and one opposed by the President of the United States and the Secretary of Agriculture.

The Finance Committee agreed to the following changes in the tax treatment of cooperatives, and has stated that in the case of patronage dividends deductions will be allowed only if either of the following two conditions are met: "(1) The patronage dividends must be paid in cash or merchandise within 75 days after the year in which the patronage occurred or (2) the patronage dividends must be paid in the form of irrevocable obligations payable within a period of not more than 2 years after the year in which the patronage occurred and the obligations must bear interest at the rate of at least 3 percent payable annually. Such obligations in order to be deductible cannot exceed one-half of the annual profits of the cooperative for the year in which the patronage occurred."

The committee also agreed that the exemption provided cooperatives under section 101 (12) of the Internal Revenue Code shall apply only if the following additional limitations are met: "(1) 95 percent of the members of the cooperative are individuals; and (2) the total assets of the cooperative, exclusive of inventory, are less than \$100,000; and (3) in the case of business done with the United States, patronage dividends are paid to the United States on the same basis as to members."

The above represents the substantial decisions of the Senate Finance Committee pertaining to the taxation of cooperatives. The vast majority of the cooperatives of California and of the Nation, of both the federated and centralized types, would find it impossible to comply with these conditions, and hence their patronage dividends, withholdings, savings, or call them what you will, would become completely taxable, and the investments and assets of the cooperatives would likewise subject nearly all of them to the tax provisions suggested.

In the case of many California cooperatives the grower-members, by reason of rules and regulations which they have made themselves, are charged a certain stated amount for the sale of their products. The cooperative's only accruals are derived from the sale price of the merchandise handled, and the withholdings which subsequently become patronage dividends, or savings, are accruals from the sale of farmers' product. They are set up and allocated on the books of most cooperatives to the credit of the individual member, and when paid, constitute nothing more than an additional or final payment on the sale of the merchandise. At no time do they constitute income to the cooperatives, as these monies and all they represent in terms of plant, property, or equipment belong to the member in proportion to his tonnage and volume of sales. To require their

payment within 75 days after the year in which the patronage occurred would be to deny the right of a member to use his own money collectively with others for the operation of his business, or for investment in the necessary plants, property, and equipment with which to carry on. There is no reason why such monies should not revolve to the member in a reasonable period of time, but to require their payment in cash within 75 days after the year in which the patronage occurred, or to set them up in the form of irrevocable obligations, payable within a period of not more than 2 years and required to bear interest at not less than 3 percent is nothing more than to say that our cooperatives must go out of business. Such language lays down the rule that the grower-member cannot invest a portion of the monies realized from the sale of his product in his own business, that he must pay himself interest on his own money, and that cash payments of these patronage dividends, withholdings, or savings must be made within such narrow limits that he is completely denied the right to join with his fellow farmers and fruit growers in a cooperative marketing or purchasing operation.

The additional limitations above enumerated are equally destructive. The condition that exemption will only apply providing the total assets of the cooperative, exclusive of inventory, are less than \$100,000 is largely no exemption at all. It is a futile and worthless use of words not applicable in these modern days in the marketing and distribution of agricultural products by farmer cooperatives. The plant, property, and equipment of almost the smallest cooperative organization engaged in the processing and marketing of fresh deciduous and citrus fruits, dairy products, and other agricultural commodities requires investments far in excess of that figure. Furthermore, cooperatives dealing in semiperishable products such as raisins, edible nuts, and dried fruits, to mention but a few, must have large processing plants equipped with the latest and most improved modern machinery, and general warehouse and even cold-storage facilities for the holding of their products, involving investments oftentimes running into millions of dollars. These are required for the normal operation of such enterprises where the product must be processed with great care and held over periods often exceeding a year before they can be marketed in a sensible and orderly manner. Similar and sometimes even larger investments are required by dairy, poultry, livestock, cotton, and grain cooperatives. The \$100,000 limitation, therefore, would immediately throw nearly all of such cooperatives within the taxable class.

In the case of the federated cooperative, a system of operation which in many cases has proved its solid worth over years of experience, the members are made up of many small local associations. Hence none or practically none of the members are individuals. The grower belongs to the local and not to the central organization. The decisions of the Senate Finance Committee, if enacted into law, would change all this, even though the patronage dividends, withholdings, or savings just as truly flow to the individual member of the local cooperative as though the local cooperative did not exist. Such a federated cooperative could in no case qualify for exemption. This test does not go to the heart of the matter, but only to the type of organization, which experience has shown is effective and highly acceptable to the producer himself. The so-called exemption, therefore, covered by this language is futile and unworkable.

In the case of the central type of cooperative, where in general all the members are individuals, the exemption language is likewise of no significance, for in practically all these cases the investments and assets are far in excess of the \$100,000 limitation.

From the very beginning of the Nation it has been government policy to encourage its citizens to enter into corporate business relations with each other and the general public. By what rule or reason should the farmer be denied the right to choose his own method of entering into business relations with his fellow producer, particularly when it has been of proven advantage to himself, to all intermediaries, and especially to the ultimate consumer? No one can deny the great contribution the farmer cooperatives have made in standardizing, packaging, advertising, and distribution, and in economies which have been reflected in the price and the availability of agricultural commodities to the consuming public.

In short, the language suggested by the Senate Finance Committee would either destroy the great agricultural cooperatives of the Nation or would so weaken them that the national agricultural economy would be most seriously affected. We do not believe that once the effect of these proposals is understood either the Senate or the House would approve them. The membership of the great cooperatives of California have been thoroughly advised of these proposals, and every single individual member is vigorously opposed to them. Certainly this opposition extends throughout the country. If the agriculture of the United States is to continue its world leadership, the cooperatives should be encouraged, not destroyed.

Mr. KERR. Mr. President, I hope that the Senate will not agree to the amendment offered by the distinguished Senator from Delaware. In the first place, as I understand the amendment, it would destroy the cooperative as we know it, as it was created by the statute, and as it has been developed by the farmers of America.

Mr. WILLIAMS. Mr. President, will the Senator yield?

Mr. KERR. I yield for a question.

Mr. WILLIAMS. Does not the Senator from Oklahoma know that the amendment which is now pending before the Senate proposes to do for the cooperatives exactly what his amendment proposed to do for the mutual savings banks, and other similar institutions? In other words, it proposes to tax their undistributed earnings. The Senator from Oklahoma made one of the best speeches on the floor yesterday as to why we should tax the bank group, and that argument is equally applicable to my amendment.

Mr. KERR. Mr. President, the Senator from Delaware is very persuasive, very genial, and very courteous; but he is quite mistaken. There is as much difference between his amendment with reference to cooperatives, and the suggestion of the Senator from Oklahoma with reference to mutual savings banks and building and loan associations, as there is between day and night.

In the first place, the amendment of the Senator from Delaware would make provision which would almost compel either the dissolution of the cooperative or its being subject to a creeping paralysis at some very early stage in its operation, if it were at all successful.

Second, it would place the cooperative, Mr. President, where it would violate not only the spirit of the law which created it, but also the contractual relationships between the cooperative and the farmers who form it.

Mr. President, it denies to the farmer the right to operate under the partnership theory out of which has grown the cooperative. The cooperative was designed and created in order to permit the farmer to have a chance to get what his product was worth; second, to permit him on a cooperative or partnership basis to become such a factor in the purchasing market that he might have a chance to be competitive with other segments of the population in the matter of buying what he requires in the operation of his farm and in his life as an American citizen. In the third place, Mr. President, it denies to the farmer his right to contract with other farmers, and it denies the right of all those within a cooperative structure to contract with the structure.

Then, Mr. President, the Senator's amendment ignores the distinction between the funds which belong to the member and those which belong to the cooperative. The amendment of the Senator from Delaware says to the cooperative that it must pay a tax on what it does not own, but, rather, on what it owes; that it must pay a tax on property which belongs to another to which it has lost title but with reference to which it cannot exercise ownership.

Then it says to the member that he does not have what he has received, what he has contracted to accept, and attempts to exempt from taxation that which he has received and agreed to accept as taxable income.

Mr. President, under the language of the bill as reported by the committee, every dollar of profit earned by a cooperative is taxable in the year in which it is earned or the year in which it is received, either to the cooperative or to the member. Ah, Mr. President, there is a great difference between the provision which the committee wrote with reference to the bill which is now before the Senate and which the Senator from Delaware attempts to amend, and the language which the Senate has accepted and agreed to with reference to cooperatives in the form of mutual savings banks and building and loan associations. The treatment accorded to those institutions under the action of the Senate exempts from taxation much of the earnings of the cooperative effort in any one's hands. Under the action which we have taken, it is not taxable to the corporate identity nor to the individual who is a member of it and for whose benefit it was supposed to have been set up. Under the language of the bill, with reference to the rural cooperative, every dollar of taxable income is taxable in the year in which it is received, either by the cooperative as a corporate structure or by the individual as an individual taxpayer.

Mr. President, who are we to say to the farmers of America, "You have a right to organize in a partnership enterprise for the purpose either of selling your products in order that you may get the most of what they are worth when you sell them, or you are permitted to organize as one of a group to take advantage of a right which every American should have to go into the competitive market, to buy what you need, and to do so as a group rather than as an in-

dividual," and then, after having recognized that right and passed legislation which would permit it, now say to them, "You cannot continue to do that unless you do those things which will make that right valueless to you in your effort to exercise it?"

Do not those who organize as a group have a right to agree among themselves that they will accept an allocation from their own creature and accept it as an item of income and pay a tax on it as an individual, without our saying to them, "You must put into the agreement provisions which will render it valueless to you when you do it?"

The purpose of the amendment is not to secure revenue, but to destroy the rural cooperative as such in its practical operation. I repeat, Mr. President, that even with the language as the committee wrote it, every dollar the cooperative earns must be taxable to the cooperative or to the member; and I would certainly hope that we would not now, by accepting this amendment, further widen the gap in the treatment we are giving as between the rural cooperative on the one hand and the urban cooperative on the other.

I join with other Senators who ask that the amendment be not accepted.

Mr. FULBRIGHT. Mr. President, will the Senator yield?

Mr. KERR. I yield for a question.

Mr. FULBRIGHT. Does the net result work out that the cooperative is identically the same as the partnership?

Mr. KERR. To all intents and purposes; yes.

Mr. FULBRIGHT. I wish the Senator would specify a little more clearly as to that.

Mr. KERR. I am glad the Senator asked that question.

Under the law as it now stands, something over half of the rural cooperatives are exempt from taxation with reference to that part of their earnings which they keep in the form of a building reserve. Thus, though they earn a profit with reference to the marketing operations of the members or the consumer business of the members and pass it on to the member to the extent of and in proportion to his patronage, it brings about a situation whereby that member pays taxes as an individual upon the amount he receives. The partnership principle is recognized in these two regards:

First, it is a cooperative effort between members on the basis of their participation in the business; second, it is operated as a partnership in that with reference to the amount of money which they receive in cash or merchandise and which is received in proportion to the business done with the unit, and with reference, further, to the amount which is earned and allocated to them but not paid to them at the time, they pay a tax on it just as a member of a partnership pays a tax on his proportion of the earnings of the partnership, but leaves the earnings in the control and ownership of the partnership identity.

Does that answer the Senator's question?

Mr. FULBRIGHT. Yes; the last part particularly. I have particularly in

mind a very successful fertilizer plant in my State recently built by a cooperative there under the Farm Bureau organization. It has been very profitable. It has built up reserves. Let us suppose they make \$200,000 this year. Under the committee bill that will be taxable either to the co-op, if it does not allocate it in some way, or to the members, if the co-op gives certificates of allocation to the members?

Mr. KERR. The Senator is entirely correct.

Mr. FULBRIGHT. That would be the situation for that type of co-op?

Mr. KERR. Yes.

Mr. FULBRIGHT. I thank the Senator.

Mr. HAYDEN. Mr. President, will the Senator yield?

Mr. KERR. I yield.

Mr. HAYDEN. The Senator speaks of the cooperative as a partnership. The complaint I have heard is that if the right to purchase goods at a low price was confined to the members of the partnership there would be much less objection than when the general public patronizes the establishment and purchases what it pleases and obtains no rebate or come-back on account of such purchases because it does not belong to the organization.

Mr. KERR. There are two things with reference to that situation. In the first place, under the structure of most of the co-ops and their method of doing business, the cooperative makes a member of him who does the business, and he is entitled to his participation in the profit just the same as though he were a member. The second thing about that is this. That privilege is available to any corporation in this country with reference to its patrons. Any corporation today can enter into an agreement or follow a method of operation whereby it advertises that it is going to distribute a certain part of its profits to its customers, to its patrons for any given year on the basis of their patronage, and when it does so, it deducts or excludes from income on which it pays taxes the amount it thus rebates or disperses or pays to its customers in accordance with that plan or that agreement.

Mr. WILLIAMS. Mr. President, will the Senator yield?

Mr. KERR. Yes, for a question.

Mr. WILLIAMS. Would that corporation be allowed to exclude from its earnings before it computes its taxes, any refunds which were made under the terms of the agreement, if such refunds were made in phony allocations reading possibly, upon the liquidation of the corporation, or at the discretion of the board of directors?

Mr. KERR. I cannot answer that question arbitrarily. I do not know whether such an arrangement could be worked out by agreement between the corporate structure and its customers. But I do know with reference to the co-op, when it does it, it is done first in accordance with an agreement which has been made by the membership when they organized their co-op. Second, it can be changed by the members of that co-op whenever they want to. Third, any time any member does not like it and

he cannot get it changed, all he has to do is to take his business somewhere else.

Mr. WILLIAMS. The Senator from Delaware knows that whenever any member becomes dissatisfied he can take his business somewhere else, but he cannot take his allocation somewhere else. As a stockholder of a private corporation I understand the cash must be distributed in the year in which it is made?

Mr. KERR. With reference to the latter statement, if the Senator from Delaware tells me that he knows it to be correct I will gladly accept his word.

Mr. WILLIAMS. That is my understanding.

Mr. KERR. I say to the Senator from Delaware that if he tells me that with reference to the ordinary corporation that is the situation, I will accept his statement. As I told him a little while ago, I did not know that.

With reference to the first part of the Senator's question concerning a member who does not like what a co-op is doing, I say to him that certainly one member cannot change the co-op. The tail cannot wag the dog. But if a majority of the members are dissatisfied, all they have to do is to come forward and change the bylaws. All they have to do is to change the method of operations. If a man finds himself in the minority and finds that he cannot induce or persuade others to join him to the point where he would have a majority, he is no longer bound insofar as his business is concerned. Certainly that which is done up to that time will be carried out according to the agreements and the bylaws as written. Beyond that he can take his business anywhere he wants to.

Mr. WILLIAMS. Mr. President, will the Senator yield?

Mr. KERR. I yield for a question.

Mr. WILLIAMS. Was the Senator from Oklahoma present in the Senate Chamber a little earlier this afternoon when I pointed out how one of the cooperatives in the Midwest, namely, the Farmers Union Grain Terminal, was making allocations to the farmers in preferred stock, with the specific language written on it that the preferred stock is not to be voted. They have a capitalization of \$25,000,000, of which \$50,000 is voting common stock, and the remainder of the \$25,000,000 is not voting stock. Therefore, as they make these allocations over a period of years, the farmers do not have, in effect, the control of the corporation. The control remains in the hands of the \$50,000 voting stock. Furthermore this preferred stock is not transferable except upon the approval of the directors. They even have the authority to expel a member at any time and sell his stock without his consent if he sees fit to object. These allocations in nearly every instance are not negotiable.

Mr. KERR. I was present when the Senator made that statement, and I remind him of these facts. First, that cooperative is operating on the basis of the agreements made or bylaws written and the charter issued. Second, I remind him that that preferred stock, when received by the participating member, whether he has a right to vote or not, is a taxable item in his hands;

that it comes to him in accordance with the agreement that controls the co-op, and that he can either operate on that basis and pay tax on that item when received or he can induce those who control the co-op to change its bylaws and its operations, or he can take his grain business somewhere else.

Mr. FULBRIGHT. Mr. President, will the Senator yield for one further question that was raised about membership?

Mr. KERR. I yield.

Mr. FULBRIGHT. Is it true that many of the larger co-ops today do business with the general public? Is that not so?

Mr. KERR. That is correct.

Mr. FULBRIGHT. In the same fashion that a partnership would do business? Is that correct?

Mr. KERR. That is correct. And with the further understanding that those who do business with them become members to the extent of their patronage, and participate in the profits to the extent that their business is a percentage of the total business of the co-op.

Mr. FULBRIGHT. One further question. Is it the general practice that any accumulation which has been allocated is transferable?

Mr. KERR. Yes.

Mr. FULBRIGHT. So, if a man wishes to withdraw because he is moving out of the county or something of that kind, there is some way in which ordinarily he can dispose of it?

Mr. KERR. That piece of scrap or that evidence of indebtedness, or that certificate of interest is, I believe, what is described in legal terms as a chose in action. It is a negotiable instrument which the member is free to keep or dispose of as he sees fit. In his hand it was a taxable item when he received it. The title to it is his, and he can do with it what he likes.

Mr. FULBRIGHT. One further question. What effect will the provision have on the REA co-ops?

Mr. KERR. It does not apply to the REA co-ops.

Mr. AIKEN. Mr. President, I shall not take more than 5 or 6 minutes to say what I have to say if there is a chance of getting a vote tonight. If the amendment goes over until tomorrow, I shall want to speak at greater length.

The Federal policy of encouraging the organization of small farmers to work together is nothing new. It goes back to the early part of this century, back to the time when the farmer was wholly disorganized, when the farmers were the only group who sold everything they had to sell at wholesale, and bought everything they had to buy at retail. It goes back to the days when every farm, in New England anyway, made butter of varying qualities, which was turned into the local store in exchange for other goods; and the quality of that butter was not very good. So to encourage organization of farmers so that they might buy economically, sell their goods more profitably, and keep out of debate, if that were possible, the Payne-Aldrich Tariff Act of 1909, which had a provision for taxation of corporations, expressly exempted farm organizations from the pro-

visions of that act. The organization of cooperatives continued from 1909 until 1922. Some of them succeeded. Some of them failed, because the movement was something new. However they did afford a chance for the small farmers of the country to unite and better their own condition so far as that was possible.

The amount of business done by cooperatives was not very large until 1922. In that year the Capper-Volstead Act was enacted, which is the act under which farm cooperatives operate today. That act gave them the right to organize without fear of prosecution. It did not, however, give them the right to violate any of the antitrust laws.

Mr. THYE. Mr. President, will the Senator yield?

Mr. AIKEN. I yield.

Mr. THYE. Can the Senator give us the date when the Capper-Volstead Act was passed?

Mr. AIKEN. It was passed in 1922.

Mr. President, I ask unanimous consent to have printed at this point in the RECORD as a part of my remarks a copy of the Capper-Volstead Act.

There being no objection, the act was ordered to be printed in the RECORD, as follows:

CHAPTER 57—AN ACT TO AUTHORIZE ASSOCIATION OF PRODUCERS OF AGRICULTURAL PRODUCTS

Be it enacted, etc., That persons engaged in the production of agricultural products as farmers, planters, ranchmen, dairymen, nut or fruit growers may act together in associations, corporate or otherwise, with or without capital stock, in collectively processing, preparing for market, handling, and marketing in interstate and foreign commerce, such products of persons so engaged. Such associations may have marketing agencies in common; and such associations and their members may make the necessary contracts and agreements to effect such purposes: *Provided, however,* That such associations are operated for the mutual benefit of the members thereof, as such producers, and conform to one or both of the following requirements:

First. That no member of the association is allowed more than one vote because of the amount of stock or membership capital he may own therein, or,

Second. That the association does not pay dividends on stock or membership capital in excess of 8 percent per annum.

And in any case to the following:

Third. That the association shall not deal in the products of nonmembers to an amount greater in value than such as are handled by it for members.

SEC. 2. That if the Secretary of Agriculture shall have reason to believe that any such association monopolizes or restrains trade in interstate or foreign commerce to such an extent that the price of any agricultural product is unduly enhanced by reason thereof, he shall serve upon such association a complaint stating his charge in that respect, to which complaint shall be attached, or contained therein, a notice of hearing, specifying a day and place not less than 30 days after the service thereof, requiring the association to show cause why an order should not be made directing it to cease and desist from monopolization or restraint of trade. An association so complained of may at the time and place so fixed show cause why such order should not be entered. The evidence given on such a hearing shall be taken under such rules and regulations as the Secretary of Agriculture may prescribe, reduced to writing, and

made a part of the record therein. If upon such hearing the Secretary of Agriculture shall be of the opinion that such association monopolizes or restrains trade in interstate or foreign commerce to such an extent that the price of any agricultural product is unduly enhanced thereby, he shall issue and cause to be served upon the association an order reciting the facts found by him, directing such association to cease and desist from monopolization or restraint of trade. On the request of such association or if such association fails or neglects for 30 days to obey such order, the Secretary of Agriculture shall file in the district court in the judicial district in which such association has its principal place of business a certified copy of the order and of all the records in the proceeding, together with a petition asking that the order be enforced, and shall give notice to the Attorney General and to said association of such filing. Such district court shall thereupon have jurisdiction to enter a decree affirming, modifying, or setting aside said order, or enter such other decree as the court may deem equitable, and may make rules as to pleadings and proceedings to be had in considering such order. The place of trial may, for cause or by consent of parties, be changed as in other causes.

The facts found by the Secretary of Agriculture and recited or set forth in said order shall be prima facie evidence of such facts, but either party may adduce additional evidence. The Department of Justice shall have charge of the enforcement of such order. After the order is so filed in such district court and while pending for review therein the court may issue a temporary writ of injunction forbidding such association from violating such order or any part thereof. The court may, upon conclusion of its hearing, enforce its decree by a permanent injunction or other appropriate remedy. Service of such complaint and of all notices may be made upon such association by service upon any officer or agent thereof engaged in carrying on its business, or an any attorney authorized to appear in such proceeding for such association, and such service shall be binding upon such association, the officers, and members thereof.

Approved February 18, 1922.

Mr. THYE. The Capper-Volstead Act was passed in order to protect a group of farmers who had joined together as a milk-producer group, to supply fluid milk to the Twin Cities market, if my memory serves me correctly. They were held to be subject to the Fair Practice Act, or the Antimonopoly Act, and the Capper-Volstead Act was enacted in order to protect that group of farmers from being taken into court under the Antimonopoly Act, if my memory serves me correctly.

Mr. AIKEN. I think the Senator from Minnesota is entirely correct. After the enactment of the Capper-Volstead Act in 1922 the cooperatives really started to function. Ever since that day about 14 percent of the farm business has been transacted through cooperatives. They sell about 23 percent of the farm commodities through their own organizations, and they buy through their own organizations 4 or 5 percent of the things which they need to use on the farm.

Grading cooperatives have been developed in connection with the marketing of apples. I well remember the slogan used in the early days, "Safe to eat in the dark." That means that the apples were so graded that there were no worm holes in them.

Cooperatives have been organized for the purpose of marketing oranges, dairy products, nuts, tobacco, cotton, peanuts, and almost all other farm commodities. They have improved the packing, which has been greatly to the advantage of the housewife, and they have put far better quality goods on the market than the uncertain quality which many consumers purchased in pre-cooperative days.

More recently—in 1935, to be exact—cooperatives were organized for carrying electricity into the unserved rural areas of the country. I might point out that some of the staunchest supporters of the Williams amendment today are those who support in large degree the organization which has most bitterly opposed the farm cooperatives.

Mr. WILLIAMS. Mr. President, will the Senator yield?

Mr. AIKEN. I yield for a question.

Mr. WILLIAMS. Did I understand the Senator to claim that those who have endorsed the Williams amendment are the power companies, in effect? Is that what he meant?

Mr. AIKEN. The National Tax Equality Association gets more money from the power interests than from any other interest.

Mr. WILLIAMS. Is the Senator from Vermont aware of the fact that the adoption of this amendment would not in any way affect rural electrification cooperatives?

Mr. AIKEN. I will accept the statement of the Senator from Delaware.

Mr. WILLIAMS. That is a fact. Will the Senator yield for a further question?

Mr. AIKEN. I yield.

Mr. WILLIAMS. Is not the Senator also aware of the fact that the National Tax Equality Association does not endorse this amendment, because it does not go as far as it wishes? It is endorsed by nearly every businessman in the United States.

Mr. AIKEN. There has certainly been a great deal of pressure. At least one man connected with the National Tax Equality Association came to see me, urging me to support this type of amendment.

Mr. WILLIAMS. Mr. President, will the Senator further yield?

Mr. AIKEN. I yield for a question.

Mr. WILLIAMS. The reason why he urged the Senator to support it may be that he considered it a step in the right direction. I point out to the Senator from Vermont that likewise many men have come here to see Senators and urge them to vote against it. Besides what wrong with a businessman in Vermont expressing his opinion to you the same as any farmer. All have a right.

Mr. AIKEN. There is no question about that. I think they have met with a pretty good response, in some quarters, at least.

I was pointing out that, although I accept the word of the Senator from Delaware that his amendment is not intended to destroy farm cooperatives, those who have been urging the adoption of the Williams amendment—and they have called it by name—are among

those most bitterly opposed to farm cooperatives in any degree.

Mr. President, farm cooperatives must have money in order to do business. They cannot simply pluck it out of the air. They can get the money to pay their overhead expenses, administrative costs, and other costs, by one of two methods. They can assess their members at the end of the year, after having done business at cost during the year. This is a cumbersome and costly method, and so far as I know, is not practiced except possibly by certain cooperative insurance companies.

The other method which the cooperatives use to finance their operations is this: If a member of a cooperative wishes to make a purchase, he gives the cooperative sufficient money to pay for the purchase and a little more. If he is making a sale to the cooperative, the organization pays him what it knows it will surely get for his commodity, and then he has to wait for the rest of the year to get the remainder of it.

Mr. WILLIAMS. Mr. President, will the Senator yield?

Mr. AIKEN. I yield.

Mr. WILLIAMS. Is not the Senator from Vermont aware of the fact that if a cooperative does exactly what the Senator has described there is no tax under this amendment? Is it not true that there is no tax if the money is distributed back to the farmer? It is only when the cooperative holds out on the farmers over a long period and invests the money in unrelated business that it becomes taxable.

Mr. AIKEN. I am coming to that point in a moment. I am simply telling how the cooperatives do business.

A patronage refund, in the true sense of the word, is not an earning. It is a return to the farmer for his overpayment for goods purchased, or else it is a return to him of the balance due on farm commodities which he has sold.

Mr. WILLIAMS. Mr. President, will the Senator yield?

Mr. AIKEN. I yield for a question.

Mr. WILLIAMS. I point out to the Senator from Vermont again that if the allocation is a bona fide return to the farmer, it is tax-exempt to the cooperative and taxable to the farmer; but if it is merely a phony allocation to the farmer or a promise to pay at some indefinite time in the future, when, as, and if the cooperative decides to give the money back to the farmers, the allocation is taxable to the cooperative.

Mr. AIKEN. But if a member of a cooperative realizes that his organization can perform a better service for him by having increased facilities, he may authorize the organization to retain a part of the patronage refund to be used in adding facilities to those which already exist.

At this time I wish to pay my respects to the Finance Committee for the provisions which it has written into the bill. I listened very carefully to the interpretation of those provisions in the colloquy between the Senator from Oklahoma [Mr. KERR] and the Senator from Georgia [Mr. GEORGE].

The earnings of a cooperative, if we may so term them, belongs to the members, and not to the organization at all.

Mr. WILLIAMS. Mr. President, will the Senator yield?

Mr. AIKEN. I yield, but the answer will be the same, I think, and the question will be the same.

Mr. WILLIAMS. We are agreed that the amendment offered by the Senator from Oklahoma, which is now in the Finance Committee bill, does specifically spell out that the dividends shall be taxable either to the farmer or to the cooperative; but we both know they will be taxable to the farmer and not the cooperative.

Mr. AIKEN. The Senator from Vermont does not disagree.

Mr. WILLIAMS. Under the Kerr proposal the farmers would pay more tax than they are paying today. Under the amendment which I have offered the farmers would be paying less tax. I cannot understand your reasoning either as regards to the farmers or the small-business man.

Mr. AIKEN. I agree that the farmer will pay more taxes to the Government if his cooperative is kept intact and prosperous. But I also maintain that if we adopt this amendment, it will be the camel's nose under the tent, and it will not be very long before the farmer will not be able to pay the Federal Government a very big tax on his income, because he will again be at the mercy of those who will pay him what they please for what he has to sell, and charge him what the traffic will bear for what he has to buy.

As I have stated, I accept the word of the Senator from Delaware, because I know he is conscientious, that he is not offering the amendment with any intention of destroying the cooperatives. However, I also know that those who have been sending us letters and those who have been lobbying in favor of amendments which would overtax cooperatives are strongly in favor of the Williams amendment. Cooperatives do pay taxes. They pay every tax that is paid by any business with the exception of a small exemption which is given them by the law. The pay unemployment insurance taxes. They pay property taxes and excise taxes. They probably pay 50 kinds of taxes, just as other people pay. The Williams amendment, although probably not intended to do so, would be the first move toward destroying federations of cooperatives.

A cooperative is made up of anywhere from 50 to 10,000 members. I believe some of the larger ones have 40,000 or 50,000 members. Farmers belong to the local cooperatives, particularly in the dairy industry and in the grain business, in connection with which elevators are necessary. When they federalize, some of the cooperatives are quite large. Some have valuations of as much as \$25,000,000, taken altogether.

However, the individual farmer remains an individual farmer whether he is a member of the local cooperative, or whether he is a member of a large fed-

eration, which is able to do better work for him and get him a better return for his commodities.

The Williams amendment tends not only to destroy or hamper federations of cooperatives, which are able to operate in a highly competitive field, but it also tends to limit the size of any cooperative to \$100,000. The limitation of 2 years provided in the amendment on the financing of facilities is hopelessly inadequate. I do not know how many years it should be. It depends on the kind of cooperative and the situation of the cooperative. Some of them run on for 10 or 15 years before they have benefits to pay back to the farmers who belong to them.

Mr. WILLIAMS and Mr. McFARLAND addressed the Chair.

Mr. AIKEN. I shall have concluded my remarks in a few minutes.

Mr. McFARLAND. I should like to inquire whether there is a chance of getting a vote today.

Mr. AIKEN. I shall speak for only two more minutes.

Mr. McFARLAND. I hope we can get a vote today.

Mr. WILLIAMS. Mr. President, will the Senator yield?

Mr. AIKEN. I wish to close my remarks by pointing out that the effect of any crippling amendments to the cooperative law would mean cut-throat competition. If we do away with the patronage refunds we will force the stronger cooperatives to cut prices. They now sell for the going price, and refund the difference to their members. If they cannot do it they would have to enter into a highly competitive field, which would be disastrous to many of their individual proprietary competitors.

If they could not do business through their cooperatives they would surely turn to the Federal Government to either go into business, or to help them in some way, because they would not willingly go back, they would never go back, to the days when their families went around in ragged clothes and when they owed money to many people in town, and to many people out of town as well. I do not want to see the Federal Government in business. I do not want to see the Federal Government writing checks to the farmers so that they may enjoy a half decent standard of living and be able to educate their children. I believe that cooperatives are one of the strongest bulwarks against Government domination which stands between the people and totalitarianism.

Mr. WILLIAMS. Mr. President, will the Senator yield?

Mr. AIKEN. Yes. The question will be the same, and the answer will be the same.

Mr. WILLIAMS. You have not read the amendment yet you are sure of the answer. The Senator from Vermont has pictured the amendment as something which will destroy the farmers and bring them to disaster. I wish to ask the Senator from Vermont whether the conditions described by him are not the conditions which existed when there was no income tax in effect, and that therefore cooperatives were not formed by the

farmers as a medium of tax exemption, but were formed, rather, for the benefit of the farmers, working as a unit. They can still do so. I have much more faith in the cooperative principle than does the Senator from Vermont. I believe they have a much greater purpose than that of providing tax exemption.

Mr. AIKEN. Of course they were not formed for the purpose of any tax exemption. There was no income tax in effect at the time. Probably there were not more than three or four men in my home town, probably out of a thousand farmers, who would have had to pay an income tax even if it had been in effect at the time.

Mr. BENNETT. Mr. President, earlier this afternoon I asked permission to insert an address in the Appendix of the RECORD, but it has been suggested that because of its nature it be printed in the body of the RECORD as part of the debate on the tax bill. It is an address delivered by Ernest L. Wilkinson, president of Brigham Young University, on the 28th of August, at Logan, Utah, on the subject of taxing cooperatives. He made the address at the twenty-third annual meeting of the American Institute of Cooperation.

I ask unanimous consent to have the address printed in the RECORD at this point as part of my remarks.

There being no objection, the address was ordered to be printed in the RECORD, as follows:

ADDRESS AT TWENTY-THIRD ANNUAL MEETING OF AMERICAN INSTITUTE OF COOPERATION AT UTAH STATE AGRICULTURAL COLLEGE ON COOPERATIVE BUSINESS IN OUR ECONOMY BY ERNEST L. WILKINSON, PRESIDENT OF BRIGHAM YOUNG UNIVERSITY, AUGUST 28, 1951

In 1950 nearly 11,000,000 persons were employed in agriculture, out of 65,000,000 employed in this country. In 1950 the national income reached \$236,000,000,000, of which \$13,000,000,000 was derived from agriculture. Stated another way, only about 7 percent of our national income derived from agriculture.

Of the \$13,000,000,000 derived from agriculture, it is estimated cooperative-marketing cooperatives handled about \$7,700,000,000 of business, and purchasing cooperatives about \$1,620,000,000 of business (1948). Cooperatives therefore had something to do with about two-thirds of agricultural products marketed or agriculture supplies purchased.

Based on the total cash receipts from farm marketing, the percentage of that business handled by farmer cooperative marketing associations decreased from a relative index of 112 percent in 1930 to 105 percent in 1949. The base of 100 was predicated on the volume of business done during the period of 1935-39 inclusive. In other words, the cooperative marketing associations during the 20-year period from 1930 to 1949, inclusive, did not quite hold their own in the relative percentage of agricultural products handled.

Based on the total money expended by farmers for farm purchases such as for feed, fertilizer, and operation of motor vehicles, the percentage of that business handled by farmer cooperatives purchasing associations increased from a relative index of 49 percent in 1930 to 137 percent in 1949, or an increase of 179 percent.

It must, therefore, be apparent that there is no danger of farmer cooperatives taking over the economy of the country. This is because agriculture only occupies a minority, although indispensable part in our economy,

and because there are serious limitations on the cooperative business as a useful method of pursuing capitalistic business, as all of you know.

This leaves me to my next point; namely, that farmer cooperatives, while they transact only a small part of the business of the country, are by nature capitalistic in inception and fruition, and are a part of the capitalistic economy of what is left of our system of free enterprise.

They are capitalistic in the first place because they exist to make money for their owners—the farmers who own them. True, unlike the ordinary commercial corporation, they are set up so that in general they do not make profits themselves, but exist only to make increased earnings for their owners. By organizing together and jointly selling their products through a farmer, cooperative farmers get a better price for their products. By cooperating in the organization and maintenance of a purchasing organization, farmers are able to purchase their supplies for less, so they make a larger net profit.

The farmers constitute by far the largest block of private entrepreneurs in the country today. They are either the owners or the lessors, or lessees, of land, which in Anglo-Saxon law represents the basic concept of private property. There are over 6,000,000 individual farm businesses in the United States.

They far outnumber the total of individual businesses in any other area of our economy. If they don't sell out to the Government, they form the great bastion for the protection of private property in this country.

Nor is there anything sinister or peculiar in their method of doing business. One hundred farmers organize a cooperative, and agree with this new business entity that it will market their products, or purchase their supplies, at cost. In such a situation the cooperative makes no profits but the farmers' profits are increased, and they pay taxes on that increase.

Other industries have made use of the same type of organization for a long time. The Associated Press is a cooperative organization owned and maintained by approximately 3,000 newspapers in the country. The central organization does not exist for the purpose of making any money of its own, but is merely the service organization of its members as a cooperative method of supplying news to each other and thereby increasing the profits of each other.

The Canadian Press is a cooperative newspaper gathering and distributing association of the Canadian daily papers. It is the first cooperative newspaper association in the empire. This cooperative sells nothing, makes no profits, declares no dividends, owns no building or other property except the furniture and fixtures in its bureaus and is governed by the basic cooperative principle of "one newspaper—one vote."

Most of the clearinghouse associations in our various large cities are voluntary, nonprofit associations of member banks, existing solely for the purpose of rendering service in the clearing of checks.

Most of the stock and commodity exchanges throughout the country are nonprofit associations and, unlike organized business corporations, do not operate for pecuniary profit.

The American Institute of Banking, a section of the American Bankers Association, is a voluntary nonprofit educational institution.

Some of the commercial public utility companies in the country have organized cooperative organizations for joint acquisition of goods. One of these is now Engineering Public Service Co., Inc. (New York), a mutual service organization wholly owned by

the operating subsidiaries of Engineering Public Service Co.

There are approximately 400 grocery cooperatives in the country, which exist merely as service organizations such as for the purchase of groceries for 50,000 retail stores. In this way independent stores are able to meet the competition of the integrated corporate chain stores.

There are cooperatives in the country in the field of hospitalization, medical care, housing, bookstores, credit unions, etc.

The American Railway Express, I understand, is a cooperative—it is owned by the various railroads of the country and is used by them as their agent to contract for the transportation of articles over their railroad lines. The proceeds received by the American Railway Express belong not to it but to its members, in accordance with contractual relations existing between them.

A large list of nonprofit corporations or associations in the nonagricultural field are given in an informative article by Raymond W. Miller and Herbert R. Grossman in a publication of the School of Law of Duke University published in the summer of 1948.

It must be apparent therefore that farmers in organizing co-ops are doing the same thing as other segments of industry. There is nothing un-American or socialistic in their purpose or structure. Almost every type of business, profession, or craft has an organization of some kind to advance the interest of its members. Certainly farmers are entitled to the same right.

In point of fact, according to William L. Cavert, the first successful cooperatives date much further back than the first Government aid. Such champions of our American way of life as Benjamin Franklin, Alexander Hamilton, Thomas Jefferson, Theodore Roosevelt, and Herbert Hoover, to mention a few, have all taken part in organized cooperatives or been strong supporters of them.

No one could accuse these men of being socialistic.

There are other important earmarks of a farmer cooperative which disclose its capitalistic nature. One of these is that the business capital is furnished in each case by the stockholders. In the case of a farmer cooperative we generally refer to the stockholders as members, as in the case of members of a partnership or any membership corporation. But whether they be denominated as a member or stockholder makes no difference. True, the rights under their membership entitle them only to share in the proceeds in accordance with the amount of their patronage, rather than their contribution of capital, but the same exists in the case of business cooperatives owned and maintained by the ordinary business corporations.

On this aspect of the situation I take the liberty of quoting from William L. Cavert, Director of Research of the Farm Credit Administration at St. Paul:

"While cooperatives, like many other businesses, have been assisted by the Government in obtaining borrowed capital from institutions authorized by the Government, in most cases cooperatives are organized with the end in view of tapping the private capital markets for the funds loaned to cooperatives. Over the long pull cooperatives, like noncooperative organizations, obtain their basic business capital primarily from voluntary subscriptions by private sources.

"However, there is a difference between the cooperative and the noncooperative organizations in the nature of these private sources. Both types obtain some funds on which a fixed rate of interest is paid. With respect to the balance of the capital used, noncooperative organizations obtain theirs from sources willing to gamble on the rate of return by purchasing common stock, for example. Cooperatives obtain theirs from members who are interested in benefiting

through the services and savings resulting from the operation of the cooperative.

"The profit corporation allocates all earnings above costs of operation and management to the stockholders in proportion to the capital contribution of each, while cooperatives pay the contributors of capital a modest interest on the invested capital and allocate the remainder of the savings in proportion to the patronage."

"In heavy industrial establishments the invested capital is now reported to frequently be from \$9,000 to \$10,000 per employee. One of the major factors in securing a high standard of living is maintaining a steady flow of capital into industry, and any successful expansion of cooperatives in industry must have a plan that will provide adequate capital.

"Cooperatives and private enterprise are similar in that inefficient institutions that are not doing a good job of serving the public fall by the wayside, both because the consuming public withdraws patronage and the necessary capital is not forthcoming."

A further evidence of capitalism is the belief and insistence of farmers that they be permitted to manage their own property themselves—that they be free from the beguilement and interference of government.

In general, farmers and other businessmen are opposed to Government participation in business. Theoretically they regard the role of Government in business as merely that of an umpire.

Unfortunately, however, in practice both farmer cooperatives and other segments of industry have altogether too often welcomed governmental help for themselves while complaining about it being offered to others. The pot cannot call the kettle black.

It is this code of conduct of all of us, of agriculture, of business, and of labor, namely, that the Government should help me and not the other fellow, that I want to take a few minutes to analyze. The thing that concerns me most in our entire economy today is that nearly all segments of our natural economy are willing to drink at the public trough but very few are willing to supply the living water.

If Congress expects to take over the whole field of economics and business, Congress must expect that every industry of any consequence, for its own protection, will have to roost day and night on the front and back steps of Congress.

For the plain fact is that the more business decisions for industry are made in Washington, the more economic pressure and organized lobbying there will be in Washington. And if governmental interference and meddling goes much farther, there is certain to be not only economic but also legislative anarchy in our country.

For how the Members of Congress with their varied and generally inadequate training, even those who are highly trained, be expected to solve the problems of some 150,000,000 citizens—problems which until the last quarter of a century it was thought the people should solve for themselves.

Let me suggest some of the highly specialized economic problems presented in Washington in which political pressure or pull, and not sound business, are too apt to supply the answer.

There are, I am sure, many of you here who would immediately agree with what I have said, but who will, nevertheless, ask the question, "What has this to do with cooperative business in our economy?" My answer is: First, that cooperative business is a part of our capitalistic economy; Second, that if each segment of our capitalistic economy doesn't stop running to the public trough every time a problem arises, it won't be long until we don't have a capitalistic economy or a free-enterprise system, and if that happens we won't have any cooperative business

either, because it will be all taken over by the Government. It is therefore time that all segments of our capitalistic economy including cooperative business, start practicing what they preach and cut down on their reliance on Government and cut down on Government participation in their respective fields of business.

To be specific, I think that there ought to be an end to business borrowing from the Reconstruction Finance Corporation. Is there anyone here than can justify the RFC lending \$30 million of your and my money in these times of relative business prosperity to the Kaiser-Frazer Co. to compete with other branches of the automobile industry? I suspect that the underlying reason was because of the friendship that Kaiser interests have shown to the New Deal Administrations in Washington.

I suggest with all seriousness to farmer cooperatives that they ought to immediately purchase with their own money the banks for cooperatives so that they ought not to be borrowing from the Government on one day and by their criticism being ungrateful to the Government the next.

May I suggest also that you ought to give solemn and prayerful consideration to voluntarily going to Congress and voluntarily surrendering the tax exemption now accorded farmer cooperatives. And when I say prayerful consideration I am reminded of a story of Lincoln. In the critical days of the Civil War someone asked him if he thought the Lord was on his side. He replied that he didn't know—that the thing that concerned him was whether he was on the Lord's side.

Now I am anxious on this question of tax exemption that farmer co-ops be ethically and morally correct—that they be on the Lord's side. Because there is now a Federal statute exempting cooperatives, if they meet certain standards, from Federal income taxes, the public unknowingly assumes that we are great tax dodgers—that we have been granted special tax favors. Nothing could be further from the truth.

The large bulk of all proceeds received by farmer cooperatives is paid over to the farmer members as patronage refunds. It is not income of the cooperatives because it never belongs to them. It belongs to the farmer members. They pay taxes on it, the same as any taxpayers pays a tax on his income. No tax exemption is necessary as far as the cooperative is concerned, because there is no tax due from the cooperative. And yet a large segment of the public thinks that is what the whole fight is about.

There are, however, three special privileges which the tax-exemption statutes does give cooperatives. In the first place, it exempts from taxation dividends paid on stock in a cooperative, often amounting to only a few cents. For this purpose the exemption isn't worth a tinker's dam, and yet cooperatives are damned throughout the country because of it.

A second exemption is that sometimes referred to as nonoperating, extraneous, incidental income such as rental from offices not occupied by the co-op. This also is petty and of no significance.

The third exemption relates to unallocated reserves which, in some cases, because of the exemption, escapes taxation entirely. As to that it seems to me only fair that, if not taxed to the patron, they be taxed to the cooperative.

It also is not nearly as important as the public thinks. I believe that the farmer cooperatives should go before the Senate Finance Committee and surrender these special favors which economically are not nearly worth the price cooperatives are paying therefor in loss of public esteem; at the same time the Senate Finance Committee should protect them in their right to pay patronage dividends, as do other commercial interests, without the payment of a

double tax by the farmer cooperatives. It would be an act of wise statesmanship to surrender the unimportant tax exemptions so that the public will know, which is the fact, that farmers and their cooperatives are bearing their full share of the tax burden. They would then be in the impregnable tax position of being right, even on the small details. I am sure responsible attorneys for cooperatives can work this out with Congress to the satisfaction of all fair-minded people. In point of fact it would be an act of serious discrimination if Congress attempted to tax patronage refunds.

In point of fact approximately one-half of the farmer cooperatives in the country already have voluntarily surrendered their tax exemption. That is an act of wise management akin to the practice of the dominant church of this state. Ever since the enactment of the Internal Revenue Act of 1913 that church has been interested in a number of large business projects. Under all of the taxing statutes since that time (unless it be the last year or so) it could have handled these business ventures direct and thereby have been exempt from taxation. But the Mormon Church considered that more than dollars and cents was at stake. There was the question of fairness in relation to other business, and there was the question of good public relations. So ever since 1913 whenever the Mormon Church engaged in industrial or agricultural pursuits for profit it insisted that such be done through corporations which paid their full share of the profits, even though legally it could have validly avoided such taxes.

That policy has been recognized as fair by competing business establishments and has just been the subject of approbation and acclaim in the Halls of Congress.

I suggest that example for your consideration. Farmer cooperatives can afford to be circumspect in everything they do.

We have arrived in part at our present predicament because business, agriculture, labor, and many other groups, the moment they ran into tough sledding, ran to the Government for help. The businessman, in many instances, has been just as much to blame as the trade unionist. In my humble opinion, this country will avert catastrophe only if industry, and agriculture, and labor, and the veterans, and all other component parts of the Republic, forget their own selfishness, retrace their steps, and unite in the common cause of seeing that this country continues to be the greatest Nation in the world. There must be a return to the belief expressed by Grover Cleveland when in vetoing a bill for supplying seeds to farmers he wrote, "Though the people support the Government, the Government should not support the people."

The chief ray of hope I have seen in this direction was a conference known as the "Conference of National Organizations" which I attended in Atlantic City in March in 1949 in behalf of the National Grange. This conference was a voluntary informal group composed of the national leaders of agriculture, labor, industry, and certain civic and service organizations (no governmental groups are included).

The meetings held were strictly informal; no resolutions were acted upon; but public questions were discussed with more frankness and candor than at any other meetings I have been privileged to attend.

I sensed as I have never sensed before the feeling among the national leaders present that there must be an end to their reliance upon the Government if the Government itself was to survive. Both labor and management admitted that each would be better off if they sat across the table and ironed out their differences without Government domination and interference.

And yet I could not help but note in my own mind that labor was becoming more and more dependent on the Government

since Government guarantees it a minimum wage; the railroads as public utilities are becoming more and more propped up by the Government because of the Interstate Commerce Commission's fixing of rates; the aircraft companies are insisting upon huge subsidies from the Government for their operation; the publishing companies of the country are still insisting on postage rates which do not pay the cost of delivery; the banks and in particular their depositors have taken very kindly to the Government's guaranteeing payment of deposits up to a certain amount; the National Education Association is favoring Federal aid to education; nearly all Legion groups have gone on record in favor of old-age pensions for soldiers; and the farmers cling tenaciously to their farm price-support program. And now many churches want the Federal Government to finance the transportation of students to their private schools.

One by one, the Congress, through political pressure, and for one excuse or another, has made an exception to our historic traditions of free enterprise; one by one various segments of our business life have become subsidized and supported by the taxpayer until today these special subsidies and privileges permeate a large part of our economy and threaten the very existence of free enterprise. This easy but deadly way of slipping step by step into socialism amounts to what Mr. Justice Holmes described as "the disintegrating erosion of particular exceptions."

Finally I want to suggest to you that if we are to preserve our way of life in this country which includes cooperative business, we are going to do it not by legislation but by reliance upon the spiritual ingenuity and the creative ability of the American people. This may be strange doctrine to the Senators in Washington, many of whom think they are saving the country from day to day and from measure to measure. It may seem strange to many of you coming from me since I have spent my life as a lawyer. But after a quarter of a century of experience in Washington, I am convinced that we are not going to be saved by the legislators in Washington. Somehow or in some way we must break loose from the thought that every time there is a wrong, the remedy is that of passing a law. Laws are only effective if they represent the spirit of the people and it is difficult to draft them so as to preserve the creative genius of the people.

Woodrow Wilson once said that the thing that made America great was not what she did under compulsion of law but what she did of her own volition. Thomas Jefferson more than once expressed the thought that that government is best which governs least. The early prophet of the dominant church of this State stated the same truth when he said that it was his purpose to teach the people correct principles and then let them govern themselves.

May I close with the words of the novelist Somerset Maugham: "If a nation values anything more than freedom it will lose its freedom, and if it's comfort or money that it values more, it will lose that too." If business cooperatives, if other capitalistic ventures, businesses, prize anything more than their freedom, they will lose that freedom. If guaranteed profits, governmental loans, subsidies, false social security, guaranteed income mean more to them than freedom of competition and freedom of operation, they will lose that freedom of competition and freedom of action and, judged by the lessons of history, in the long run, they will lose their property also.

Mr. MILLIKIN. Mr. President, I believe in the social and economic purposes of cooperatives, when those purposes are legitimately reflected. I would not want to do anything that would in-

jure their legitimate functions. I believe that the Williams amendment would deal with the cooperatives with undue harshness. Therefore, I shall oppose it.

Perfect candor also requires me to say that I believe the committee amendment deals with cooperatives with undue leniency. In my opinion it does not deal effectively with the problem before us. What is the problem? It arises from the complaint that in some instances there is unfair accumulation of nontaxed surpluses by these cooperatives.

Mr. WILLIAMS. Mr. President, will the Senator yield?

Mr. MILLIKIN. Yes; but I do not want to yield at length, because I shall speak very briefly. I will speak at length only if that is forced on me.

Mr. WILLIAMS. No; I will not force the Senator to speak at length, although I am always glad to listen to him.

The Senator from Colorado made the point that the Williams amendment would deal unduly harshly with the cooperatives. I want to ask the Senator from Colorado if it is not a fact that the amendment which is now pending before the Senate deals with cooperatives more leniently than the amendment which was originally adopted by the Committee on Finance.

Mr. MILLIKIN. I would not deny it. I do not intend to get into a discussion of what went on in committee. I believe on the whole that the Williams amendment does deal with cooperatives with greater leniency than did the original committee amendment. But that is neither here nor there. We have the choice now between the Williams amendment and, unless something else is offered, the committee amendment.

Let me repeat that the objection has been that through tax exemption, cooperatives have been able to build up surpluses of unfairly large magnitude, the same privilege not being available to noncooperative competitors. I believe, as we found in the case of mutual savings banks and building and loan associations, there is a just place from where we can tax and a just place before which we should not tax.

It is possible for cooperatives to accumulate an unfairly large surplus, exempt from taxation while in their hands, and in practice exempt from taxation at the members' level.

I have proposed that we exempt from taxation the expenses and patronage dividends of cooperatives, and allow them to keep for as long as 5 years the undistributed profit margin of any taxable year and thus give them an opportunity, which they seek and which in many cases badly need, to have a revolving fund of capital on which they can operate.

I have suggested that after that period of time they should pay taxes on that which has not been distributed prior to that time.

The heart of this matter is not allocation; the heart of this matter is distribution.

I think the committee amendment is unduly lenient because it rests on allocation, which may be nothing more than

bookkeeping transactions, and may never mature into actual distribution.

Under the theory which I have suggested, after exempting all expenses and everything passed on to the members, and after giving the cooperatives a chance to exempt the accumulation of each annual undistributed profit margin for 5 years, we should tax them. It was suggested at the rate of 25 percent, because the point was made that this would be the equivalent of a capital-gains tax. Such a plan would allow every cooperative to live and with opportunity to progress. In fact, the general outline was not objected to by a number of persons who are interested in the cooperative movement.

I mention this matter not because I shall propose it here. It should be the subject of full hearings. I mention this matter only to show that there are legitimate ways for nurturing the development of legitimate cooperatives and at the same time for taxing the unfair accumulation of profits margins which remain in a sanctuary, so to speak, exempt from taxation either at the individual level or at the corporate level.

Let me repeat: These matters are briefly mentioned to give an idea of why I shall vote against the committee amendment and why I shall vote against the harsher Williams amendment.

Mr. HUMPHREY. Mr. President, in order to facilitate getting a vote on the Williams amendment, which I oppose, and which I think would be most injurious to American farm cooperatives, I shall not speak on the amendment at this time, but I send to the desk my prepared remarks, and I ask unanimous consent that they be printed in the RECORD as a statement.

There being no objection, the statement was ordered to be printed in the RECORD, as follows:

STATEMENT BY SENATOR HUMPHREY
FARMERS NEED THEIR COOPERATIVES

I oppose the amendment proposed by the Senator from Delaware [Mr. WILLIAMS]. I feel that the proposal of the Finance Committee clearly meets the criticism of those who insist, as they say, that co-ops be taxed. Under the Senate committee proposal the co-ops are taxed; their unallocated reserves are subject to tax; the patronage refunds, and the allocated reserves are subject to individual income tax. Co-ops are not corporations; they are partnerships. To judge a cooperative as a corporation is not only a distortion of economic fact, but is a violation of every rule of definition of a business enterprise. Co-ops are institutions of their members. Cooperative members pay taxes; cooperatives which do not distribute their savings or allocate their reserves will be subject to taxation under this bill.

We are in a fight for the very existence of the farm cooperative movement. Let us make no mistake about that. Some do not yet realize it. Some find it hard to believe.

It is always hard to believe that something in our civilization which has long been recognized and accepted as good, sound, and beneficent can be seriously threatened by self-interested enemies. Yet the enemies of the co-ops make only the most transparent efforts to conceal their real purpose. They prate of tax equality. What they really want—and all the arguments of their multimillion-dollar propaganda lobby make this

very clear, if you analyze them—is to hog-tie and shackle the co-ops; put them out of business; throw the farmer back into their own tender clutches as middlemen.

The bill as brought in by the Finance Committee has been called, in some quarters, a victory for the farmers and the cooperatives. I am not so complacent. It is a victory only in the sense that some of the proposals tentatively accepted at an earlier date by the committee, but later wisely dropped, would constitute a worse defeat, if adopted.

The Finance Committee proposal requires taxation of co-op unallocated reserves. The portion of the committee report dealing with cooperative taxation reads as follows:

"A. COOPERATIVES

"Section 101 (12) of the code exempts from income tax all farm cooperatives which meet certain specified requirements. This exemption includes not only cooperatives marketing the products of farmers but also cooperatives purchasing products and reselling them to farmers. The chief requirements which must be met by cooperatives in order to be exempt from income tax under section 101 (12) are as follows:

"1. They must be farmers', fruit growers', or like associations organized and operated on a cooperative basis for the purpose of marketing products or purchasing supplies for their members.

"2. Substantially all of their stock (other than preferred nonvoting stock) must be owned by producers marketing products or purchasing supplies through the cooperatives.

"3. The marketing of products of nonmembers may not exceed 50 percent in value of the cooperative's total marketing.

"4. The purchasing for nonmembers may not exceed 50 percent of the cooperative's total purchasing, and the purchasing for persons who are neither members nor producers may not exceed 15 percent of the cooperative's total purchasing.

"5. Nonmembers must not be discriminated against in the allocation of patronage dividends or refunds to the accounts of patrons.

"At the present time, the advantages which are derived from exemption can be summarized as follows: First, the earnings of a cooperative which are paid out to shareholders in the form of dividends on capital stock are not taxable to an exempt cooperative but are taxable to other cooperatives. Second, any part of the net margins or profits which are retained as reserves and not allocated to the accounts of patrons are not taxable to an exempt cooperative but are taxable in the case of other cooperatives. Third, nonoperating income such as interest, dividends, rents, and capital gains and also the income from certain business done with the United States Government or its agencies, is taxable to the ordinary cooperative even when allocated to the accounts of patrons, but are tax-free to the exempt cooperative whether or not allocated.

"Section 314 of your committee's bill continues the exemption provided by section 101 (12) of the code but removes from its application earnings which are placed in reserves or surplus and not allocated or credited to the accounts of patrons. In addition to being tax-free with respect to patronage dividends paid or allocated to patrons, as is generally also true in the case of other cooperatives, the cooperatives coming under section 101 (12) are also to remain exempt with respect to amounts paid as dividends on capital stock, and with respect to amounts allocated to patrons where the income involved was not derived from patronage, as for example in the case of interest or rental income, and income derived from business done with the Federal Government. Moreover, they will not be taxed in any way with

respect to reserves set aside for any necessary purpose, or reserves required by State law, if such reserves are allocated to patrons.

"As a result of this action, all earnings or net margins of cooperatives will be taxable either to the cooperative, its patrons, or its stockholders with the exception of amounts which are paid or allocated to patrons on the basis of purchases of personal, rather than business, expense items. With this exceptions, funds which are allocated to the accounts of patrons, or paid in cash of merchandise, are taxable to them. This is true in the case of either taxable or tax-exempt cooperatives. In the case of either a tax-exempt or a taxable cooperative, funds which are paid or allocated to patrons on the basis of personal expense items have no income-tax consequences to the patrons, since they represent a return with respect to expenditures by the patron of a personal nature, for which no income-tax deduction has been taken by him. Funds which are not paid or allocated to patrons but are retained as reserves by the cooperatives will be taxable to the cooperative. This also will be true of both types of cooperatives. Funds paid out as dividends on ordinary capital stock in the case of the exempt cooperative will be taxable to the stockholder, while in the case of the taxable cooperative a tax is imposed at both the stockholder and the cooperative levels.

"While the tax treatment provided by your committee for cooperatives does not impose the double taxes payable in the case of ordinary corporate income, your committee believes that the securing of a single tax with respect to substantially all of the income of cooperatives should be sufficient in view of the unique characteristics of a cooperative.

"Your committee disapproves of withholding on dividends. However, should withholding on corporate dividends be provided, your committee believes it should also be provided for patronage dividends paid by cooperatives. For that reason your committee has added a provision to the bill which subjects patronage dividends of cooperatives to a withholding tax if at any time one should be imposed upon corporate dividends.

"It has been contended that, although patronage dividends are generally taxable to the patron, the patronage dividends paid in scrip or some other noncash form have not been included in the patron's income. It has been suggested that this is true because the patron who reports his other income on a cash basis is not accustomed to considering noncash payments as income. Also, it has been suggested that the patron is reluctant to include noncash patronage dividends in his income in many cases because he does not have sufficient other cash income available to pay the tax involved. To ascertain the degree to which both cash and noncash patronage dividends are included in returns at the present time, your committee's bill provides that the Commissioner of Internal Revenue is to require reporting by all cooperatives of patronage dividends which are paid to or allocated to the accounts of patrons in amounts of \$100 or more, and is to have the discretion to require reporting on smaller amounts. Also, the committee has instructed the staffs of the Treasury Department and Joint Committee on Internal Revenue Taxation to study and report by April 1, 1952, the possibility of withholding against reserves allocated, and on the various methods used in allocating reserves and the form and character of the certificates issued.

"It is estimated that the action provided by your committee with respect to exempt cooperatives will increase collections from this source in a full year of operation by \$10,000,000."

This cooperative taxation question is a battle once fought and won by the farmers. Now here we are again. The technique of the enemy this time is to pile up more and more restrictive regulations until the co-ops can no longer function. Bad as some of the proposals currently being offered are—and if adopted they could effectively stop the cooperative movement dead in its tracks, as far as further expansion is concerned—let us not for a minute be fooled into thinking that the co-op opponents would be content with that.

They have other and even more deadly tricks up their sleeves. They make it very clear in all their outpourings that they are determined to get the very basis of the cooperative movement ruled out of existence.

Their ultimate goal is nothing less than double taxation on everything that the farmer saves by dealing through his cooperative.

In the wedge-opening operations which now particularly concern us, they are trying to establish a principle from which this result would logically flow. They are busily flooding the country with the false propaganda that there is no difference between the cooperative and business conducted for profit. And they are trying to maneuver the Congress into a position of seeming to agree with them.

They know that insofar as the farmer adds to his business profits by dealing through a cooperative, he is subject to taxation. Yet they insist that the cooperative also should be taxed on the money it saves for the farmer, just as other business is taxed on the profit that it makes out of the farmer. That is the principle that they are trying to establish, and once it is established you can be very sure that nothing short of all-out taxation of the cooperatives—on all patronage refunds, all dividends, everything—will satisfy them. And if they ever get their way in that, they will have cut the very heart out of the cooperatives—and the cooperative movement will be dead.

This cooperative movement came into being years ago in an effort by farmers to correct for themselves a situation which was threatening the ruin of many of them. In the earlier and more primitive days, the average American farmer had brought his produce into the market and sold it as a retailer. With the proceeds, he had bought such supplies as he needed, though these were few and simple. Then both our society and our methods of farming began to get more complex. He began to need more expensive equipment, commercial fertilizer, and many more things.

At the same time, it began to be impossible for him to sell direct to consumers; he had to deal through middlemen. In other words, though he now had to buy a great many expensive supplies at retail, he had to sell his own goods at wholesale. This was a situation—and a grave disadvantage—in which the farmer was virtually alone in American industry.

But that was not all. The stories of how grasping middlemen took advantage of the helpless farmer are legion, and have become almost a part of our folklore. And they were not funny stories—not unless your sense of humor is pretty callous.

When a farmer sold a cow to a middleman and eventually got a statement back showing that after deducting the sale price of the cow from the total of costs charged for handling the farmer owed money on the deal, it may have seemed funny to the middleman, but not to the farmer. And that was a classic example of the sort of thing that often happened.

Less bizarre, but just about as painful to the farmer, was the practice of middlemen to gang up on him for their mutual profit. All the egg and poultry dealers of a given area, for example, would agree to keep

the prices to the farmers down. Or a combine of all the grain elevators in a community would depress the price to be paid farmers for wheat by as much as 50 cents a bushel. Such things were commonplace—and are by no means unknown today where cooperatives have not been established.

These vicious practices were the added spur that the farmers needed to try to correct a situation which, even without them, was unfair, onerous, and a threat to the continued existence of family farming. A big corporation farm could exist in these modern conditions. Perhaps a collective farm, on the Russian model, could. But a family farm—the American way—was under a handicap which had to be overcome, or else it was doomed as a sound business institution.

So, in a small way at first, cooperatives began to be formed. Local groups of farmers banded together to sell their own produce, hiring an agent or manager to act for them. It developed, too, that a co-op could also buy their supplies more advantageously—particularly fertilizer and feed.

Here, mind you, was not something that the Government was doing for farmers, but something that the farmers were doing for themselves. As the soundness of the movement, as a stabilizing influence in agriculture, became apparent, however, Government encouragement helped it along.

Both Democrats and Republicans in Congress saw the wisdom of such encouragement, and voted accordingly, and under President Wilson, again under Presidents Coolidge and Hoover, and still again under President Roosevelt, specific action was taken. Moreover, both parties, time and again, have declared themselves in favor of such actions, in their party platforms. This was one movement, it seemed, which was so obviously sound and good that support of it could truly be bipartisan.

The main governmental encouragement given the cooperatives consisted of certain tax exemptions. Thus in the Internal Revenue Act of 1916, farm cooperatives, if they met the rigid requirements laid down by the Congress, were exempted from Federal income taxes. Later Congresses have reaffirmed this exemption, in subsequent legislation. As a practical matter, the exemption merely allows the cooperatives qualifying for it to pay dividends on their stock without being taxed on the amount thus paid, and to retain a reasonable amount of reserves for essential purposes, untaxed.

There has been a very good reason for this exemption. Co-ops cannot operate without capital, but they cannot look to the usual money markets for it. They are not the kind of institutions that appeals to most investors. Raising capital and maintaining adequate reserves were, from the first, their greatest problems. This exemption was meant to ease those problems somewhat, and it has done so.

Even so, the money to keep the co-ops going and to expand their operations had to come—and still has to come—from the farmers themselves. And farmers seldom have much money to spare, even for such worth-while purposes. So the progress of the co-ops, for some years, was slow. They saved the farmers money insofar as their operations went, but after turning that money back to the farmers there was nothing with which to expand, little for reserves. In some bad years, the financial pressure was too great, and many had to quit.

Then a new idea began to be developed. Since the money to strengthen the co-ops had to come from the farmers, and since it was an almost hopeless job to try to collect enough cash contributions from farmers, individually, why not pay part of the refunds due them in stock, certificates of ownership, or other notes? Then this capital would be

available to build up and strengthen the co-ops. Farmer-members readily agreed, and this soon became the custom.

Co-ops began to grow stronger. State and regional co-ops came into existence, widening the activities of the locals and providing new services and new leadership for the farmer-members.

Even in the complex, modern marketing system, the farmer now could sell his products, and buy his supplies, through his own alert organization. Those farmers who continued to do all or part of their business with other firms benefited, too. Other businesses had to pay them reasonable prices for their products, and charge them reasonable prices for their supplies, or lose their business.

Something new and healthy had been added to our capitalistic system—added by those most ruggedly determined of capitalists, the farmers.

During World War II these cooperatives, big and small, were of inestimable value to the Government in its food-procurement programs. Through them the Government could deal with farmers as it never could have dealt with the millions of them individually.

And in addition to giving the farmers the benefits of organized marketing, the co-ops have given them leadership all along the line. Some of the keenest and most effective of farm leaders came up through the cooperative organizations.

So today we have a cooperative movement which is serving the farmers—and the country—well. It is still small, in terms of the total business done. Farmers still do a great deal more business outside the cooperatives than through them. Yet the co-ops have been growing both in size and in effectiveness in the last decade or two. They are strong enough now to be a real factor in the farm marketing situation, to provide a yardstick to protect them from national and local monopolies.

And that seems to be the real reason why they are now under attack. They are cutting into the profits of some powerful business concerns—or, at least, into the possibilities of greater profits for those concerns.

Some cooperatives, for instance, now own their own oil wells; others buy petroleum products at the source and distribute them to their patrons at a great saving. And a modern farm uses a lot of gasoline and oil. Naturally this does not sit too well with oil companies that would like to get a maximum profit on all that business. Yet it is exactly the sort of thing that the cooperatives were set up to do. It puts the family farmer on a par with big business, in this one respect, at least.

Now let us go back to that question of tax exemption. That is what the enemies of the co-ops do so much talking about. It is in the guise of tax bills that they are making the current proposals to stop the cooperative movement. It is a thin and unconvincing disguise.

In the first place, only a little more than half of the cooperatives qualify for the exemptions provided by the law. The others already pay all the taxes that the law requires.

In the second place, the exemptions themselves are of little consequence, as far as revenue to the Government is concerned. If the proposals tentatively accepted by the Finance Committee and later dropped had become law, it would not have added \$30,000,000 to Government revenue, and probably not \$28,000,000. Those were the estimates of impartial experts.

Even if all exemptions were canceled, it would still add only a drop in the bucket. If a Government which finds it wise to spend billions in behalf of agriculture, what nonsense it is to talk about raising a few millions by a move which would paralyze the

greatest effort farmers have ever made to solve their own marketing problems.

Obviously it is not these exemptions that are truly under fire. The propaganda of the cooperatives' enemies would lead one to believe that the exemptions are much, much greater than they are. That is because what those snipers are shooting at is the cooperatives' right to go on doing business at all as cooperatives.

If all exemptions were repealed—and that would certainly be a most unwise act—the cooperatives would still be entitled, under the basic tax laws, to continue to refund to their patrons such amounts as their way of doing business saves—without paying taxes on those amounts.

This is not a matter of exemptions. It is a fundamental right. The cooperative exists as the agency of the farmers who belong to it, and who own it. It makes no profit on the business it does for them; it merely saves them what somebody else's profit would be. And the courts have held time and again that such saving are not taxable as profits. As individuals, the farmer-members have to pay taxes, and the more money they make through dealing cooperatively, the more taxes they have to pay. Even if they get part or all of their patronage refunds in stock, certificates of ownership, or other scrip, it is still income to them, and taxable. But they do not have to pay taxes on it once as a cooperative and then again as individuals.

That is the crux of the whole matter. If they had to pay the present high profits tax on these savings as a cooperative, there would obviously be no further hope for the continuation and growth of the cooperative movement. It would be done for. It would wither up and die.

Killing all exemptions, I repeat, would still be only one step toward this lamentable end. What would be required would be new laws to curb the cooperatives, not merely withdrawal of the old laws to encourage them.

But that is exactly what some of the current proposals would be, if adopted. They aim not merely at those cooperatives which enjoy the comparatively minor exemptions previously provided, but at those which do not.

They attempt to tell all cooperatives how they must operate. They set up regulations for all cooperatives, exempt and nonexempt, which would make it much more difficult for them to operate at all. And they do this with the plain implication that unless the cooperatives comply, they will be taxed—taxed on the moneys that they save their farmer-patrons—taxed on these savings as profits.

That is the precedent—their evolutionary precedent—that the enemies of the cooperative movement want to see established. Then they can cry out for the taxing, not only of some of these savings, but of all of them.

The cooperative movement is one of the greatest things that ever happened to agriculture in this country. A true sign that it has succeeded is that its enemies are strong and cunning. They now seek a toehold in their campaign to destroy it. The time to stop them is now.

One of the chief purposes of the opponents of farm cooperatives is to stop the payment of their savings to patrons in proportion to patronage.

I submit that those who seek to stop cooperatives from doing that—a primary purpose of the cooperatives—are not estopped from doing the very same thing themselves.

Note, if you please, the testimony before the Senate Finance Committee of Vance Kirby, legislative counsel, Treasury Department. It begins on page 1281, part 2, of the hearings on the Revenue Act of 1951.

Senator TAFT had asked:

"Why is a nonexempt cooperative different from any other corporation?"

Mr. Kirby, replying on page 1282, said:

"Since they are corporations, they are not essentially different. Insofar as this deduction for refund payments is concerned, any corporation or any department store can, if it makes arrangements with its patrons prior to the purchase similar to those made by a cooperative, make rebates to purchasers and get the same type of deduction that is accorded the nonexempt cooperative."

Mr. Kirby then went on to explain that such deductions—actually exclusions from income—could be made under the above conditions whether the refund or rebate was paid in cash or in stock.

Such payments made pursuant to a contract which existed prior to the transaction are excludable from income—whether the payment is by a cooperative, a corporation, or anyone else.

To change that right to do that, to stop the principle of doing business at cost by anyone, appears to be the real objective of the opponents of cooperatives.

Let there be no mistake about that. The opponents of cooperatives desire to destroy this right not only for the cooperatives but for themselves—thus closing the avenue of competition with cooperative enterprise, which is now open to them but rarely invoked.

So it is not difficult to see that a prime motivating force in this opposition to co-ops is not tax equality at all; it is rather to eliminate the co-ops as competitors and to close the door to competition with cooperatives which now exists.

Minnesota is the leading cooperative State in terms both of the volume of business done and in the number of farm cooperatives in existence. This is no accident. A great many Minnesota citizens have the tradition of cooperation in their blood; the wonderful achievements in the field of self-help in the Scandinavian countries is well known.

There the widespread use of cooperative principles is regarded as the "middle way," which rejects the excesses of the extremes of governmental enterprise on the one hand and rugged individualism on the other.

There is room for and acceptance of this middle way here—especially among farmers. They have found that it pays to cooperate. That, rather than any social crusade, has been the reason why they have joined and loyally supported their cooperatives. It would be the greatest mistake, in my opinion, to block their vigorous efforts to help themselves.

Mr. HICKENLOOPER. Mr. President, I have been greatly interested in the statement made by the Senator from Colorado [Mr. MILLIKIN] in connection with the attempt to approach equitably the question of taxation of cooperatives.

The problem in my State is a very substantial one. The cooperatives have been very successful and have rendered every fine service. However, I find that a great many members of cooperatives feel sincerely that the cooperatives should pay a more substantial share of taxes than they now are paying. On the other hand, there are those who feel that the cooperatives should pay no taxes whatsoever.

Many of those who are members of cooperatives in my State feel that what is wrong is the method of approach, rather than the theory of taxation.

The so-called Williams amendment, which I have repeatedly attempted to read, is extremely complicated. As I

read it and as the Senator from Colorado said a moment ago, it will have a very harsh effect on some cooperatives, including some of the cooperatives which I have always been in favor of supporting—namely, the farmer-owned and farmer-operated cooperatives, which function for the benefit of the farmer.

Unfortunately, the cooperatives in the United States which have cast a curse on the cooperative movement in the eyes of many persons are the tremendously large organizations which have taken advantage of the tax leniency with respect to cooperatives to build themselves into vast organizations, which are entirely out of the field of genuine cooperatives, to the point where they have become almost monopolistic in the corporate field. To all intents and purposes, they are vast corporations which have been able to build themselves up as a result of being free from taxation. I think those are the evils which most of us would like to reach.

Most of us do not wish to affect the integrity or operation or the strength of the genuine farmer-owned and farmer-operated cooperatives.

I cannot calculate exactly what the Williams amendment will do. I think the committee amendment as it has come to the Senate does nothing toward approaching or solving the reasonable and equitable problem of taxing cooperatives.

I have not discussed this point with the Senator from Colorado, but he expressed my particular attitude. I think the committee amendment is not adequate; in fact, it does nothing to approach the problem of reasonable and sound taxation of surpluses and accumulations of cooperatives. Therefore I am very disappointed in the committee amendment.

However, by the same token I shall have to admit that I am fearful of the Williams amendment because I cannot satisfy myself as to exactly what its effect will be.

Mr. WILLIAMS. Mr. President, will the Senator from Iowa yield?

The PRESIDING OFFICER (Mr. McCLELLAN in the chair). Does the Senator from Iowa yield to the Senator from Delaware?

Mr. HICKENLOOPER. Yes; I yield for a question.

Mr. WILLIAMS. I may say to the Senator from Iowa that my amendment, which is pending—and I placed in the Record an analysis of the amendment, as prepared by the staff which drew up the amendment—is a modification of the Treasury proposal which has been available to the Senator from Iowa for the past 6 weeks.

Mr. HICKENLOOPER. I assume that all the records and documents of the Treasury of the United States which are published are available to any Member of the Senate.

Mr. WILLIAMS. Mr. President, will the Senator from Iowa yield further?

Mr. HICKENLOOPER. Yes; I yield.

Mr. WILLIAMS. I may say that I was speaking particularly of the Treasury's recommendations regarding cooperatives. As the Senator from Colo-

rado has pointed out, the pending amendment is a modification of and is far more lenient to the cooperatives than the amendment the Senate Finance Committee adopted by a vote of 9 to 4. When the committee took that vote, I was one of the members who voted against the amendment because the committee amendment contained restrictions which would work an undue hardship on the cooperatives.

My amendment is a modification of the restrictions which I felt would constitute an undue hardship.

In other words, we provide that the milk-producer cooperatives can have 5-year revolving funds. All cooperatives can have 1 year, instead of 75 days, in which to allocate their cash or merchandise and return it to the farmers. We provide that they do not have to pay 3 percent on the certificates, because that would be almost a bookkeeping impossibility.

Mr. HICKENLOOPER. Mr. President, I have great respect for the zeal and integrity with which the Senator from Delaware approaches his legislative duties, and I think he has worked very diligently on this problem. I was about to say that while I am not sure exactly as to what the result of the amendment offered by the Senator from Delaware will be in the present situation, I feel confident, after repeatedly reading his amendment and attempting to visualize it as a part of the bill, that it will neither destroy nor greatly impair the cooperative movement. I think it is perfectly justifiable as an attempt to approach equitable taxation in connection with the bill, and because I feel that the committee amendment does absolutely nothing toward an equitable tax approach to this situation, and is in many ways merely a subterfuge, not intentionally, of course, but is in fact a subterfuge which puts a greater burden on the farmer than he now has. I believe that the Williams amendment, even though in some particulars it may not be wholly satisfactory, should be adopted by the Senate and taken to conference, and there a reasonable approach somewhere between the innocuous and ineffective amendment approved by the committee, and the rather specific and detailed and substantial provisions of the Williams amendment, might be worked into a completely equitable and sound solution of the problem.

I think one of the objections which can be raised against great cooperative groups, which have in fact become corporations under another name, and have long since ceased to be cooperatives, is that the farmer who invests his money in them and is entitled to dividends or to savings loses control over those savings. They are not returned to the individual, because, upon the whim of the board of directors of the organization, they may say, "We will not send you your money. We will not give you access to the money, but we will give you a certificate"—a certificate which is never necessarily collectible, which never has a due date—"we will give you a certificate, and we will retain your funds and your money without your consent."

Yes, Mr. President, I know that, under the law, theoretically a majority of the members of the cooperative can get together and vote a different situation, if it were possible to get several hundred or several thousand scattered farmers to vote. But they are in effect, at long last, at the mercy of the group who run the corporation to suit themselves. I think there should be some restriction upon the power of the small group who in effect operate these tremendous corporate enterprises.

When they grow to tremendous size and get away above and beyond the point of being real, genuine, serviceable cooperatives, I think there should be some restriction upon them, with respect to the discretion which they use, and use completely, and with regard to the money which the farmer contributes, and the money to which the farmer who is a member of the cooperative is entitled.

Mr. WILLIAMS. Mr. President, will the Senator from Iowa yield?

Mr. HICKENLOOPER. I yield.

Mr. WILLIAMS. I may say to the Senator from Iowa that I agree fully with everything he is saying about the objective, and in view of the fact that he agrees with me that something should be done, and in view of the further fact that he does not think that perhaps my amendment is the proper proposal, does the Senator have a proposal to offer? I should be glad to join with him, because we are in mutual agreement as to what we want to accomplish.

Mr. HICKENLOOPER. Apparently the Senator from Delaware misunderstood what I said a moment ago. I said I was going to support his amendment.

Mr. WILLIAMS. I beg the Senator's pardon.

Mr. HICKENLOOPER. I am sorry if my English is a little bit inadequate.

Mr. WILLIAMS. I beg the Senator's pardon, because I knew he was making a good speech for the amendment, but I had misunderstood his position.

Mr. HICKENLOOPER. Oh, I see. The Senator from Delaware thought I had not gotten around to saying exactly what I was going to do. I may say to the Senator from Delaware that while there are certain provisions in his amendment which frankly I do not understand, I think I understand most of them. I have attempted to.

Mr. KERR. Mr. President, will the Senator yield for a question?

Mr. HICKENLOOPER. I yield, but let me finish my statement, because again I want to say to the Senator from Delaware that I am going to support his amendment. I hope it will be taken to conference, and I hope a proper compromise between the committee amendment, which does nothing, and his amendment, which I think does something, will be worked out, which will be satisfactory and to the best interests of the cooperative movement. I now yield to the Senator from Oklahoma.

Mr. KERR. Is it possible that the Senator from Delaware was so surprised to contemplate someone supporting his amendment that he could not believe it, even though he heard it?

Mr. HICKENLOOPER. I do not know whether the Senator from Delaware should be surprised or not, because in my opinion, his amendment merits support, and I think he would be surprised if a great many people did not support his amendment.

Mr. President, I feel that this amendment should be supported on the basis that it represents a definite approach, one pole of the approach, of which the committee amendment is perhaps the other pole. I hope it can be taken to conference and worked out satisfactorily.

Mr. WILLIAMS. Mr. President, I shall be very brief. I merely desire to summarize what has been said, and to join with the Senator from Iowa. If there is anything in this amendment which would do other than that which during the debate this afternoon has been described as being proposed in the amendment, the conferees can eliminate it. In this amendment, as written, I have no intention of imposing any restriction on any group of farmers who may join together, so far as dividing the proceeds of their operations is concerned. I have no objection to the producer cooperatives being exempted when making allocations on the 5-year certificate. I have no objection to other cooperatives retaining one-half of their earnings on 2-year certificates; and all the cooperatives with capitalization under \$100,000 are completely exempt.

It has been suggested that perhaps this amendment should be postponed for another day and further study made of it. That is merely one way of sidestepping the issue. A long series of hearings has been held during the past several years, the committee staffs have made studies, and I think the time has come when the Members of Congress should stand up and be counted.

Every Member of this Senate is familiar with this subject. It was debated last year when the tax bill was before the Senate. You were each put on notice that the measure would be pressed this year. A copy of the amendment along with a copy of the analysis prepared by the legislative council was sent months ago to each Senator's office. Your constituents have been writing you regarding this proposal for the past several weeks. All we have to do now is vote.

Either we are going to tax this group or we are not going to tax them. Let us settle this issue once for all, and then everyone will know exactly where we stand. It is not fair to either the farmers, the businessmen, or the cooperatives to leave this question unsettled.

In support of the amendment, I know of no stronger argument which can be used than to quote the statement made recently by Mr. A. G. Black at a time when he was Governor of the Farm Credit Administration. He was speaking before the American Institute of Cooperatives, and no one in this country would accuse Mr. Black of being anti-cooperative or against the farmer. I quote Mr. Black:

Farmers' cooperatives as such have been given by the people, through Congress, some very important advantages, advantages not

accorded to privately or corporately owned business. If no changes are made in the laws relating to those advantages, they are going to bulk larger and larger. For example, tax exemption under certain conditions, if there is no change, would result in a tremendous advantage to the cooperative form of organization. As taxes on private and corporate business increase, that advantage to cooperatives becomes greater, and under conditions of low taxes, of course, it is of some advantage; but when taxes are absorbing a large part of the earnings of private businesses, the cooperative form of business really provides an enormous advantage.

Mr. President, again I say that I am glad the Senate is going to settle this question once and for all, so that cooperatives will know how to make their plans, and in turn American businessmen will know the kind of treatment we are going to give them; and the farmers, in turn, the members of the cooperatives, will know beyond any question whether they have to include in their annual income tax returns all allocations, irrespective of whether they are for 10 years, 50 years, 100 years, or in any indefinite future.

If my amendment shall be defeated, and if the Kerr amendment shall be agreed to, it will spell out specifically that the cooperatives are supposed to furnish the names and addresses of all farmers, in order that the Treasury Department may make them pay taxes on every type of allocation, irrespective of how indefinite they might be. The amendment on which the Senate is about to vote is much more lenient than the amendment which was adopted originally by the Senate Finance Committee by a vote of 9 to 4.

Mr. MURRAY subsequent said: Mr. President, I had intended to make some remarks on the subject of taxation of cooperatives. I ask unanimous consent to have inserted in the body of the RECORD, just before the vote was taken, the remarks I have prepared.

There being no objection, the statement was ordered to be printed in the RECORD, as follows:

STATEMENT BY SENATOR MURRAY

It is significant that when thorough study has been made of the proposal to tax cooperatives, the decision has invariably been against the position of the National Tax Equality Association carrying on this attack on cooperatives and for the cooperatives. The first reasonably careful study was conducted by the House of Representatives Committee on Small Business, Seventy-ninth Congress, which conducted an examination of charges that cooperatives enjoy tax exemption and other privileges not enjoyed by other forms of business enterprise and constitute, therefore, an alleged threat to private enterprise in the United States.

The committee's report is House Report 1888, Seventy-ninth Congress, second session, and it is a very thorough refutation of the allegations of the National Tax Equality Association. The background and the atmosphere in which that study was conducted was described during hearings before the same committee in 1949, when the chairman, Mr. WRIGHT PATMAN, addressed some remarks to Mr. Vernon Scott about it. He said to Mr. Scott:

"You gentlemen sold us a bill of goods on that deal, and I had a feeling that there was something wrong with this tax business. I personally felt we were going to make this

investigation, make recommendations of tax changes. Every member of our committee thought the same thing. We appointed a committee of three to make an investigation, and everyone of the three thought you had something, and we went into that investigation really biased in your favor and prejudiced against the cooperatives.

"But after going into it fully, the staff unanimously agreed that you did not have any case, and nine members of the committee unanimously agreed that you did not have any case."

The conclusions of the Small Business Committee, after a real study of the problem, contain much which should be considered before any action is taken to change cooperative tax status. In summarizing the testimony introduced at the hearings and supplemented by exhibits representing articles and complaints filed subsequent to the hearings and supplemented by an independent investigation made by the House Small Business Committee, the following conclusions have been reached:

"(1) Agricultural cooperatives were originally formed as a possible means of providing assistance to the independent small farmer who was at a marked disadvantage in his bargaining position, being forced to accept low prices for his products and to pay high prices for all of the articles which he required for his production. The committee is of the opinion that the conditions which gave rise to the cooperative movement have not entirely disappeared, and, further, that the growing trend of economic concentration into large-scale organizations and growing concentration of control of industry groups is reaching into the agricultural field to a marked extent. As the trend grows the difficult position of the individual farmer will be increased and the abnormal conditions that led to the original cooperative movement may become intensified."

These findings came after a far more careful study of the question of cooperative taxation than the Senate Finance Committee could possibly have given in the present rush to get the present session of the Congress adjourned.

There has been one other study of considerable extent—a study conducted in 1947 by the House Ways and Means Committee. Hearings were held on 17 days between November 4 and November 26, 1947. The testimony runs for nearly 1,300 pages in the printed record. No tax of cooperatives was proposed by that committee after that extensive hearing. The House Ways and Means Committee subsequently, in 1950 and 1951, devoted two full days to the matter. In each instance, the committee, after such full hearings, voted down any change in the tax status of the co-ops.

In many towns in Montana, business is prosperous because cooperatives have made new types of agriculture possible, and brought in large income. I know communities where hundreds of thousands of dollars of income, millions of dollars, have resulted from the establishment of a cooperative creamery, providing a market for farm production previously impractical. Purchasing cooperatives have, in many instances, brought about the savings which make these agricultural operations possible.

But the businessmen in the smaller towns are not being told of the value of these institutions to their community. Merchants being crowded off Main Street by chain stores and chain gasoline stations and chain hardware stores are being told that it is the cooperatives which they should despise. It is the old scapegoating technique all over again.

Off in the background are the big private grain merchants, the big hardware outfits, and most prominently of all, the power companies. The ultimate goals of this NTEA will not be realized until our REA coopera-

tives have all been destroyed for the benefit of big business and the private power industry.

Instead of considering taxation of cooperatives, we should be investigating this lobby and studying means of wiping it out. Money offers to Members of the Congress, misrepresentation, lies, vilification of the Congress itself, all these methods are in the bag of tricks which the NTEA lobbyists use.

The Congress will not just injure agriculture; it will not just strike a blow against cooperatives; it will not just give the NTEA a victory to feed upon by the passage of this section.

The Congress will lower itself in the estimation of the American people if it yields one sentence or one phrase to such a despicable operation as that conducted by NTEA.

The PRESIDING OFFICER. The question is on agreeing to the amendment offered by the Senator from Delaware [Mr. WILLIAMS] to the amendment of the committee.

The amendment of Mr. WILLIAMS is as follows:

On page 145 of the bill, beginning with line 7, strike out through line 13 on page 148, and insert the following:

"SEC. 314. Income-tax treatment of cooperatives and patronage distributions.

"(a) Tax-exempt cooperatives: Section 101 (12) (relating to exemptions from tax on corporations) is hereby amended to read as follows:

"(12) Farmers', fruit growers', or like associations organized and operated on a cooperative basis (a) for the purpose of marketing the products of members or other producers, and turning back to them the proceeds of sales, less the necessary marketing expenses, on the basis of either the quantity or the value of the products furnished by them, or (b) for the purpose of purchasing supplies and equipment for the use of members or other persons, and turning over such supplies and equipment to them at actual cost, plus necessary expenses, but only if, in the case of any such association—

"(A) the sum of the value of the products marketed during the taxable year for members who are individuals plus the value of the supplies and equipment sold during the taxable year to members who are individuals is at least 95 percent of the sum of the value of the products marketed during the taxable year for all its members plus the value of the supplies and equipment sold during the taxable year to all its members; and

"(B) the average of its daily assets (excluding inventory) for the taxable year does not exceed \$100,000. The daily assets for any day shall be determined as of the beginning of the day, and the amount attributable to each asset shall be determined by ascertaining the adjusted basis thereof (or, in the case of money, the amount thereof), and the adjusted basis shall be the adjusted basis for determining gain upon sale or exchange. Exemption shall not be denied any association because it has capital stock, if the dividend rate of such stock is fixed at not to exceed the legal rate of interest in the State of incorporation or 8 percent per annum, whichever is greater, on the value of the consideration for which the stock was issued, and if substantially all such stock (other than nonvoting preferred stock, the owners of which are not entitled or permitted to participate, directly or indirectly, in the profits of the association, upon dissolution or otherwise, beyond the fixed dividends) is owned by producers who market their products or purchase their supplies and equipment through the association; nor shall exemp-

tion be denied any such association because there is accumulated and maintained by it a reserve required by State law or a reasonable reserve for any necessary purpose. Such an association may market the products of nonmembers in an amount the value of which does not exceed the value of the products marketed for members, and may purchase supplies and equipment for nonmembers in an amount the value of which does not exceed the value of the supplies and equipment purchased for members, provided the value of the purchases made for persons who are neither members nor producers does not exceed 15 percent of the value of all its purchases. For the purpose of the preceding sentence, business done for the United States or any of its agencies shall be disregarded."

"(b) Patronage distributions: Chapter 1 is hereby amended by inserting after section 424 the following new supplement:

"SUPPLEMENT V—PATRONAGE DISTRIBUTIONS
"SEC. 426. Definition of patronage distributions.

"For the purposes of this supplement the term 'patronage distribution' means an allocation or distribution paid or payable by a corporation (other than a corporation exempt from taxation under section 101, a mutual insurance company, a mutual savings bank, a savings and loan association, a building and loan association, or any other mutual or cooperative financial association or organization), whether or not in money and whether described as a refund, rebate, price adjustment, or payment of a balance due under a marketing agreement, to patrons of the corporation on some basis related to their sales to or purchases from the corporation during the taxable year, but only if the allocation or distribution is made pursuant to an agreement or representation by the corporation that patronage with the corporation will or may entitle the patron to such allocation or distribution or to an equity interest in any of the corporation's assets, and if (1) the allocation or distribution is conditional (A) upon profits or margins being earned by the corporation from all its operations or a class of its operations during its taxable year, or (B) upon income attributable to resale of the patron's products along with products of a class or classes of products of some other patrons less any deductions determination of which is within the discretion of the corporation, or (2) the amount of the allocation or distribution can be determined only with reference to the amount of the profits, margins, or income earned, or (3) the amount of the allocation or distribution can be determined only after declaration or payment of dividends on any class of stock of the corporation or only after the fixing of sums to be transferred to capital, reserve, or surplus.

"SEC. 427. Deduction by corporation of patronage distributions.

"(a) In general: In the case of any corporation making a patronage distribution—

"(1) there shall be allowable to the corporation as a deduction from gross income, to the extent provided in subsection (b), the amount of such distribution made by it during the taxable year; and

"(2) in no case shall the patronage distribution be treated or considered by the corporation (A) as cost of goods sold, (B) as a reduction, return, or rebate of the amount received for goods sold or services rendered by it, or (C) in any other manner as an item to be taken into account in computing its gross income.

"(b) Deduction of patronage distributions: A patronage distribution made after December 31, 1951, by a corporation shall be allowable to the corporation as a deduction from gross income if and only if

"(1) the patronage distribution is made during the taxable year in cash or merchandise and there are no conditions either precedent or subsequent as to the application or use of such distribution by the recipient; or

"(2) the patronage distribution made during the taxable year is evidenced by a promissory note, irrevocably due and payable not later than 2 years after the close of the taxable year, and there are no conditions either precedent or subsequent as to the application or use of such distribution; but the amount of the deduction allowable for any taxable year for such patronage distribution so made shall not exceed an amount equal to 50 percent of the net income for the taxable year computed without regard to the deductions allowed by this subsection.

No deduction shall be allowable under this subsection with respect to the redemption of script, certificates, notes, or any other written evidence or notice of a patronage distribution. If any portion of the amount of a patronage distribution described in this subsection is attributable to the patronage of patrons not receiving the distribution, the amount of the deduction provided by this subsection shall be computed by excluding such portion.

"(c) Rules for application of subsection (b): For the purposes of subsection (b), patronage distributions made after the close of the taxable year and on or before the last day of the twelfth month following such close shall be considered as made on the last day of such taxable year to the extent the patronage distribution is attributable to patronage occurring before the close of such year.

"SEC. 428. Treatment by patron of patronage distributions.

"Patronage distributions received in cash or merchandise, or in the form of a note described in section 427 (b) (2), shall be taken into account in computing net income for the taxable year in which the cash, merchandise, or note is received. A patronage distribution received in any other form shall not be taken into account in computing net income for the taxable year when the distribution is received, but any amount received upon a redemption or payment of the scrip, certificate, note, or other evidence of such distribution shall be included in gross income for the taxable year in which such redemption or payment occurs, and such amount shall be disregarded in computing for any taxable year cost of goods, supplies, services, or equipment purchased. With respect to such an amount received upon the redemption or payment of scrip, certificate, note, or other evidence of a distribution (other than a distribution described in sec. 427 (b) (2)), there shall be allowed against both the normal tax and the surtax a credit equal to the tax which would have been due and payable by the corporation making the distribution in redemption, computed as if such amount were taxable to the corporation in the taxable year in which the redemption is made. In no case shall the credit computed under the preceding sentence exceed the excess of (1) the tax computed without allowance of such credit, over (2) the tax computed without allowance of such credit and without inclusion in gross income of the amount received in redemption. No refund shall be allowable with respect to any overpayment of tax arising solely by application of the credit allowable under the two preceding sentences. This section shall not apply with respect to any patronage distribution received by an individual unless such distribution is attributable to patronage of the taxpayer in connection with his trade or business or with a transaction entered into for profit.

"SEC. 429. Effective date.

"The provisions of this supplement shall be applicable only with respect to patronage distributions made after December 31, 1951, except that the provisions of section 427 shall not be applicable to a patronage distribution made after such date if the net income of the corporation for any taxable year ending prior to January 1, 1952, is determined (without regard to the net operating loss deduction provided in section 23 (s)) by taking into account such patronage distribution."

"(c) Technical amendments.—

"(1) Section 22 (relating to gross income) is hereby amended by adding at the end thereof the following new subsection:

"(p) Patronage dividends or distributions: For treatment of patronage distributions as defined in section 426, see supplement V."

"(2) Section 23 (relating to deductions from gross income) is hereby amended by adding at the end thereof the following new subsection:

"(dd) For deduction of patronage distributions (as defined in section 426) paid by corporations, see section 427."

"(d) The amendments made by this section shall not, in any case, be construed to disallow the deduction from gross income by a producers' cooperative of patronage dividends evidenced by a promissory note, irrevocably due and payable not later than 5 years after the close of the taxable year, if the amounts so allocated are irrevocably placed in a revolving fund for the 5-year period until due.

"(e) Effective dates: The amendment made by subsection (a) of this section shall be applicable only with respect to taxable years beginning after December 31, 1951. The amendments made by subsections (b) and (c) of this section shall be applicable only with respect to taxable years ending after December 31, 1951."

The PRESIDING OFFICER. On this question the yeas and nays have been ordered, and the clerk will call the roll.

The legislative clerk called the roll.

Mr. JOHNSON of Texas. I announce that the Senator from New Mexico [Mr. ANDERSON] is absent by leave of the Senate.

The Senator from Connecticut [Mr. BENTON], the Senator from New Mexico [Mr. CHAVEZ], the Senator from Wyoming [Mr. HUNT], the Senator from Tennessee [Mr. KEFAUVER], and the Senator from Nevada [Mr. McCARRAN] are absent on official business.

I announce further that if present and voting, the Senator from New Mexico [Mr. CHAVEZ], and the Senator from Wyoming [Mr. HUNT] would vote "nay."

Mr. SALTONSTALL. I announce that the Senator from North Dakota [Mr. YOUNG] is absent by leave of the Senate.

The Senator from Nebraska [Mr. WHERRY] is necessarily absent.

The Senator from New Hampshire [Mr. TOBEY] is absent because of illness.

The Senator from New Hampshire [Mr. BRIDGES] is absent because of illness in his immediate family.

The Senator from North Dakota [Mr. LANGER] and the Senator from South Dakota [Mr. MUNDT] are absent on official business. If present and voting, the Senator from South Dakota [Mr. MUNDT] would vote "nay."

The Senator from Nebraska [Mr. BUTLER], the Senator from Illinois [Mr. DIRKSEN], the Senator from Missouri

[Mr. KEM], the Senator from Massachusetts [Mr. LODGE], and the Senator from Wisconsin [Mr. WILEY] are detained on official business.

On this vote, the Senator from Massachusetts [Mr. LODGE] is paired with the Senator from North Dakota [Mr. YOUNG]. If present and voting, the Senator from Massachusetts would vote "yea," and the Senator from North Dakota would vote "nay."

The result was announced—yeas 7, nays 72, as follows:

YEAS—7

Ecton	Hendrickson	Williams
Frear	Hickenlooper	
Gillette	Smith, Maine	

NAYS—72

Alken	Hennings	Millikin
Bennett	Hill	Monroney
Brewster	Hoey	Moody
Bricker	Holland	Morse
Butler, Md.	Humphrey	Murray
Byrd	Ives	Neely
Cain	Jenner	Nixon
Capehart	Johnson, Colo.	O'Connor
Carlson	Johnson, Tex.	O'Mahoney
Case	Johnston, S. C.	Pastore
Clements	Kerr	Robertson
Connally	Kilgore	Russell
Cordon	Knowland	Saltonstall
Douglas	Lehman	Schoeppel
Duff	Long	Smathers
Dworshak	Magnuson	Smith, N. J.
Eastland	Malone	Smith, N. C.
Ellender	Martin	Sparkman
Ferguson	Maybank	Stennis
Flanders	McCarthy	Taft
Fulbright	McClellan	Thye
George	McFarland	Underwood
Green	McKellar	Watkins
Hayden	McMahon	Welker

NOT VOTING—17

Anderson	Hunt	Mundt
Benton	Kefauver	Tobey
Bridges	Kem	Wherry
Butler, Nebr.	Langer	Wiley
Chavez	Lodge	Young
Dirksen	McCarran	

So Mr. WILLIAMS' amendment to the committee amendment was rejected.

The PRESIDING OFFICER (Mr. McCLELLAN in the chair). The question now is on agreeing to section 314 of the bill, beginning on page 145, line 7, down to and including line 13, on page 148, being the committee amendment, as amended.

The amendment, as amended, was agreed to.

Mr. O'MAHONEY. Mr. President, I desire to inquire of the majority leader and of the chairman of the committee what the program is to be for the remainder of the evening.

Mr. McFARLAND. According to the information I have received, quite a number of Senators would like to go to dinner. Under those circumstances, as soon as the junior Senator from West Virginia [Mr. NEELY], who wishes to straighten out a little matter, has done so, if it is agreeable to the Senate I had thought we would recess until 10 o'clock tomorrow.

Mr. O'MAHONEY. Mr. President, I desire to give notice that when the Senate reassembles in the morning it will be my purpose to raise a question affecting title V of the bill, namely, the excess profits tax.

Mr. McFARLAND. Mr. President, while Senators are present I wish to make a brief statement, and then I shall yield to the Senator from West Virginia.

I regret very much that it has been necessary for the Senate to remain in

session for such long hours today, but that procedure is the only one I know of whereby we can finish the bill. We will have to work a little longer tomorrow, and on succeeding days, and perhaps hold night sessions whenever we can. That is the only course by which we can finish the bill within a reasonable time.

CORRECTION OF SPONSORSHIP OF AN AMENDMENT

Mr. NEELY. Mr. President, the amendment designated 9-22-51-9 to House bill 4473 states on its face that the distinguished senior Senator from West Virginia [Mr. KILGORE] and I are sponsors of the amendment. That is erroneous. Neither of us is a sponsor of the amendment, and neither of us is supporting it. I make that statement for the RECORD.

MEXICO'S EXPERIMENT WITH OIL—ARTICLE BY ROBERT J. ALEXANDER

Mr. MORSE. Mr. President, there appeared in the New York Herald Tribune, under date of the thirteenth of this month, an excellent article by Robert J. Alexander entitled, "Mexico's Experiment With Oil." The subheading is "Results of nationalization are compared with the situation in Iran." I ask unanimous consent that the article may be printed in the body of the RECORD as a part of my remarks, with one additional observation.

I would point out that the head of Petroleos Mexicanos, which is the state organization which administers the oil policies of Mexico, is Senator Antonio J. Bermudez, one of the great friends of the United States in Mexico, and one of the great statesmen of that neighboring Republic. I think he is one of the leading authorities of the world on oil problems. I am pleased that an article so accurate and clear as this one by Robert J. Alexander has been written in connection with Mexico's experiment in oil.

There being no objection, the article was ordered to be printed in the RECORD, as follows:

MEXICO'S EXPERIMENT WITH OIL—RESULTS OF NATIONALIZATION ARE COMPARED WITH THE SITUATION IN IRAN

(By Robert J. Alexander)

The seizure of the British-owned Iranian oil fields by the government of Dr. Mosaddegh focuses attention on the Mexican petroleum industry. Mexico has gone through the experience of expropriation of a foreign-owned petroleum industry upon which Iran has suddenly been launched. Furthermore, the Mexican oil industry assumes much greater importance for the United States and the whole Western World now that the Iranian source is imperiled.

The nationalization of Mexico's oil industry occurred as a part of a wave of economic nationalism which swept Mexico during the administration of President Lazaro Cardenas (1934-40). President Cardenas followed consciously a policy of Mexico for the Mexicans, particularly in the economic field. He pushed with great vigor the agrarian reform program of the Mexican revolution, taking away from large landowners—many of whom were foreigners, particularly United States citizens—all but a fraction of their land, and turning it over to the workers who tilled it. His Government nationalized the foreign-owned National Railways of Mexico.

The culmination of this policy of Mexico for the Mexicans was the nationalization of the oil wells. It came about as the result of

a protracted labor dispute between the oil companies and their workers. In 1936 the oil workers' union, one of the strongest national industrial unions in the country, presented a long list of demands to the oil companies. The companies agreed to certain of the demands, but refused others which they conceived of as imperiling their management rights. As a result, the dispute went to the labor courts, which upheld the point of view of the union.

The companies then appealed to the Supreme Court of Mexico, which, after much hesitation, finally in the month of March 1938, also found in favor of the union. The companies thereupon announced that they would not abide by the decision in any case, an attitude which most Mexicans, including President Cardenas, qualified as "rebellious."

President Cardenas' answer to this "rebellion" on the part of the companies was the decree expropriating the petroleum properties of the foreign companies. He acted under a provision of the constitution of 1917 which vested complete control of subsoil rights in the national government. The decree provided for eventual compensation for the oil companies.

The expropriation decree took virtually everyone by surprise. Least of all were the union leaders aware of the President's intentions. The night before the decree was issued, the executive committee of the Confederation of Workers of Mexico (CTM) was meeting in the Workers University, and they received a message from their president, Vicente Lombardo Toledano, who had not attended the meeting, asking that they not break up before his arrival, that he had an important message for them.

Some time before midnight Lombardo Toledano appeared before his associates with a look which might have been either fright, amazement, or consternation. He blurted out: "The President has just read me a decree he is going to issue tomorrow, nationalizing the oil industry."

During the first weeks of the nationalized industry there was vast confusion. Cardenas invited the workers to draw up a plan for union control and operation of the industry. For this purpose, the CTM got in touch with the Congress of Industrial Organizations of the United States, which sent down several delegates, including oil union officials and technicians. These people conferred for more than a week with CTM and Mexican Petroleum Union officials, and they finally worked out a project for the organization of the industry.

However, President Cardenas did not adopt the program of the CTM, and the workers' control which was instituted only lasted for a few months. Thereafter, Petroleos Mexicanos, an autonomous government corporation, was given full charge of the nationalized industry. In the governing board of Petroleos Mexicanos there were placed five government nominees—two from the Ministry of Economy, two from the Ministry of Finance, and one from the Comptroller General's Office—and four representatives of the National Petroleum Workers Union.

In 1940 the Mexican Constitution was amended to prohibit once and for all any exploitation of the country's oil resources by foreigners. Three methods for developing these resources were provided: Administration directly by some government department; administration by private individuals on a fee basis on behalf of the government; and administration through a government-owned autonomous corporation.

In the meanwhile, the nationalized oil industry was running into a great variety of difficulties. Labor relations were exceedingly bad during the first years of the nationalized industry. The unions had caused the expropriation in the first place, and they tended to believe that the measure was taken on their behalf and that the workers should be the principal gainers from it. In spite

of their representation in the administration of Petroleos Mexicanos, it was some years before the unions developed much of a sense of responsibility for the conduct of the nationalized industry.

More important difficulties from the long-run point of view were the facts that the foreign oil companies withdrew virtually all of their technical personnel and that they subjected the nationalized Mexican oil industry to a world-wide boycott.

As a result of the withdrawal of foreign technicians, the Mexicans had suddenly to run the industry themselves. Junior assistants were converted into superintendents, while recent engineering-school graduates were put in charge of technical operations.

The foreign oil companies did their utmost to prevent the proper functioning of Petroleos Mexicanos. The British investors, who were the largest single group involved, succeeded in getting their Government to break off diplomatic relations with Mexico over the issue. Such pressure was not successful in the United States, where President Roosevelt was firm in saying that Mexico had a right to expropriate the oil fields, and that the only just claims which the oil companies could make were for their investments in the industry.

Both British and American oil companies submitted the Mexican industry to a boycott. They made it impossible for the Mexicans to sell any of their product in the Western World, and at the same time, made it virtually impossible for the Mexican industry to obtain machinery and tool replacements in the United States or any other country. Some relief from the sales boycott came when, through the good auspices of John L. Lewis, contact was made with independent oil operators in the United States. However, the sales arranged by these operators were principally with the Axis Powers until the outbreak of World War II.

The oil companies and the Mexicans continued to quarrel over the problem of compensation for more than a decade. Although the Sinclair Co. settled within the first 2 or 3 years, the more important ones did not, and it was not until 1949 that an agreement was finally made between the Mexican Government and the Mexican Eagle Oil Co., the great Shell subsidiary which was the largest foreign operator in Mexico before the expropriation.

This experience with Mexican expropriation was a lesson which the American oil companies seem to have learned well. Their attitude in Venezuela and other Latin-American countries since that time has been in sharp contrast to the traditional "imperialism" of the oil companies. In Venezuela, for instance, the companies have agreed to turn over 50 percent of their profits to the Government and have cooperated with the Venezuelan Government in trying to bring to that country itself as many as possible of the benefits of the oil boom.

This difference in attitude is even noticeable in the Middle East, where a sharp contrast is reported between the conditions under which the American-owned Aramco operates in Saudi Arabia and those under which the British concessionaires have proceeded in Iran and Iraq. Only recently did the British company in Iraq agree to the 50 percent profit arrangement which has become standard with American oil companies.

Petroleos Mexicanos, meanwhile has made rapid strides during the last decade. Particularly since the installation of Antonio J. Bermudez as general manager at the beginning of President Miquel Aleman's administration in 1946, has the progress been noted. All observers agree that Bermudez has reorganized the company on a very business-like basis, and it is certainly true that the industry has made great progress under his leadership. In 1947 Petroleos Mexicanos

produced 56,289,496 barrels, while in 1950 it produced 73,800,000 barrels, and there has been a significant further increase during 1951.

The most important forward step taken by Bermudez has been to start once again the exploration for new fields. The backbone of the Mexican oil industry during the last decade and a half has been the fabulously rich Poza Rica field, not very far from Tampico. This field has been producing for 18 years, and there are some evidences that it is beginning to give out. So it is very necessary that new sources of the precious fluid be unearthed.

Petroleos Mexicanos has approached the problem from several angles. First, it has gone to many of the wells which the private companies had abandoned as uneconomical producers. With new methods and the current high prices, many of these wells can be brought back into production, though they only render 75 to 100 barrels a day.

As a result of these operations the known oil reserves have grown slowly. President Aleman reported to Congress on September 1 that during the last year the known reserves had increased from 1,350,000,000 barrels to 1,370,000,000 barrels. So far no great new strikes such as Poza Rica have been found, but perhaps none ever will be. And this is not necessary, so long as there is a steady increase in these reserves.

The present production of 75,000,000 to 80,000,000 barrels, of which 2,500,000 are available for export, is not a major factor in the world picture. However, perhaps the success of the Mexican experiment does indicate that Iran probably in the long run will be able to run its own oil industry. It is also a living indication of the fact that there can be cooperation between a nationalized petroleum industry and private entrepreneurs. However, it also indicates that a period of some length is likely to pass before the nationals of an undeveloped country learn how to run a petroleum industry.

IS HITLERISM WEARING A NEW VETERANS' UNIFORM?—ARTICLE BY JOACHIM JOESTEN

Mr. MORSE. Mr. President, I ask unanimous consent to have published in the body of the RECORD as a part of my remarks a very disturbing article which I read yesterday in the Washington Star. The article, which is entitled "Is Hitlerism Wearing a New Veterans' Uniform?" was written by Joachim Joesten. It is an article which squares with a great many disturbing reports which we are getting from Germany these days, reports which seem to indicate that we have not made the progress in democratizing Germany in the Allied occupied areas that had been hoped for, reports which seem to indicate that there is a growing sentiment in Germany which appears to indicate that the psychology of too many of its people seem to be ripe for a new Fascist leader in Germany. I think it is well that such reports as are set forth in this article be documented in the CONGRESSIONAL RECORD, as the serving of notice on the State Department that we think the greatest of efforts should be made in our American-German policy to make clear that once the American people came to understand the significance of these reports, if they factually are accurate, they would unite again in a determined effort to see to it that any rebirth of nazism must be controlled in Germany, just as we must be constantly on the alert to protect our freedom from the spread of communism in Europe, because freedom

has no hope of survival if either fascism or communism should sweep over Europe.

There being no objection, the article was ordered to be printed in the RECORD, as follows:

IS HITLERISM WEARING A NEW VETERANS' UNIFORM?

(By Joachim Joesten)

MUNICH.—The threat of resurgent nazism in the form of a German veterans' organization is casting a pall over the reconstruction of Western Germany along democratic lines.

Called the Association of German Soldiers, and sparkplugged by 13 former Nazi generals, this group has attracted millions of World War II veterans. Many German observers fear that the association will muster considerable influence when West Germany regains its virtual autonomy under the pending "peace contract." The possibility that this group and others like it may sabotage the Bonn government—much as World War I groups worked against the Weimar government before Hitler—is one that worries West German leaders.

It is significant that while many prominent German war leaders are identified with the group, two top commanders from World War II have been left out. They are Gens. Hans Speidel and Adolf Heusinger—the top military advisers of the Bonn government.

Perhaps, many Germans believe, there is something else that makes Speidel and Heusinger ineligible in the eyes of the association's leaders. Both were identified closely with the 1944 plot against the life of Adolf Hitler. General Speidel has gone on record about his anti-Hitler activities in a book published in the United States last year and in Germany a few years earlier.

VETERANS AND SOLDIERS

On the face of it, the "Verband Deutscher Soldaten" looks like a legitimate veterans' organization. But it is significant to many Germans that in a language where there are at least two expressions for the English word "veteran," neither is used in the name of the organization. "Deutscher Soldaten," they point out, means German soldiers—and a German soldier is not the same thing as a German ex-soldier.

The significance of a veterans' organization in Germany can be vastly different from that of one in the United States. American groups, while they can and often do wield tremendous political power, do not have behind them the Freikorps tradition. In Germany, however, especially after World War I, ex-soldiers banded together in so-called Freikorps which often as not were tightly disciplined trouble-making mobs. Hitler's rise to power is said to be due, at least in part, to the activities of Bavarian Freikorps in reactions against the Bolsheviks around Munich.

Germans who fear the resurgence of nazism—and this by no means includes all Germans—note the timing involved in the creation of the new Association of German Soldiers. While the foreign ministers of Germany's western former enemies got together to discuss new measures of German independence, millions of ex-soldiers got together under the leadership of 13 former Nazi generals. To some Germans, the coincidence is too pat to be genuine.

The top man of the association, in name at least, is clean of political taint, but every inch the German professional officer. He is Hans Friessner, whose colonel-general rank in the last war corresponds to that of a four-star general in the United States Army. General Friessner has only lately come to prominence in the association, a fact which causes some Germans to believe he is a figurehead. The early sparkplugs—many of whose reputations are rather unsavory—have relin-

Calendar No. 737

82^D CONGRESS
1ST SESSION

H. R. 4473

IN THE SENATE OF THE UNITED STATES

SEPTEMBER 21 (legislative day, SEPTEMBER 19), 1951

Ordered to lie on the table and to be printed

AMENDMENT

Intended to be proposed by Mr. FLANDERS to the bill (H. R. 4473) to provide revenue, and for other purposes, viz:

- 1 On page 144 in line 13 strike out the period and insert
- 2 the following: "or by any mutual fund established under
- 3 the authority of the laws of any State."

9-21-51—C

82ND CONGRESS
1ST SESSION

H. R. 4473

AMENDMENT

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Ordered to lie on the table and to be printed

However, it is not solely because of his work as a union leader that Emil Rieve deserves recognition. He and his fellow workers have always been conscious of the needs of their industry, their communities and their country.

Mr. Rieve has always been cognizant of the needs of the general economy and the part which his organization plays in it. He has recognized the rights and the problems of the textile mill operators as well as those of the men and women employed by them.

I am taking this opportunity to make this statement today because I feel that here is a man who deserves the tribute which he will be given on Saturday evening not only because of his devotion to the cause of the textile workers and his concern for the industry, but also as a farsighted and public-spirited citizen.

CALL OF THE ROLL

Mr. JOHNSON of Texas. I suggest the absence of a quorum.

The VICE PRESIDENT. The Secretary will call the roll.

The Chief Clerk called the roll, and the following Senators answered to their names:

Aiken	Hendrickson	McMahon
Bennett	Hennings	Millikin
Benton	Hickenlooper	Monroney
Brewster	Hill	Moody
Bricker	Hoey	Morse
Butler, Md.	Holland	Mundt
Butler, Nebr.	Humphrey	Murray
Byrd	Hunt	Neely
Cain	Ives	Nixon
Capehart	Jenner	O'Connor
Carlson	Johnson, Colo.	O'Mahoney
Case	Johnson, Tex.	Pastore
Clements	Johnston, S. C.	Robertson
Connally	Kam	Russell
Cordon	Kerr	Saltonstall
Dirksen	Kilgore	Schoeppel
Douglas	Knowland	Smathers
Duff	Langer	Smith, Maine
Dworshak	Lehman	Smith, N. J.
Eastland	Lodge	Smith, N. C.
Eaton	Long	Sparkman
Ellender	Magnuson	Stennis
Ferguson	Malone	Taft
Flanders	Martin	Thye
Frear	Maybank	Underwood
Fulbright	McCarran	Watkins
George	McCarthy	Walter
Gillette	McClellan	Wiley
Green	McFarland	Williams
Hayden	McKellar	Young

Mr. JOHNSON of Texas. I announce that the Senator from New Mexico [Mr. ANDERSON] is absent by leave of the Senate.

The Senator from New Mexico [Mr. CHAVEZ] and the Senator from Tennessee [Mr. KEFAUVER] are absent on official business.

Mr. SALTONSTALL. I announce that the Senator from New Hampshire [Mr. BRIDGES] is absent because of illness in his immediate family.

The Senator from New Hampshire [Mr. TOBEY] is absent because of illness.

The Senator from Nebraska [Mr. WHERRY] is necessarily absent.

The VICE PRESIDENT. A quorum is present.

REVENUE ACT OF 1951

The Senate resumed the consideration of the bill (H. R. 4473) to provide revenue, and for other purposes.

The VICE PRESIDENT. The bill is open to amendment.

Mr. O'MAHONEY. Mr. President, I desire first to make a parliamentary inquiry based upon the following facts:

The pending tax bill, at page 332, strikes out section 502, excess-profits credit based on income, as contained in the House bill. Then the bill substitutes title V, which begins on page 288 and runs to page 331. This is entitled "Excess-Profits Tax," and it consists of several sections.

Under the unanimous-consent agreement which was granted on the first day on which the bill was considered by the Senate, it was ordered that all committee amendments would be adopted en bloc, but that thereafter, however, they would be reopened at the request of any Senator.

My parliamentary inquiry, therefore, is, Is not it possible under that order to consider these amendments, namely, the one which strikes out the House provision and the one which inserts title V, de novo, as was stated by the chairman of the committee at the time?

The VICE PRESIDENT. That is correct. It is understood that at the request of any Senator, automatically any amendment agreed to en bloc will be reopened or the offering of an amendment to it will reopen it. It is in order to offer an amendment to a committee amendment.

Mr. O'MAHONEY. Therefore, I request that these amendments now be reopened for consideration.

The VICE PRESIDENT. To be considered together?

Mr. O'MAHONEY. Yes; I shall regard all of them as one.

The VICE PRESIDENT. Section 502 has already been stricken out of the House version of the bill.

Mr. O'MAHONEY. If the Senate rejects, as I shall ask the Senate to do, the committee amendment, that will automatically restore the language voted by the House. Is not that correct?

Mr. GEORGE. Mr. President, I would think the Senator would have to offer a specific amendment.

The VICE PRESIDENT. Yes.

Mr. GEORGE. Of course, any specific amendment can be considered.

The VICE PRESIDENT. The Chair thinks that the unanimous-consent understanding probably would carry with it the possibility of reopening the amendment, either for the consideration of the amendment itself, at the request of any Senator, without offering an amendment to it—

Mr. O'MAHONEY. Yes. Mr. President, the ruling of the Chair is that the committee amendments—

The VICE PRESIDENT. It seems that section 502 in the House version of the bill is in title VI of the bill, and is not in juxtaposition with title V of the Senate version, which deals with the excess-profits tax.

Mr. O'MAHONEY. Section 502 of the House version of the bill deals with excess-profits credits based on income. It has been wholly stricken out.

My parliamentary inquiry is merely whether we may consider that amendment of the committee, together with the title V amendment of the committee, en bloc. If not, I shall simply proceed with title V separately, and then shall follow with section 502, as stricken out.

The VICE PRESIDENT. Unanimous consent would be required for the consideration of both of them together; otherwise they would have to be considered separately.

Mr. O'MAHONEY. Mr. President, I was merely trying to conserve the time of the Senate.

The VICE PRESIDENT. Is there objection to considering together both title V of the Senate version of the bill and section 502 of the House version of the bill? The Chair hears none.

Mr. KERR. Mr. President, reserving the right to object, I should like to—

Mr. GEORGE. Mr. President, I should like to find out what it is that the Senator wishes to do. Will the Senator from Wyoming be kind enough to state what he wishes to do?

Mr. O'MAHONEY. Oh, yes, indeed.

Mr. GEORGE. I do not understand it at all.

Mr. KERR. That is the question I had in mind.

Mr. O'MAHONEY. If the Senator will turn to page 332 of the committee print, he will observe that the committee has reported an amendment striking out section 502 of the House version of the bill. Then if the Senator will turn to page 288 of the bill, he will find the beginning of the entire Senate amendment on the excess-profits tax. It runs through to page 331. My desire, I say to the distinguished chairman of the Finance Committee, is to ask the Senate to reject title V and to restore section 502; and it occurred to me that the simplest way to handle that would be to consider the two en bloc.

However, if the Senator prefers to have me handle them separately, I shall be glad to do that. I am conscious of the great burden the Senator from Georgia and all the other members of the Finance Committee have been carrying, and I do not desire to take an undue amount of the time of the Senate.

Mr. GEORGE. Mr. President, I do not think it would be possible to consider the two together, because we would have to vote separately upon them.

Mr. O'MAHONEY. Very well.

Mr. GEORGE. Section 501 of title V, of the Senate version can be taken up; and any particular provision in it to which the Senator wishes to disagree or which he wishes to move to strike out now can be considered; but logically, at least, we would have to vote on them separately. These relate to the relief provisions, let me say.

Mr. O'MAHONEY. Mr. President, I may say to the Senator from Georgia that when he came on the floor with this bill, he made the specific request that all the committee amendments be approved en bloc. His request was granted when he stated that upon the request of any Senator, the amendments could be reconsidered de novo.

Mr. GEORGE. That is correct.

Mr. O'MAHONEY. Very well. It seems to me that if it was legitimate for the chairman of the Finance Committee to request that all of his diverse amendments be considered and approved en bloc, there can be no reasonable objection to the request of the Senator from Wyoming that these relief provisions, all

of which constitute title V of the committee version of the bill, may also be considered en bloc.

Mr. GEORGE. Mr. President, if the Senator wishes to proceed by moving to strike out all of title V, for instance, he may do so.

Mr. O'MAHONEY. Technically speaking, Mr. President, if the order made at the request of the Senator from Georgia means what it says, the committee amendments now stand before the Senate for either approval or rejection; and the simplest way to proceed is to allow the Senator from Wyoming to ask the Senate, after he has explained his reasons, to disagree to title V.

Mr. GEORGE. That is entirely correct, if the Senator wishes to have the Senate disagree to all of title V.

Mr. O'MAHONEY. I do.

Mr. GEORGE. I doubt it; when the Senator from Wyoming reads it, I doubt it. However, he may be correct.

Mr. O'MAHONEY. Yes.

Mr. GEORGE. He may wish to have the Senate disagree to all of title V; and if he does, I probably would have no objection to voting on all of it as a section.

Mr. O'MAHONEY. Yes.

Mr. TAFT. Mr. President, a parliamentary inquiry: Suppose title V were stricken out and section 502 were restored to the bill.

The VICE PRESIDENT. That would not be done automatically; a separate vote would be required.

Mr. TAFT. Is not that the House provision dealing with excess profits?

Mr. O'MAHONEY. Yes.

Mr. TAFT. My question is this: If the motion carried, would it then be in order to offer amendments to section 502, relating, let us say, to special cases covered by the excess-profits tax?

Mr. O'MAHONEY. Yes, of course.

The VICE PRESIDENT. If the Senate were to disagree to title V, the result would not automatically be to restore section 502. They deal with the same subject, but they are in separate parts of the bill.

Mr. O'MAHONEY. Mr. President, as I understand the ruling of the Chair and the agreement of the Senator from Georgia, it is simply that title V of the Senate version of the bill, namely, the amendments which are called the relief provisions, and section 502 of the House version of the bill are to be considered separately; however, all parts of title V may be considered en bloc.

Then, if by any chance the Senate should reject title V, section 502 of the House version of the bill would be open to consideration; and the first question would be on a motion to restore section 502. I think it would then be in order for any Senator who wished to offer amendments to section 502 of the House version of the bill to present such amendments.

The VICE PRESIDENT. If title V is disagreed to, then section 502 of the House text, shown on page 332, stricken out by the committee, may be brought up ab initio and is subject to amendment as any other committee amendment would be. Any amendment proposed to

the title itself would have to be voted upon before voting on whether the whole title should be stricken from the bill.

Mr. TAFT. So that the parliamentary procedure would be that if title V were stricken out, the next question would be on disagreeing to the committee amendment striking out section 502 of the House bill. Is that correct?

Mr. GEORGE. Exactly.

Mr. O'MAHONEY. Precisely.

Mr. TAFT. So the motion to strike would then be anticipated by motions to amend section 502 of the House text in any manner Senators saw fit to amend it. Is that correct?

Mr. O'MAHONEY. That is correct.

The VICE PRESIDENT. Any motion affecting section 502 would have to be voted on before voting on the committee amendment striking it out. The Senator from Wyoming.

Mr. O'MAHONEY. Mr. President, one of the aspects of these 10 o'clock a. m. sessions, when committees other than the Finance Committee are meeting, is that we do not have necessarily a full attendance of the Members of the Senate. I desire very briefly to outline, however, the reasons why I feel that title V of this bill should be rejected.

INFLATION IS STILL A DANGER

I discussed the matter at some length last Friday, when I pointed out the general aspects of the condition in which the United States finds itself. There can be no doubt in the mind of any informed person who gazes upon the current scene that inflation is the greatest danger this country and the world face. Inflation which will continue to drive prices up, increasing the cost of living upon the one hand, and the cost of national defense upon the other, can undermine our economy unless we have the courage to meet it head-on. No one wants to pay taxes, and those upon whom new taxes fall find many reasons why they should be relieved from them. But my contention, Mr. President, is that the over-all danger to freedom in the world is so great that the Senate of the United States by courageous action upon this bill should make it clear to all the people how grave the danger is.

We have tried to control inflation by providing for price controls. Many men of many minds have struggled over that bill, and it was impossible to reach a conclusion which was agreeable to all. Price control, I may say, failed.

Mr. President, the price-control bill passed the Senate on the 29th of June, one day before the existing law would have expired and the country would have been deprived of price control. This Chamber reverberated with arguments pro and con about details of that bill, but the practically unanimous conviction of the Senate was that we had to have price controls, and so a defective bill was passed; and the Banking and Currency Committee at this moment is considering amendments to the bill which was passed on June 29. Is not that a clear demonstration of the fact that we are not fighting over principle, but only over detail? Price control, even if the legislation is not amended, is

likely to be ineffective; but there is another way in which inflation can be controlled, and that is by levying taxes upon those who are capable of paying them. Mr. President, I have no thought in my mind of criticizing the action of the committee.

The VICE PRESIDENT. The Senator from Wyoming will suspend. If Senators are compelled to converse audibly, so as to interfere with the proceedings of the Senate, they will please retire.

Mr. O'MAHONEY. Mr. President, I must excuse the Members of the Senate. They were all very attentive, it seemed to me.

The VICE PRESIDENT. Someone was making some unnecessary noise, and it was not the Senator from Wyoming. [Laughter.]

Mr. O'MAHONEY. I thought that would come.

I say I have no thought in my mind to utter any criticism against anyone, because I know that the situation in which we find ourselves is the result of the tremendous complexity of the problem and the inability of individuals in Washington and in the country to grasp its entire scope at a single glance. It will require only a glimpse of this tax bill to prove to anyone who desires to do it, how exceedingly difficult it is to understand what is meant by it. The tax law has been an accretion of years, with amendment after amendment piled on, and tax lawyers appear before the committees to say, "You must not touch this language, or you must not touch that language, because it has been construed by the courts, and everyone knows what it means."

But I am talking now, Mr. President, about the fundamental question of whether we shall in this bill grant relief to those upon whom the excess-profits tax falls. That law was signed by the President on January 3, 1951. It is not yet a year old. The Department of the Treasury has no thought whatever, no possibility of thought of determining how it is working or what changes should be made, except that we know that it is bringing in revenue.

The Finance Committee, on page 70 of its report says, referring to title V:

In general, the following excess-profits tax amendments made by your committee are effective retroactively to the time the excess-profits tax became effective.

It is estimated that the excess-profits tax amendments discussed below will decrease revenues by \$120,000,000 in a full year of operation.

Mr. President, is that the way to fight inflation—to decrease revenue by \$120,000,000, when we know that by levying taxes we can prevent the competition of \$120,000,000, at least, for the goods that are in the market?

Mr. MILLIKIN. Mr. President, will the Senator yield?

Mr. O'MAHONEY. I yield.

Mr. MILLIKIN. I should be glad if the Senator would demonstrate the point he is endeavoring to make.

Mr. O'MAHONEY. The demonstration is perfectly obvious.

Mr. MILLIKIN. The argument goes back to the taxpayer again. If the money goes into the consuming market,

what effect has it upon inflation? I should like to see a demonstration of that statement.

Mr. O'MAHONEY. The demonstration is simply this: Inflation is caused when military consumption and civilian consumption compete for the same product. We now know that certain strategic materials are being allocated because there is not enough to go around.

If we restore \$120,000,000 to corporations, which the records show are now competing for steel, copper, tin, and other strategic materials to expand plants which are designed for civilian production, we are only causing the stream of money seeking to buy civilian goods and the stream of money seeking to buy military goods to enter into competition and drive prices up.

Mr. MILLIKIN. Will the distinguished Senator answer this question? Supposing the Federal Government received the \$120,000,000; what would it do with it? It would spend it on payrolls; it would spend it for workers—

Mr. O'MAHONEY. It would be spent for military production; it would be spent for workers in military production, and it would not be available for civilian production by the corporations to which it will now go if the committee bill is passed.

Mr. MILLIKIN. Will the Senator be good enough to let me lay a very brief premise for my question?

Mr. O'MAHONEY. Yes, indeed.

Mr. MILLIKIN. Let us assume that the Federal Government received the \$120,000,000: What would it do with it? It naturally would spend it. For what would it spend it? Let us say it would spend it for military goods. Of course, it would not all be spent for military goods, but assume that all of it would be spent for military goods. In that event out of that money the worker who makes military goods would be paid. Some of the money would be spent for hard goods. It takes men working in the quarries, men working in the mines, men working all along the line from production of raw materials to the finished products to do that job and they, in turn, are paid by the Government, so they have a payroll ready to spend for consumers' goods. What about the quarry owner, the mine owner, the man who produces the basic materials? What does he do with his money? He, in turn, spends a considerable portion of his money for his payrolls. So we have the same amount of money being spent by the Government as would have been spent by the taxpayer. Making some allowance for initial differences in the velocity of the spending, I again ask the Senator, where is the inflation less or more one way than the other?

Mr. O'MAHONEY. It is certainly considerably less when the Government has the money with which to buy the weapons which it is agreed are needed. The money can be spent on plant expansion. The expenditures for plant expansion have been steadily increasing for years. In 1939 the total amount spent for new plant and equipment was \$5,200,000,000. In 1948 it had jumped to \$19,000,000,000. In the first quarter of

1950 it was \$14,800,000,000. In the fourth quarter it was \$23,300,000,000, and in 1951 the rate of expenditure during the first quarter was \$20,650,000,000; in the second quarter, \$25,700,000,000; in the third quarter, \$25,300,000,000. There is every prospect that expenditures by private corporations for the expansion of plant and equipment this year will be in excess of that of the fourth quarter of 1950.

This morning's newspaper carries the story. I am quoting from page 8 of the Washington Post of today a bylined article by Associated Press Reporter Charles Barrett, which reads, in part, as follows:

Defense spending has swung up well ahead of schedule for the first time since rearmament started.

And as a result some officials are scaling up estimates of total Government spending this fiscal year by as much as \$5,000,000,000.

If the appropriations we are making for expenditure by the Government are increasing, how, in all common sense, can we argue that we ought to reduce the tax receipts of the Government? One may make that argument if he pleases, but to me it is utterly lacking in common sense.

Mr. MILLIKIN. Mr. President, will the Senator further yield?

Mr. O'MAHONEY. Yes.

Mr. MILLIKIN. Increased spending is one measure of increased inflation. What does the Government do with its money?

Mr. O'MAHONEY. Why levy any tax at all, under the Senator's idea?

Mr. MILLIKIN. I might be somewhat attracted if the Senator will propose an amendment to that effect.

Mr. O'MAHONEY. I am sure the Senator will find a great deal of sympathy for that idea.

Mr. MILLIKIN. I do not say I would vote for it, but I would approach it not with an unfriendly eye; I would give it a very good look if the Senator has in mind anything of that kind. But let us deal with the \$120,000,000. The Government sends it to Chrysler or to General Motors or elsewhere in the country for the purpose of buying munitions. That will not solve any inflationary problem. Chrysler, General Motors, Ford, and other concerns that are making munitions spend their payroll money for munitions, just the same as they do for automobiles. It all gets back into the spending stream with its impact against the supply of goods.

What brought me to my feet was the Senator's original statement to the effect that if the Government takes in money and spends it, it is noninflationary.

Mr. O'MAHONEY. I did not say that at all.

Mr. MILLIKIN. I understood the Senator to say that.

Mr. O'MAHONEY. Oh, no; the Senator is quite wrong. I did not say that. Of course Government spending is inflationary, just as civilian spending is inflationary. When we are in the situation that the Government must buy munitions of war, then it is considerably more inflationary to reduce the taxation so that money which is in the stream of purchasing power can compete for goods which are in short supply.

Mr. President, I have observed throughout the debate upon this bill that considerable time has been—may I say, wasted—by Senators trying to convince one another, when they know very well that neither one can convince the other. I do not believe that the reduction of Federal taxation upon those who are earning great profits is the way to fight inflation. The Senator may think so, tell us so, and argue so, if he will. But I may say to the Senator we are just wasting one another's time. I have already convinced myself, and the Senator cannot convince me otherwise.

Mr. MILLIKIN. Mr. President, will the Senator yield for just one observation?

Mr. O'MAHONEY. I yield to the Senator from Colorado.

Mr. MILLIKIN. I merely wish to say that the Senator has admitted that which brought me to my feet, to wit, that Government spending is inflationary, just as is any other type of spending, and therefore it follows as a matter of basic logic, that if we desire to reduce inflation, we should reduce Government spending.

Mr. O'MAHONEY. That is correct; and reducing Government spending, and carrying it to the absurd lengths to which the Senator does carry it, would stop all defense activities.

Mr. MILLIKIN. I would not carry it—

Mr. O'MAHONEY. Demobilize the Army, demobilize the Navy, take the Air Force out of the air, then, of course, it would be possible to stop the spending by the Government which is creating our problems. No one is more ready than I to admit that Government spending is at the heart of the problem, but I should like to find the way to cut the Government spending.

Mr. MILLIKIN. I would not carry the reduction to the extreme which the distinguished Senator suggests, for I have identified myself with legislation since Korea which will take about \$15,000,000,000 or \$16,000,000,000 out of taxpayers' pockets in just about 1 year's time.

Mr. O'MAHONEY. If the Senator will bear with me, I will show him shortly why I think that the \$120,000,000 of relief he is supporting for excess-profits taxpayers is not warranted at this time.

The Senator from Oregon [Mr. CORDON] was on his feet a moment ago. I am sure he has an illuminating and interesting comment to make.

Mr. CORDON. Mr. President, the Senator from Oregon was about to suggest that while the Senator from Colorado might not be able to convince the Senator from Wyoming, and while the Senator from Wyoming might not be able to convince the Senator from Colorado, as for the remainder of the Senate, we enjoy the sparring and debate of experts; and the debate itself might be very illuminating and informative to us who are in the field of the amateurs.

Mr. O'MAHONEY. The Senator from Oregon is no amateur in any field in which I have seen him operate. I have sat with him on the Committee on

Appropriations, and on the Committee on Interior and Insular Affairs, and I testify gladly, publicly, that there is no greater expert in the Senate than the senior Senator from Oregon, the very amiable and able Senator, GUY CORDON.

Mr. CORDON. Mr. President, will the Senator yield?

Mr. O'MAHONEY. Yes, indeed.

Mr. CORDON. The Senator, as usual, is most complimentary, and proves again that he has visited the Blarney Stone.

Mr. HILL. Mr. President, will the Senator yield?

Mr. O'MAHONEY. Yes.

Mr. HILL. Am I to understand that the Senator feels that all the changes the Senate committee recommends in connection with excess-profits taxes will mean a decrease in revenues of only \$120,000,000?

Mr. O'MAHONEY. Oh, no.

Mr. HILL. That is what I thought. As I understand, all the changes which the committee suggests be made will bring about a far more considerable decrease than \$120,000,000.

Mr. O'MAHONEY. The Senator is correct.

Mr. HILL. It is something like \$750,000,000, is it not?

Mr. GEORGE. It is not when we take into consideration the provisions of the present law. It is with respect to what is expected to be received under the House bill.

Mr. HILL. Yes; in other words, the changes in the law proposed in the House bill.

Mr. O'MAHONEY. I will answer the Senator. I sought to have the provisions of both versions of the bill considered en bloc, but it was deemed that they should be considered separately, so section 502 of the House bill, under the parliamentary ruling, is not now before the Senate. Section 502 made a change in the average earnings credit base from 85 percent to 75 percent, by which it was estimated by the House that an added revenue of \$590,000,000 would be received. Now title V, according to the Finance Committee, cuts \$120,000,000 from the receipts. Added together, the changes made by the Senate committee deprive the Government of an expected and anticipated revenue of \$710,000,000.

Mr. HILL. The changes made by the Senate committee in the bill as passed by the House.

Mr. O'MAHONEY. Yes. I think there can be no question about that. But I call to the attention of the Senate a sentence from the committee report and lay it before the Senate, compared with the action which the Finance Committee has taken with respect to corporate taxes. Senators heard the great debate here the other day in which it was said that it would be unfair to corporations to tax them retroactively to January 1, as provided in the House bill. The Senate committee said, "Oh, no, we cannot make this tax retroactive to January 1. We must make it retroactive only to April 1. True, the Government needs revenue. True, we ought to balance the budget. But it would be utterly unjust," said the committee, or those who argued for the committee's position, to make

the taxation retroactive to January 1, as provided in the House bill.

It has upon occasion been the practice of the Congress to make taxes retroactive. But compare the solicitude of those who make this argument against retroactive taxes for the corporations that are to pay the taxes, with the solicitude they extend to the Government of the United States.

The excess-profits-tax law, by its terms, to which the Finance Committee agreed, became effective on the 1st of July 1950. Why? So that the Government might tax some of the excess profits which were earned as the result of the skyrocketing of prices after Korea. I could give the Senate the facts, except that it would take too much time, with respect to the inflationary profits which have been earned as the result of increasing prices. So the committee says on page 7:

In general the following excess-profits-tax amendments made by your committee are effective retroactively to the time the excess-profits tax became effective.

So, Mr. President, on one hand the committee comes to us and says, "Do not make the corporation tax retroactive to January 1 as provided in the House bill. But here are some relief provisions against the burden of excess-profits taxes, and we ask you to make this relief retroactive, not to April 1, 1951, not to January 1, 1951, but to July 1, 1950"—so that those who should be subject to the tax will escape with their profits.

Mr. MILLIKIN. Mr. President, will the Senator yield?

Mr. O'MAHONEY. I yield.

Mr. MILLIKIN. The Senator will recall, I am sure, that in the excess-profits-tax law of World War II the provisions of section 722 were effective so that relief where needed could be given in the amount required to afford the relief, dating back to the particular time fixed. In the act under which we are now operating we do not have a section 722 procedure, because of the obvious defects of that provision. So we must find some place, some way, to give the relief which section 722 procedure would have afforded had it operated properly and had we adopted it.

Mr. O'MAHONEY. My impression is that there are about 31 pages in the excess-profits-tax law of 1951, which provides for relief for those who come under its provisions.

Mr. MILLIKIN. Mr. President, will the Senator yield?

Mr. O'MAHONEY. I yield.

Mr. MILLIKIN. I venture to say that if we were to measure the number of pages involved in the rules and regulations and the administrative actions under the section 722 procedure, which is the only available alternate to relief expressed in this bill, they would be found to occupy thousands of pages.

Mr. GEORGE. Mr. President, will the Senator from Wyoming yield?

Mr. O'MAHONEY. I yield.

Mr. GEORGE. I am sure the Senator from Wyoming wants to be fair.

Mr. O'MAHONEY. Of course.

Mr. GEORGE. I call the Senator's attention to the fact that when the excess-profits tax was under consideration, that

is to say, when we were considering the 1950 tax bill, and subsequently took up the excess-profits tax bill, we stated that we would make the rates effective back to a date not later than October 1, 1951, or possibly July 1. We lived up to that promise. When we wrote the excess-profits tax bill, which was approved on January 3, we made the rates effective back to July 1, 1950.

I also stated in my place, and other members of the committee stated in their places, as members of the Finance Committee at that time, that because of the haste in writing the excess profits tax bill we would be obliged to look at the bill subsequently to see if there were errors or omissions, which ought to be corrected, or if there were hardships imposed on taxpayers for which relief should be provided. As the distinguished Senator from Colorado pointed out, we were not putting in section 722 a general relief provision. We were undertaking to leave the general relief provision out of the present excess profits tax law. So we made the rates effective back to July 1950; and now, with respect to those things which are purely remedial, in accordance with my statement and promise, we have undertaken to correct a few of them back to that date. There are not many of them, but they will lose a little revenue.

NO BASIS IN EXPERIENCE FOR RELIEF PROVISIONS

Mr. O'MAHONEY. I am glad that the Senator from Georgia has made that statement. What he has said is correct so far as it goes. What he has omitted to say is really that the Treasury has not yet completed the study upon which this revision was to be based. I agreed, at the time the excess-profits tax bill was passed last year, that there should be such a review. But, Mr. President, the House has made no such review. The Treasury Department has not made a review. Now a few relief provisions come before us.

I invite attention to the fact that in the report of the Finance Committee filed on December 18, 1950, in the second session of the Eighty-first Congress, Report No. 2679, on page 18, the committee had this to say:

Section 722 (b) (1) and (2) of the prior law provided relief when the income of the taxpayer's base period years was substantially abnormal because of a physical interruption to production, such as a fire, strike, or flood, or because of a depression in the business of the taxpayer resulting from temporary economic circumstances unusual in the case of the taxpayer, such as a severe price war. Your committee's bill provides relief in these same areas.

That is precisely what I was saying—that in the excess-profits tax bill of January 3, 1951, we did provide for relief from a physical interruption to production, such as a fire, a strike, or flood, and in this bill one of the relief provisions is for catastrophe. If a flood is not a catastrophe, if a fire is not a catastrophe, what is the catastrophe which prompted the committee to present an additional relief provision in this bill? My contention is that that section, to which I shall come in a moment, is unnecessary because of what the Senator's

committee wrote and said it wrote into the bill of last year.

Mr. GEORGE. Mr. President, will the Senator yield?

Mr. O'MAHONEY. I yield.

Mr. GEORGE. The Senator wholly misapprehends the meaning of the report.

Mr. O'MAHONEY. Words to me mean only what they say.

Mr. GEORGE. Sometimes they do not mean what they sound like to the Senator.

The committee did say that certain things were taken care of under section 722 of the World War II Act, and that the committee was undertaking to cover those same things—not that it was covering all the relief provisions which could have been provided under section 722. Also, under section 722 relief was given in specific cases, based on the specific industry. The relief which we gave, to which the Senator is referring, because of acts of Providence, fires, floods, and so forth, was not specific relief in a specific case. All the relief we gave then was in the general industry average which we undertook to provide. But we never for a moment thought that we were taking care of all the possible cases which had arisen, which were then pending, or which could arise under section 722. We simply said, "We do not have the time to go into it fully, but since we are making these rates effective back to July, the committee will, as soon as it is able to get to it, do the best it can with relief provisions in those cases which justify relief."

The Senator from Wyoming is quite right in saying that the Treasury has not been able to submit its own recommendations, for the reason that, generally speaking, the excess-profits returns have not been filed. Of course, there have been some excess-profits payments, but not much revenue has been derived from the excess-profits tax. The Treasury thought it would be in a position to give us better information when it had the returns in hand. I, too, thought so, and I am sure other members of the committee thought so. However, at the same time, since we are again increasing the tax, and since we are raising the ceiling on all corporations, including the excess profits taxpayers, as well as those who do not pay an excess-profits tax, we thought we should look at those cases which had been pressed upon us, and which seemed to the committee to be entirely meritorious, regardless of the fact that returns had not actually been filed with the Commissioner of Internal Revenue, and the Treasury had not made its report.

SOME AMENDMENTS TAILORED TO SPECIAL SITUATIONS

Mr. O'MAHONEY. It seems to me, upon the basis of what the Senator from Georgia has just said, confirming my statement that the Treasury report has not yet been filed and the Treasury study has not yet been made, that the action of the committee is premature. We should not consider these relief provisions until all the evidence is in. I am strengthened in that conviction when I turn to page 316 of the committee bill

and read the provisions of section 516, which is entitled "Transition From War Production and Increase in Peacetime Capacity." From a reading of it, the amendment would seem to be tailored with the greatest care to give particular relief. I read from it:

(a) In general: Part I of subchapter D of chapter 1 is hereby amended by adding at the end thereof a new section to read as follows:

"Sec. 459. Miscellaneous provisions.

"(a) Average base period net income—transition from war production and increase in peacetime capacity: In the case of a taxpayer which commenced business before January 1, 1940"—

Observe that the taxpayer must have commenced business before January 1, 1940—

"and since such date has engaged primarily in manufacturing"—

Observe condition No. 2. It must be a manufacturing corporation, and none other. It cannot be a banking corporation. It cannot be a service corporation. It cannot be a distributing corporation. It can only be a manufacturing corporation. Then, proceeding a few lines further we find:

"(1) The adjusted basis for determining gain of the taxpayer's total facilities (as defined in section 444 (d))"—

Skipping a few words—

"did not exceed \$10,000,000.

"(2) The basis (unadjusted) for determining gain of the taxpayer's total facilities * * * on the last day of its base period was 250 percent or more of the basis (unadjusted) for determining gain of its total facilities on the first day of its base period."

Mr. President, there are four conditions. Then we come to paragraph 3:

"(3) The percentage of the taxpayer's aggregate gross income which was from contracts with the United States or related subcontracts or both was (A) at least 70 percent for the period comprising all taxable years beginning after December 31, 1941, and ending before January 1, 1946, (B) less than 20 percent for the period comprising all taxable years."

There are two more conditions which must be met before relief can be granted.

On page 318, subparagraph 4 reads:

"(4) The monthly average of the excess profits net income of the taxpayer (computed under section 433 (b)) (A) for all taxable years ending with or within the last 24 months of its base period, and (B) for the last taxable year ending before the first day of its base period, are each 300 percent or more of such monthly average for all taxable years."

Mr. President, I wonder how many corporations could possibly benefit under that provision, which contains at least 7 specific definitions of the situation which must exist before relief can be granted.

Mr. MILLIKIN. Mr. President, will the Senator yield?

Mr. O'MAHONEY. Yes.

Mr. MILLIKIN. I suggest that the greater number of conditions to make relief more difficult, the more the Senator from Wyoming should be pleased. However, passing that point, I wish to talk about the base to which the Senator has referred. In World War II the base

was 95 percent of a theoretical normal. In accordance with the law under which we are operating it is 85 percent. The lower we reduce the base the higher we raise the magnitude of the need for relief. Now it is proposed, I understand, to make the base 75 percent, which will multiply still further the necessity for relief, and it will have to be given either by statute or by some kind of section 722 procedure.

Mr. O'MAHONEY. That, I say, is a very good argument for permitting this matter to wait until the Treasury study has been completed and presented.

Mr. MILLIKIN. Mr. President, will the Senator yield further?

Mr. O'MAHONEY. Yes.

Mr. MILLIKIN. It was not necessary, so far as relief was concerned, to wait for the Treasury's review of necessities for the relief, I will say to my good friend, the distinguished Senator from Wyoming. I hold in my hand the transcript of the testimony given before the committee. That is the evidence of the taxpayers, many of whom face confiscation under our excess-profits law.

Mr. O'MAHONEY. Mr. President, it seems to me, from an examination of the condition in paragraph 4 on page 318 of the bill, that it represents no general pattern of experience and it almost seems that its limitations are intended to fit a particular taxpayer alone.

Mr. GEORGE. Mr. President, will the Senator from Wyoming yield?

Mr. O'MAHONEY. It seems to me that way. Can the Senator from Georgia tell us how many companies would be benefited by it?

Mr. GEORGE. The language to which the Senator from Wyoming has referred was intended to tighten the section so that it would not fit everyone. It was intended that it should not fit a great many people who ought not escape having to pay excess profits taxes, and a great many from having the gross formula which is in the law. There were many companies which had war work almost exclusively in World War II. They had large plant capacity and many facilities. When they got back into peacetime operation, of course, it was perfectly fair to treat them justly, but what the committee was undertaking to do was to provide that the rather rigid conditions prescribed would have to be met before the companies could have the advantage.

Mr. O'MAHONEY. Does the Senator from Georgia have any idea of how many taxpayers would benefit under this provision?

Mr. GEORGE. I have no idea in the world, but I should like to read from the report. The Senator will see what the committee had in mind. I read from the committee report at page 84:

The attention of your committee has been called to cases where corporations have been fully engaged in war business during World War II and as a result have had difficulties during 1946 and 1947 in converting to peacetime production. As a result, their earnings in these years have been relatively low. Nevertheless, they have invested large amounts in plant and facilities in the anticipation of securing a broad-gauge peacetime market. However, to a substantial degree

many such corporations were not successful in tooling up for extensive production until 1949 or 1950. Thus, although they are not engaged in war production, such corporations find themselves subject to heavy excess profits taxes although the war economy has had little effect on their business. To the extent that such corporations had low earnings in 1949, they would receive little benefit from the growth provision generally available, even where they are eligible for it.

Your committee believes—

This is the purpose of the section—that corporations of this type whose profits are attributable to peacetime production should be able to use their earnings experience late in the base period and early in 1950 as the basis for the computation of their average earnings base for excess-profits-tax purposes. Therefore, section 516 of your committee's bill extends to corporations meeting certain requirements the benefits of the special growth formula described in section 435 (e) (2) (G) of the code. In general, this permits corporations to compute an alternative average base period net income on the basis of the sum of one-half of their income in 1948 and 40 percent of their income in 1950.

As to the number of corporations to which it would apply the committee has no actual way of knowing, but it might apply to a good many.

Mr. O'MAHONEY. Mr. President, it seems to me that on the strength of what the Senator from Georgia has just stated, since the committee has no actual basis of determining to how many taxpayers these sections would apply, they are offered to us prematurely.

CASE OF DEALERS IN MUNICIPAL BONDS

Let me briefly give one or two other examples. I wish to call attention to section 508, relating to "Election With Respect to Certain Inadmissible Assets." A reading of the amendment shows that what it really means is election with respect to certain tax-exempt bonds.

Paragraph (c) of the amendment to section 508 is entitled "Treatment of Government Obligations as Admissible Assets." In other words, this amendment permits dealers in municipal bonds and State bonds and Government bonds of that type to include the amount of such bonds in their inventory in the invested-capital base. The invested-capital base is one of the methods provided for the computation of the excess-profits tax, under the law.

Mr. MILLIKIN. Mr. President, will the Senator yield?

The PRESIDING OFFICER (Mr. KERR in the chair). Does the Senator from Wyoming yield to the Senator from Colorado?

Mr. O'MAHONEY. I yield.

Mr. MILLIKIN. Is not that limited to the dealer's own portfolio, and is not the purpose to draw a distinction between the dealer's own portfolio and that of his client?

Mr. O'MAHONEY. It seems to me to be of doubtful wisdom to permit, by a special relief provision, a dealer of that kind, who has tax-exempt bonds bearing a low rate of interest, as they usually do, to compute those bonds in his capital base, because the result of that inevitably will be to give such a taxpayer an increased return upon those bonds.

Let us assume, for example, the investment of \$100,000 in bonds which produce

income at the rate of 2 percent, or only about \$2,000, a year. The effect of putting those bonds into the invested-capital base could easily be to reduce by four, five, or six times the amount of income subject to the excess-profits tax.

And so on through this bill, page after page.

CASE OF TELEVISION COMPANIES

Here is the section on television companies, a special section relating to those companies. It is designed to provide relief for those which are both television companies and radio companies, so that the income which a company owning both television stations and radio stations receives may be segregated and the excess-profits tax reduced. Again I say such an amendment ought to await the study which at this time is being made by the Treasury Department.

Mr. MILLIKIN. Mr. President, will the Senator from Wyoming yield for a question?

Mr. O'MAHONEY. I yield.

Mr. MILLIKIN. Will the Senator say that is an inequitable provision, assuming that the amendment has been properly drawn? Should not a new industry such as the television industry receive special consideration, in the way of giving it some kind of a base against which excess profits are to be measured?

Mr. O'MAHONEY. In the existing law, there are provisions for a growth company, and it seems to me they are altogether adequate so far as we can tell until the study to which I have referred has been made.

On last Friday I quoted from the Television Digest in regard to the tremendous billings now being obtained by those companies. One company in New York—one of the national chains—is charging \$730 or \$740 a minute for its time. The very fact that corporations are able to pay more than \$700 a minute for the utilization of television it seems to me is demonstrable proof that the incomes are running very high.

I read the advice which certain experts, such as the Prentice-Hall Co., are giving to corporate taxpayers in regard to how to make Uncle Sam bear their burden. What I am afraid of is that in this great crisis when Uncle Sam needs revenue in a very great degree in order to meet the crisis in the world, we shall be concerned about growing companies which can charge \$735 a minute and can get it.

Mr. MILLIKIN. Mr. President, will the Senator yield further?

Mr. O'MAHONEY. I yield.

Mr. MILLIKIN. Seven hundred and thirty-five dollars a minute should be considered in relation to the amount of taxes such companies are paying by the minute and also what their other expenses are by the minute. That is a lurid, I say most respectfully, and one-sided presentation of the picture. I think the television broadcasters are making money; but they did not make money during the base years; and we have to consider that situation in determining how to provide some kind of a constructive base to take care of that business and other new businesses which had no fair base period against which to relate their so-called excess profits.

In the particular case about which the Senator is speaking, if it is reasonable to give a new industry a reconstructed base because it had no fair base during the normal base-period years, then it is reasonable to draw a distinction, in the case of comingled business, between its income from the industry in which it had a normal base and its income from the industry in which it had no base at all or nothing but a tragically deficit base.

Mr. O'MAHONEY. All of which, Mr. President, seems to me to be an argument, again, for postponing the consideration of relief provisions until after the study has been made by the Treasury Department.

In view of the statement the Senator from Colorado has made, I now wish to ask unanimous consent to have printed at this point in the RECORD some of the material included in the observations I made in the Senate on September 21, 1951, namely, beginning at the top of page 12073 of the RECORD, under the heading "Does the television industry need tax relief," and ending on page 12074, with my sentence, "I think it shows a record of profit which demonstrates beyond any reasonable doubt that the relief provisions of this bill should not be approved."

There being no objection, the matter referred to was ordered to be printed in the RECORD, as follows:

DOES THE TELEVISION INDUSTRY NEED TAX RELIEF?

One of the relief provisions in this bill is a provision intended to offer relief to the television industry. It is a growing industry. No one can deny that. But does it need relief? Has not the time come for it to pay a larger share of the burden of defending a Nation which maintains the opportunity for it?

On the 8th of September, Television Digest magazine contained an interesting article, from which I desire to read. The heading is "Fabulous Upswing in TV Billings." I read from the article:

"FABULOUS UPSWING IN TV BILLINGS"

"Sell-outs of time on telecasting stations and networks are currently at such an amazing rate that one New York station alone will achieve 1951 billings of close to \$8,000,000 after frequency discounts. That would mean gross sales of somewhere around \$10,000,000, as ordinarily calculated in the trade.

"That's far more than any 50-kilowatt radio station has ever grossed—most likely is highest for any TV station, albeit many other telecasters have gone into seven-figure grosses and we know several who admit 'pushing \$5,000,000.'"

Do they need relief, Mr. President?

I continue reading:

"The station is NBC-TV's New York key WNBT, with base hour rate of \$3,750 as of August 15, 1-minute rate of \$775. Its possible WCBS-TV, rival key, will do just as well, for its rates are the same and it's also reported to be a sell-out."

In other words, the television industry, in this one station, is collecting from business corporations a 1-minute rate of \$775 and yet the Finance Committee asks us to give them relief.

I resume reading the article from Television Digest:

"WNBT's astonishing achievements points up wave of prosperity that is being enjoyed by just about all the 107 TV stations. Most are operating in the black now, and the few that may show losses for year will do so because of deep red-ink starts and because

they must yet pay off the huge costs of pioneering.

"The WNBT and WCBS-TV rates are highest in country, former's comparing with \$1,200 on companion WNBC, latter's with \$1,350 on companion WCBS (latter highest rate in radio). Other New York TV station base hour and 1-minute rates are: WJZ-TV, \$3,100 and \$650 (WJZ rate is \$1,200); WABD, \$2,200 and \$500 (no AM); WOR-TV, \$1,500 and \$300 (WOR \$1,200); WPIX, \$1,500 and \$281.25 (no AM); WATV, Newark, \$800 and \$165 (WAAT \$264).

"TV networks as such are still far from the black—but all owned-and-managed stations are now profitable. Indeed, NBC-TV's five outlets will gross some \$17,000,000 this year (after discounts). From independent operators of TV with AM stations, most of them reluctant to disclose actual figures, this comment is typical: 'Radio is up, but our TV revenue is now more than double our radio.'

"We estimated \$250,000,000 in time sales this year for networks and stations combined, just few weeks ago (vol. 7:32). That figure now looks conservative."

Shall the Senate grant them relief, or shall the Senate ask them, if they make excess profits, to pay the regular excess-profits rate?

I continue reading from the article from *Television Digest*:

"For network time sales are really zooming. August NBC-TV network sales—not including its own stations—will overtake dollar volume of AM network's time sales. For September, we're informed, with season in full swing and new rates in effect, NBC-TV network volume will very nearly double NBC-radio network volume.

"The other TV networks are going up, too—but it's the stations they own that offset network losses. ABC-TV's five outlets give it fiscal edge over Dumont with three and CBS with two, plus 45 percent of third. But the hard runner for second place in network TV buildings is CBS-TV (see PIB figures, vol. 7:34). CBS now seeks more stations, proposing to buy Paramount's WBKB, Chicago, for \$6,000,000, and proposing also to get them by way of new-station applications and grants at freeze's end."

This is the testimony of *Television Digest*, an industry publication. It is not the testimony of any person or group who desire to overburden industry. I think it shows a record of profit which demonstrates beyond any reasonable doubt that the relief provisions of this bill should not be approved.

Mr. MILLIKIN. Mr. President, will the Senator yield?

Mr. O'MAHONEY. Certainly.

Mr. MILLIKIN. The Senator referred to the large earnings of the television companies in 1951. He suggests that they can use the growth formula. I simply point out to him that the present relief for growth companies is not available to taxpayers who experienced their primary growth after 1949.

I suggest also to the Senator that the new companies do not escape taxation. They get the benefit of a graduated formula which assumes that after a fair period of time in which they can firmly establish their growth they will pay full taxes, along with older established companies.

THE CASE OF NEWSPAPER CONSOLIDATION

Mr. O'MAHONEY. Mr. President, let us look at page 320 of the bill, section 518, Consolidation of Newspapers. I read:

Section 459, as added by sections 516 and 517 of this act, is hereby amended by adding after subsection (b) thereof the following new subsection:

Then begins the new subsection (c), "Consolidation of newspaper operations." This section gives special consideration to newspapers increasing profits by merger or consolidation. Why should we condone or reward the merger of newspaper corporations by providing a decrease in their excess-profits-tax liability? Let us look at the language. This relief is granted if—

(1) After the close of the first half of the base period of the taxpayer and prior to July 1, 1950, the taxpayer consolidated its mechanical, circulation, advertising, and accounting operations in connection with its newspaper publishing business with such operations of another corporation engaged in the newspaper publishing business in the same area.

It must be in the same area. It relates to a consolidation. I continue:

(2) The taxpayer establishes to the satisfaction of the Secretary that, during the period beginning with the consolidation and ending with the close of the first taxable year beginning after the consolidation, such consolidation resulted in substantial reductions in the amounts which would otherwise have been paid or incurred as expenses in the conduct of the operations described in paragraph (1).

Here is a very similar provision. A newspaper which merges with another newspaper, and by that merger decreases its operating expenses and thus increases its profits, is granted relief.

The fourth provision in subparagraph 4, on page 321, is also interesting.

Mr. GEORGE. Mr. President, if the Senator from Wyoming will permit me, I should like to say to him in all candor that the section which he has just been discussing does not deal with corporate mergers. It deals only with the consolidation of the mechanical facilities, and a reduction in costs brought about in that way.

I should also like to say to the Senator that, while the committee accepted this amendment, the amendment really accomplishes nothing, because under the same circumstances the taxpayer would be entitled to all the relief that is given. It gives the taxpayers a growth formula. That does not do them any good. Probably those who are interested in this amendment may offer an additional amendment, and if the amendment is offered, the discussion, of course, might be pertinent at that time. But actually this provision would not affect the tax liability, except in a very negligible way, if at all.

Mr. O'MAHONEY. Why, then, does not the Senator withdraw this section?

Mr. GEORGE. Other Senators are interested, who may wish to offer another amendment. I have not agreed to accept it, but they have a right to offer it, of course.

Mr. O'MAHONEY. Why not withdraw this provision, which does nothing, which affords no relief, and which, in the words of the Senator from Georgia,

is ineffective? Why not withdraw this amendment now, and wait until an amendment is offered by some Senator which really would accomplish something?

Mr. GEORGE. I stated to the Senator that frankly I wished him to understand he was discussing this as if it were a merger of corporations, which it is not.

Mr. O'MAHONEY. Yes; and I am glad the Senator reminded me of that.

Mr. GEORGE. It is merely a consolidation of facilities. They have the same privilege, which this section gives them, anyway. That is what I meant to say about its serving no purpose.

Mr. O'MAHONEY. That is what I have been saying all along with respect to most of these amendments, that relief provisions are already contained in the existing law, so why provide new ones?

Mr. GEORGE. I called the Senator's attention to it in all fairness. In all candor, let me say that he is discussing something without understanding what he is talking about, and those who thought this amendment gave them certain relief now wish to offer another amendment, which has not yet been offered.

Mr. O'MAHONEY. The Senator has chided me because I said this amendment dealt with mergers. Of course, I base that upon the provisions of the amendment. The Senator tells me it is not a merger in the sense that the corporate structure would be turned over. All that would be taken over, the Senator tells me, is the mechanical circulation, advertising, and accounting operations in connection with the newspaper publishing business. In other words, what the consolidation effected in this case means is taking all the business assets of the corporation and leaving the corporate shell. The Senator says that for that reason the discussion of the Senator from Wyoming is based upon a failure to understand the facts. Mr. President, the books are full of cases in which monopolistic mergers have been effected by just this device, the purchase of the assets of a corporation and the discarding of the corporate structure.

Mr. GEORGE. Mr. President, I hope the Senator will not fall into greater error.

Mr. O'MAHONEY. I hope not.

Mr. GEORGE. The newspapers which are covered by this section are still in existence. They have not gone out of business; they have not been merged at all. They simply united their mechanical facilities, and in that way sought to reduce costs.

Mr. O'MAHONEY. Will the Senator tell us which newspapers they are?

Mr. GEORGE. I do not recall. I did not offer the amendment, but I frankly say the amendment seems to me to make no change in the law as it now stands.

Mr. O'MAHONEY. The Senator from Georgia is very frank; he is always frank. I have never known a Senator on this

floor who was more objective in the presentation of his views than the Senator from Georgia. I accept as a statement of complete veracity any statement he makes.

Mr. GEORGE. I thank the Senator.

Mr. O'MAHONEY. The Senator knows that. The Senator knows the great admiration I have for him.

Mr. GEORGE. I thank the Senator very much. My judgment is that this amendment does not make any change in the existing law.

Mr. O'MAHONEY. Very well. Then I say the Senator has demonstrated that it has no place in the bill, until some Senator comes along and presents an amendment which has some meaning.

Mr. GEORGE. I think the Senator is correct in that.

Mr. O'MAHONEY. Then let us withdraw it.

Mr. President, I could go through this bill section by section. I do not intend to do so. Unfortunately we are dealing with a most complex subject. I thought I had a terrible burden as chairman of the subcommittee on military appropriations, but I said yesterday to both the Senator from Georgia and the Senator from Colorado that I know the burden of the Appropriations Committee was nothing as compared to that of the Finance Committee in dealing with the complexities presented by the pending tax bill. The basic fact is that corporate profits are running tremendously high, that the excess-profits-tax law which is on the books was enacted on the 3d of January this year, and that the tax burden was made retroactive to the 1st of July, so as to pick up post-Korean profits.

RELIEF PROVISIONS ARE PREMATURE

With reference to the relief provisions, the Senator from Georgia has told the Senate it is utterly useless to undertake to grant relief in certain specific cases. The Senator read from the report a moment ago, and mentioned some cases which were brought to the attention of the committee. I note that the Treasury is studying the matter, and I feel confident, therefore, that title V should not be agreed to, particularly when the facts before us with respect to corporate profits are so clear.

Mr. MILLIKIN. Mr. President, will the Senator yield?

Mr. O'MAHONEY. I yield.

Mr. MILLIKIN. I am somewhat confused by the repetition of the Senator's theme that we do not have sufficient facts to warrant the relief provisions.

Mr. O'MAHONEY. I may say to the Senator that the best brains and knowledge in the House Committee on Ways and Means, in the Senate Committee on Finance, in the Joint Committee on Taxation, and in the Department of the Treasury ought to be used together in studying the relief provisions and suggesting what they shall be. I say again that the Treasury, which has not yet had 12 months in which to work on the subject, has not had the basic facts of the operation of the law before it. Until that study is completed, the relief provisions are premature.

Mr. MILLIKIN. I suggest that, by the same token, if we do not have sufficient

facts for the relief provisions, we do not have sufficient facts for the increase in excess-profits taxes which the Senator would impose. I may add that the Treasury did not think that we had and did not advocate an increase in excess-profits taxes.

CORPORATE PROFITS AND NATIONAL INCOME

Mr. O'MAHONEY. I am glad the Senator has made that statement. I should like to refer all Members of the Senate to the publication of the Joint Committee on the Economic Report entitled "Economic Indicators for September 1951." On page 23 there appears the story of corporate profits. Corporate profits, before taxes, in 1939—understand, I say "before taxes"—amounted to \$6,500,000,000. Corporate dividends this year, in the second quarter, were running at the rate of \$9,700,000,000.

Mr. MILLIKIN. Mr. President, will the Senator yield further?

Mr. O'MAHONEY. I yield.

Mr. MILLIKIN. Would the Senator mind adding what the national income was in 1939?

Mr. O'MAHONEY. I can give that in a moment.

Corporate profits in 1939 were \$6,500,000,000. In 1944, while we were still in the war, corporate profits before taxes amounted to \$24,300,000,000. In 1946, after the war, they dropped to \$23,500,000,000. In 1947 they went up to \$30,500,000,000 before taxes; in 1948, they mounted to \$33,800,000,000. In 1949 there was again a drop, a drop to \$28,300,000,000. Yet that is more than four times the amount of such profits before the war.

In 1950, after Korea, corporate profits jumped to \$41,400,000,000, and dividend payments made in 1950 amounted to \$9,200,000,000. Not only was that true, Mr. President, but undistributed profits held back by the corporations in 1950 amounted to \$13,600,000,000. That was last year. That is the record of post-Korea profits.

Mr. MILLIKIN. Mr. President, will the Senator yield?

Mr. O'MAHONEY. I yield.

Mr. MILLIKIN. The national income is now in excess of \$275,000,000,000, but the value of the dollar has considerably decreased since 1939.

Mr. O'MAHONEY. The Senator is quite correct. The national income is about \$273,000,000,000, and for the first time since before we became involved in World War II, the national income, in 1951, is running at a rate greater than the national debt. Never was the Nation in a better position to pay taxes than it is now, with an income once more greater than the national debt.

Mr. MILLIKIN. The national debt is not being reduced, and the national income is being stimulated in this fiscal year by perhaps \$70,000,000,000 of the people's money.

Mr. O'MAHONEY. I will say to the Senator that the irrefutable fact is that since the shooting in World War II stopped in 1945, after the payment of \$20,000,000,000 upon the national debt, reducing it from \$276,000,000,000 to \$256,000,000,000, the national debt has hovered just about at that level. It may go up if we reduce the tax liability of the

corporations which are making such great profits.

Mr. MILLIKIN. Let me remind the Senator, in the interest of an accurate record, that the \$20,000,000,000 reduction to which he refers represented unexpended funds which had been obtained by overraising money in bond drives.

Mr. O'MAHONEY. I would not say it was overraising of money. The bond issue was authorized by the Congress, and there was no dissent with reference to it in the Congress. The country raised \$20,000,000,000 before the bombs dropped upon Japan, and after the bombs dropped and it was clear that the war was over, the entire proceeds of the bond issue were, by order of the President, applied upon the national debt.

Mr. MILLIKIN. I was merely trying to make clear that the \$20,000,000,000 debt reduction was not an economy reduction.

Mr. O'MAHONEY. It was an application of surplus funds to the debt.

Mr. MILLIKIN. Not through economies.

Mr. O'MAHONEY. But from that time on the national debt hovered rather steadily at about \$256,000,000,000. Last year, on June 30, when the fiscal year closed, there was a surplus of more than \$3,000,000,000 in the Treasury. That was because the Finance Committee of the Senate and the Ways and Means Committee of the House increased taxation, so a balanced budget was achieved on the 30th of June 1951.

All in the world, Mr. President, I am arguing for is a continuation of the balanced budget by not cutting down the revenue of the Federal Government as the report of the Finance Committee has told us this bill will do.

Mr. MILLIKIN. Mr. President, will the Senator yield further?

Mr. O'MAHONEY. I yield.

Mr. MILLIKIN. I suggest that the surplus remaining occurred primarily through an underestimate of the revenues which would be coming into the Treasury and an underestimate of the rate of expenditure.

Mr. O'MAHONEY. The surplus as of June 30, 1952, was due to the simple fact that under the tax bills which were enacted in the second session of the Eighty-first Congress we deliberately raised money to put the country on a pay-as-we-go basis.

It is true, of course, that the purchase of war implements lagged, but as I pointed out a moment ago, it is beginning to pick up again. An Associated Press dispatch circulated all over the country this morning tells us in words that cannot be misunderstood:

Defense spending has swung up well ahead of schedule for the first time since rearmament started.

INFLATION IMPOSES GREATER BURDEN THAN TAXES

We are getting into the swing of things, and we are preparing and acquiring the materials which are necessary to enable this Nation to prevent the advance of communism. But what I want to remind the Senator, with the greatest solemnity, is that while I believe the United States is protecting itself militarily against communism, it stands in

grave danger of making itself economically weak if it loses courage now to apply the taxes which are necessary to pay for the implements of war we are buying.

Mr. HUMPHREY. Mr. President, will the Senator yield?

Mr. O'MAHONEY. I yield.

Mr. HUMPHREY. Mr. President, is it not likewise true that further deficit spending at this particular time, when consumer goods are in short supply and purchasing power outstrips the availability of goods, would but result in creating credit money in the banks, which in turn would stimulate purchasing power, thereby bringing about a scarcity of consumer goods and driving up consumer prices on the one hand and driving up defense costs on the other hand? We have had that documented again and again. So the result is the taxpayer gets it coming and going; he gets it coming on the uptake, in high prices, and going, in the high cost of defense; which means new taxes.

Mr. O'MAHONEY. The indisputable fact is that inflation places a heavier burden upon the people and the corporations than do the taxes.

Mr. HUMPHREY. Have we not heard the argument repeated again and again by both public and private persons that one of the effective ways of dealing with the problem of inflation is by a tax bill which puts the budget in balance and siphons off what is attributed as excess purchasing power? Is that not the case?

Mr. O'MAHONEY. There can be no question about that. That is the unanimous view of financiers and economists. It has been repeated over and over again. The Committee on the Economic Report was unanimous in stating that to be the rule. There can be no doubt about it. But here we are afraid to put the hand in the pocket and pay the cost. What are profits as compared with human life? We send the soldier into battle. We send the aviator behind the jet plane to penetrate the barrier of sound in the atmosphere, and we take no account of his risk. But when the proposal is made to levy a tax upon the dollar of profit, then we hear the protests ring from every corner of the country.

Mr. President, my position upon this matter is only that we are laying ourselves open to economic attacks which will injure us at home.

I remember that about 6 months or a year ago the insurance industry was filling the newspapers with half-page and page ads under the heading, "The enemy within the gate—inflation," setting forth sound and cogent arguments why the American people ought really to pay the taxes which are necessary in order to meet the burden by paying as we go. What is wrong about that?

I stood upon this floor and voted to support the Finance Committee when it undertook to levy a tax upon mutual banks and savings banks. I know that many Senators could certainly make an earnest and honest argument against that tax. I voted with the committee for the tax it recommended on farmers' co-operatives, because I wanted, and feel that we ought to have more revenue, and

that everybody should join in trying to obtain it. But I say it does not make good sense, when we are taxing the co-operatives and the mutual savings banks, to provide relief from excess-profits taxes to corporations which on the general record do not seem to need it.

Mr. HUMPHREY. Mr. President, will the Senator yield again?

Mr. O'MAHONEY. I yield.

Mr. HUMPHREY. The Senator from Wyoming, in his work as chairman of the Joint Committee on the Economic Report—and I read the reports of the committee every time I receive a copy—has indicated again and again that we are confronted, not only by a temporary emergency, but that we very probably face a rather long ordeal of tension and international crisis.

NATION FACES LONG-TIME ECONOMIC STRAIN

Mr. O'MAHONEY. Mr. President, let me say to the Senator what my belief is, and it is based upon the evidence and the testimony which I have seen, and on the observations I have made with respect to what is going on in the world. I stated it upon the floor the other day. I do not believe that Russia now is planning an attack upon this country. I do not believe that Russia wants to precipitate a third world war now. I believe, with Winston Churchill, that the fact that the United States has the atom bomb, and the Russians know we have it, has prevented the Red legions from going to the Atlantic Ocean. I know that as the western nations of Europe become stronger, the position of the free world becomes stronger.

The Russians are depending upon two things. First and foremost, they are depending upon their conviction that the capitalistic system is outmoded and is dead, and is too greedy to protect itself, too unwilling to pay out of its profits the taxes which are necessary to defend itself. They said so in their book. Not only the Russian and the German Communists, but the English Communists have said the same thing.

The second point upon which they are basing their policy is that of trying to get the free world involved in little wars around the periphery.

The greatest danger is exactly that which the insurance industry pointed out a few months ago. It is the danger within our own borders, the danger of inflation, the danger which comes from a lack of courage to walk up to the line and do what we can do by taxation to prevent inflation and to arm the United States so that Russia will continue to be unwilling to fight.

So, I believe in the principle upon which Mr. Wilson is handling our defense mobilization, that by devoting from 20 to 25 percent of our national income to military preparation and paying for it as we buy it with the revenues of the Government, we shall be able to save the capitalistic system. I say to the managers of corporations who haunt the lobbies of Congress asking for favors and for relief, and asking that they be given a little better position than some others, that if they think they are saving their own hides, they should re-

member that they may be destroying the economy without which they could not exist.

Mr. LEHMAN. Mr. President, will the Senator yield?

Mr. O'MAHONEY. I yield.

Mr. LEHMAN. The Senator from Wyoming has given figures as to corporate profits for the years 1939 to 1950. I do not think he gave the figures for the first half of 1951. According to the record I have before me, which is published by Dun's, corporate profits after taxes for the first 6 months of this year are running very considerably in excess of those for the similar period in 1950.

Mr. O'MAHONEY. According to our report, corporate profits after taxes for the first quarter of 1951 were running at the rate of \$23,300,000,000 on an annual basis. That is greater than the \$22,800,000,000 for the whole year of 1950. It is greater than the \$17,300,000,000 for 1949. It is greater than the \$20,700,000,000 for 1948. It is greater than the \$18,500,000,000 for 1947. It is greater than the \$13,900,000,000 for 1946. So never since the end of World War II have corporate profits after taxes been running at a greater peak than during this period.

Let me make a comparison, suggested by the Senator's question. Corporate profits after taxes, which were \$22,800,000,000 in 1950, were greater, by almost four times—certainly by three times—than corporate profits were at any time before we got into World War II.

Mr. LEHMAN. Mr. President, will the Senator yield for another question?

Mr. O'MAHONEY. Yes, indeed.

Mr. LEHMAN. Is it not a fact also that the industrial production of the country for the first two quarters of 1951 ran not only very greatly in excess of the industrial production during the similar period in 1950, but also very greatly in excess of the last quarter of 1950, when there already was a considerable benefit accruing to the productive capacity of the country because of the war in Korea?

Mr. O'MAHONEY. There can be no doubt about that. I hope the Senator will be good enough, at the conclusion of my remarks, to place the material from Dun's Review in the RECORD, because it comes from a completely and utterly unprejudiced, impartial business source. There is no organization in the country which makes a more objective study of our economy than Dun's. It is known all over the Nation. Dun's Review is its regular report monthly to the country.

Mr. MILLIKIN. Mr. President, will the Senator yield?

The PRESIDING OFFICER (Mr. FREAR in the chair). Does the Senator from Wyoming yield to the Senator from Colorado?

Mr. O'MAHONEY. I yield.

Mr. MILLIKIN. Is it not true that dividends and undistributed profits have declined since the last quarter of 1950, to the end of July?

Mr. O'MAHONEY. No; I think not. The Senator is wrong about that. In

1950, for the entire year, dividend payments were \$9,200,000,000. In the second quarter of 1951 they were running at \$9,700,000,000. Undistributed profits in 1950 amounted to \$13,600,000,000, as I said earlier; and in the second quarter they were running at \$12,300,000,000. But in the first quarter they were running at \$14,500,000,000.

Mr. MILLIKIN. Is it not correct that dividend payments and undistributed profits have declined since the third quarter of 1950? Or must I read from the Economic Indicator prepared for the Joint Committee on the Economic Report, of which the distinguished Senator is chairman?

Mr. O'MAHONEY. Corporate profits after taxes in 1951 are certainly lower than they were in 1950, before we levied the excess-profits tax.

Mr. MILLIKIN. May I ask the distinguished Senator whether my statement is correct?

Mr. O'MAHONEY. The Senator's statement is correct, but I am pointing out that it is correct because last year we had the courage to levy the excess-profits tax, and I am saying now that if we lose that courage, and if we begin to create loopholes and grant relief, the inevitable result will be that we shall create a deficit. And if we create a deficit, with the unpaid debt of World War II, the unpaid debt of World War I, and the unpaid debt of the depressions, we shall be weakening the national economy and inviting the greatest danger this Republic ever faced.

I have an abiding and unshakable faith in the people of America. I know that we are going to go through, but I say to the Senate that we are not going to go through with the ease with which we can go through, if we make our path difficult by continually trying to save the profits of those who are making greater profits than at any other time in their history.

Mr. LEHMAN. Mr. President, will the Senator yield?

Mr. O'MAHONEY. I yield.

Mr. LEHMAN. We have been estimating the expenditures of the Government for the year 1951 at between sixty-eight and one-half and seventy billion dollars. In the article to which the Senator from Wyoming referred, the estimate of Government expenditures because of the increased production of armaments is placed by many experts at approximately \$73,000,000,000. If those figures are correct, then, of course, the estimated deficit of \$10,000,000,000 before giving effect to this or any other tax bill would be considerably in excess of \$10,000,000,000.

Mr. MILLIKIN. Mr. President, will the Senator yield?

Mr. O'MAHONEY. I yield.

Mr. MILLIKIN. I think that would be correct if we could assume that the present rate of spending might continue, and if we could assume that all the estimates of revenue are correct. The revenue estimates in a period of rising national income are usually underestimated. So the picture may not be so gloomy as it appears. We find that the surplus which we discussed a while ago,

in the last fiscal year, resulted from an underestimate of the speed of spending, and from an underestimate of what our tax laws would produce in the way of revenue.

I am glad to know that we seem to be on a faster defense spending program than we have been. I hope it will continue. But also, by pumping inflationary money into the economic stream we are rapidly increasing the national income. Thus we rapidly increase the source of taxes. We might be amazed at the amount of revenue this bill might bring in. In any event, if there is a difference between what this bill will produce and, let us say, the President's estimate of what the Government will spend, let us share the burden. Let him reduce non-essential expenditures by an amount equal to what he thinks will be the deficit. I suppose I shall hear that that is impossible. I should be delighted to hear such a ludicrous exposition.

Mr. O'MAHONEY. Mr. President, the Senator from Colorado referred to corporate profits after taxes as an evidence, I take it, that the corporations are unable to bear this terrific burden.

Mr. MILLIKIN. Mr. President, will the Senator yield for a correction?

Mr. O'MAHONEY. I yield.

Mr. MILLIKIN. I did not represent that as an evidence of what the Senator thinks my point was. I represented it merely as a deterrent to what I thought were some very ebullient figures which the distinguished Senator was tossing into the air, giving the impression that we were on an ascending ladder of corporate profits, corporate gains, and corporate villanies—

Mr. O'MAHONEY. The Senator is putting words in my mouth. I said nothing about corporate villanies.

Mr. MILLIKIN. I merely wished to introduce a deterrent by showing that dividends and undistributed profits were declining, showing a trend in a direction contrary to the general trend of the Senator's argument.

Mr. O'MAHONEY. Let me show how mistaken the Senator from Colorado is about it. First, let me correct him by saying that I have said nothing about corporate villainy. It is an easy word to put in my mouth. I have great admiration for the great majority of the corporate executives of America.

Mr. MILLIKIN. I have heard the distinguished Senator from Wyoming say—and how truly he spoke—that God blessed the United States of America in these troublous times in that we have powerful corporations, which have made sufficient profits so that they can shoulder the great burden of national defense. I believe I heard the Senator from Wyoming speak those words. Of course, he said them better than I said them, but they come to the same thing.

Mr. O'MAHONEY. I would never compete with the Senator from Colorado in diction; no indeed. I do say that without big business we could not build the great machines we need for defense. I want the RECORD to be quite clear that I pointed out, before the Senator interrupted me—

Mr. MILLIKIN. I am sorry.

CORPORATE PROFITS AND HIGHER TAXES

Mr. O'MAHONEY. I pointed out that corporate profits before taxes in the first quarter of 1951 were running at the rate of \$51,800,000,000; that in the fourth quarter of 1950 they were running at the rate of \$50,300,000,000; that the rate for the entire year of 1950 was \$41,400,000,000, and that for the second quarter of 1951 it was \$48,500,000,000.

Therefore, it is quite obvious that on the record of a rate of profit of \$51,800,000,000 in the first quarter of 1951 and on the record of a rate of profit of \$48,500,000,000 for the second quarter of 1951, corporate profits before taxes are greater by almost \$7,000,000,000 than they were in 1951. Of course, corporate profits after taxes are lower because, with the efficient aid of the distinguished Senator from Colorado, we have levied a higher tax upon them. I am saying to the Senator, to the Senate, to the country, and to the corporate managers that the corporations can bear a greater rate than is levied on them now and they do not need the solicitude which is exemplified in the revision of this bill.

Mr. KERR. Mr. President, will the Senator yield?

Mr. O'MAHONEY. I yield.

Mr. KERR. The chart to which the Senator from Wyoming has referred shows a decline in the second quarter of 1951, as compared with either the fourth quarter of 1950 or the first quarter of 1951, which indicates that at the time the chart was prepared the trend was downward. I refer to corporate profits before taxes as well as corporate profits after taxes. Is that correct?

Mr. O'MAHONEY. Oh, yes.

Mr. KERR. We have no way of knowing to what extent that decline will continue.

Mr. O'MAHONEY. No.

Mr. KERR. That is, in the third quarter of 1951 or the fourth quarter of 1951. Is that correct?

Mr. O'MAHONEY. That is correct.

Mr. KERR. I should like to ask the Senator from Wyoming whether it is a matter of any concern to him.

Mr. O'MAHONEY. My feeling is that when the records for 1951 are available it will be clear that the profits are increasing. I believe that there will be no doubt about it. I do not believe that there is the slightest danger that the final result will be of such a character from the point of view of corporate profits that anyone in the counting rooms of any of the corporations will be worried.

I have in my hand the report of the Committee on Finance. The Senator from Oklahoma [Mr. KERR] is a distinguished and able member of the committee. It is the report on the bill which is now before the Senate. On page 19 of the report the committee states that the level of profits before taxes, on the commerce basis, would be about \$48,000,000,000. So we have \$48,000,000,000, which is estimated by the committee, although the figures for the first and second quarter would indicate that profits are running very far above that. Nevertheless, we would have a corporate rate of profits before taxes which is

greater than in 1950, far greater than in 1949, greater than in 1948, greater than in 1947, and greater even than in 1946.

Mr. KERR. Mr. President, will the Senator yield?

Mr. O'MAHONEY. In a moment I shall be glad to yield.

Mr. President, I shall ask unanimous consent to have the figures which are set forth on page 23 of the Economic Indicators for September 1951 published at this point in the RECORD. It is a list of corporate profits. Of course, the chart cannot be printed, but I shall furnish the document to the reporter later.

There being no objection, the table was ordered to be printed in the RECORD, as follows:

CORPORATE PROFITS

After reaching an all-time peak in the first quarter of 1951, corporate profits before taxes, according to preliminary indications, turned downward in the second quarter:

[Billions of dollars]

Period	Corporate profits before taxes	Corporate tax liability	Corporate profits after taxes		
			Total	Dividend payments	Undistributed profits
1939.....	6.5	1.5	5.0	3.8	1.2
1944.....	24.3	13.5	10.8	4.7	6.1
1946.....	23.5	9.6	13.9	5.8	8.1
1947.....	30.5	11.9	18.5	6.6	12.0
1948.....	33.8	13.0	20.7	7.2	13.6
1949.....	28.3	11.0	17.3	7.6	9.7
1950.....	41.4	18.6	22.8	9.2	13.6
Annual rates, seasonally adjusted					
1949: First quarter....	31.8	12.3	19.4	7.4	12.0
Second quarter....	26.7	10.3	16.4	7.5	8.9
Third quarter....	28.0	10.9	17.1	7.4	9.7
Fourth quarter....	27.0	10.5	16.5	8.0	8.5
1950: First quarter....	31.9	14.4	17.5	7.8	9.7
Second quarter....	37.5	16.9	20.6	8.4	12.2
Third quarter....	45.7	20.5	25.2	9.4	15.8
Fourth quarter....	50.3	22.5	27.8	11.1	16.7
1951: First quarter....	51.8	23.5	28.3	8.8	14.5
Second quarter 1....	48.5	26.5	22.0	9.7	12.3

¹ Estimates based on incomplete data; by Council of Economic Advisers.

NOTE.—No allowance has been made for inventory valuation adjustment. See p. 22 for profits before taxes and inventory valuation adjustment.

Detail will not necessarily add to totals because of rounding.

Source: Department of Commerce (except as noted).

Mr. KERR. Mr. President, will the Senator yield?

Mr. O'MAHONEY. Yes.

Mr. KERR. The point which the Senator from Oklahoma had in mind was with reference to whether the trend of the profits was up or down. I should like to ask the Senator from Wyoming if he would not feel a good deal better about the situation if at the end of the year 1951 profits were on the increase, instead of, as seems possible now from the chart to which the Senator has referred, the year 1951 may end with the trend of corporate profits on the decrease?

Mr. O'MAHONEY. I do not agree with the Senator from Oklahoma that there is a decrease, because profits are on the increase as compared with other components of national income. As pointed out last Friday, profits before

taxes were 440 percent greater in the first half of 1951 than they were in 1940, and 77 percent greater than they were in 1949.

Mr. KERR. Mr. President, will the Senator yield?

Mr. O'MAHONEY. In the first half of 1951 profits after taxes were 253 percent greater than they were in 1940, and they were 31 percent greater than they were in 1949. On the basis of that 31-percent increase, I cannot see any cause to be at all alarmed. I have observed over and over again, in the computation of the figures, that the amount of profit varies from quarter to quarter. It increased in the last half of last year, and it is likely to increase again because the increased amount of Government purchasing of implements of war will make it almost impossible for the trend to be down.

Mr. KERR and Mr. HUMPHREY addressed the Chair.

The PRESIDING OFFICER. Does the Senator from Wyoming yield; and, if so, to whom?

Mr. O'MAHONEY. I yield further to the Senator from Oklahoma.

Mr. KERR. Does not the chart which the Senator holds in his hand show that each quarter of 1950 reflected greater profits than the preceding quarter; that the first quarter of 1951 reflected greater profits than either; and that during the second quarter of 1951 there was a decrease of about 6 percent, as compared with the first quarter of 1951? Is that correct?

Mr. O'MAHONEY. That is correct, but in 1949, it shows that profits for the first quarter were \$31,800,000,000. They dropped to \$26,700,000,000; then increased to \$27,000,000,000, and in the first quarter of 1950 they shot up again to \$31,900,000,000.

Mr. KERR. It is only a matter of judgment with the Senator, is it not, whether the rest of this year will show corporate profits continuing downward or beginning to go back up again?

Mr. O'MAHONEY. The Senator from Oklahoma will permit me, I am sure, to say that he and I had a colloquy on the floor of the Senate during the last session when the excess-profits tax was under consideration, and at that time he asked me what corporate profits would be for the calendar year 1950. In August 1950, when we were having that debate, I estimated that corporate profits for the calendar year 1950 would be \$40,000,000,000. The Senator from Oklahoma thought that figure was too high.

Mr. KERR. Did I say so?

Mr. O'MAHONEY. The Senator from Oklahoma did say so, indeed.

Mr. KERR. What were the words I used? Will the Senator quote my words?

Mr. O'MAHONEY. I do not have the words of the Senator from Oklahoma before me, but they are in the RECORD, and I can get them. However, I distinctly remember that he and I had that debate, and that the Senator from Oklahoma thought I was expanding the corporate profits for the calendar year 1950 when I said that, in my opinion, they would

reach approximately \$40,000,000,000. They actually turned out to be \$41,400,000,000.

I say to the Senator it is simply idle to talk about the details. All I wish to do is call the attention of the Senate and of the country to the fundamental point: And the fundamental point is that if we do not have a pay-as-we-go system we are inviting economic disaster. All I am doing is asking that corporate executives march up to the line and contribute of their profits to the maintenance of the Government and the capitalistic system which has given the world the greatest and highest standard of living of all times.

Mr. HUMPHREY. Mr. President, will the Senator from Wyoming yield?

Mr. O'MAHONEY. I yield to the Senator from Minnesota.

Mr. HUMPHREY. After all this discussion about the rate of corporate profits, I think one fact stands out very clearly and indisputably, namely, that the first quarter of 1951 was the best quarter of corporate profits since World War II, during World War II, or prior to World War II. In other words, the gross profits were running at the rate of more than \$50,000,000,000 a year. Yet the fact is equally clear that the Senate Finance Committee exempted the first quarter of 1951 from the increased rates proposed for the three last quarters of 1951, for which the profits are now said to be running at less than the rate of profits in the first quarter.

I ask any member of the Finance Committee to show me the logic of a decision of that kind. If for 1950 quarter No. 2 and quarter No. 3 and quarter No. 4 profits were running at a lower rate than for quarter No. 1, and if in quarter No. 1 of 1951 profits were running at a higher rate than in quarter No. 1, quarter No. 2, quarter No. 3, or quarter No. 4 of 1950, what was the logic and what was the compelling reason, as brought forth by the evidence and the testimony, and what was the rationale and what was the force of policy or opinion which compelled the Senate Finance Committee to exempt profits for the first quarter of 1951 from the higher rates?

Mr. KERR. Mr. President, will the Senator from Wyoming permit me to answer that question? It will take me only a minute to do so, if the Senator from Wyoming will permit.

Mr. O'MAHONEY. Mr. President, let me say that I have been on the floor altogether too long. I began to speak when the Senate completed its quorum call this morning. I have been answering or trying to answer every question which has been addressed to me. I say now, as I said at the beginning of my remarks, that I hate to waste time trying to convince the members of the Finance Committee that they were wrong. I do not expect them to be convinced.

The Senator from Oregon [Mr. CORDON] was kind enough to say, when I had a colloquy with the Senator from Colorado [Mr. MILLIKIN], that he enjoyed the give and take between the Senator from Colorado and the Senator from Wyoming, and that he believed he might learn something from it. However, I ob-

served that immediately afterward he left the floor.

We have present in the Senate Chamber at this time only members of the Finance Committee and a few stalwarts on the side of a balanced budget and of a tax bill which will help to balance the budget.

I say to the Senator from Oklahoma that now I will yield to him, to enable him to have an opportunity to give to the Senator from Minnesota the 1-minute answer which the Senator from Oklahoma said he wished to give; and then I shall conclude. I am giving notice now that I am about to conclude.

Mr. KERR. Mr. President, I thank the Senator from Wyoming for the opportunity he has granted me.

I wish to say to the Senator from Minnesota that the situation he described does not exist. The bill does not exempt at all the first quarter of 1951. The bill applies three-fourths of the increase which it imposes to the entire calendar year 1951, and that applies to the first quarter with the same force that it applies to either of the other three quarters.

So when the Senator from Minnesota asks why we would exempt the first quarter and why we would tax the other three quarters, he is asking his question on the basis of a mistaken understanding of what the facts are, because the increased rates apply to the first quarter of 1951 with the same force that they apply to the other three quarters of 1951.

Mr. HUMPHREY. Mr. President, will the Senator from Wyoming yield to me, so that I may reply to the Senator from Oklahoma?

Mr. O'MAHONEY. Mr. President, if the Senator from Minnesota will permit me to do so, I wish to conclude.

Mr. HUMPHREY. I shall be very brief.

Mr. O'MAHONEY. All the Senators sitting around me have had their lunch, but I have been talking without having had my lunch.

Mr. HUMPHREY. I shall take less than a minute, if the Senator from Wyoming will yield to me.

Mr. O'MAHONEY. I yield.

Mr. HUMPHREY. I should like to read from the report of the Finance Committee, Report No. 781, United States Senate, Eighty-second Congress, first session, page 12, at the bottom of the page, beginning with the sixth line from the bottom. I shall read this portion of the report; and let me say that one of the things which I feel sure I can do in connection with this bill and the debate on it is to read what appears in print:

The normal tax and surtax rate changes provided by your committee's bill are effective as of April 1, 1951, and are to terminate as of December 31, 1953. The House bill sets January 1, 1951, as the effective date but has no termination provision.

That is what the committee report says.

On the other hand, based on the argument made by the Senator from Okla-

homa, let me say that if the increased rates are to be applied on a three-quarter basis over the entire year, that still will not give to the first quarter the treatment it should have on the basis of the high corporate income during the first quarter.

The Senator from Oklahoma will have to prove to me that this portion of the committee report is a misprint.

Mr. KERR. All the Senator from Minnesota needs to do is read the report, and I shall address myself to it when I have a chance to take the floor.

Mr. O'MAHONEY. I thank the Senator from Oklahoma.

Now, Mr. President, let me conclude by asking unanimous consent to have printed at this point in the RECORD a table from which I was reading a moment ago, showing profits compared with other components of the national income for the years 1940 and 1949 and the first half of the year 1951.

There being no objection, the table was ordered to be printed in the RECORD, as follows:

Profits compared with other components of national income—increase in gross national product and selected components from 1940 and 1949 to first half of 1951¹

	1940	1949	First half 1951	Percent increase first half 1951 over 1940	Percent increase first half 1951 over 1949
	Bil. dol.	Bil. dol.	Bil. dol.		
Gross national product.....	101.4	257.3	323.8	219	26
National income.....	81.3	216.7	273.6	237	26
Salaries and wages.....	51.8	139.9	174.6	237	25
Profits before taxes.....	9.3	28.3	50.2	440	77
Profits after taxes.....	6.4	17.3	22.6	253	31

¹ Partial estimate by Council of Economic Advisers.

Mr. O'MAHONEY. Mr. President, let me say now that the Finance Committee and the Treasury Department are agreed upon one thing, namely, the amount of Government expenditures which are likely to be made during the fiscal year 1952. Both committees estimate these expenditures at \$62,400,000,000.

Mr. GEORGE. Mr. President, may I correct the Senator from Wyoming?

The PRESIDING OFFICER. Does the Senator from Wyoming yield to the Senator from Georgia?

Mr. O'MAHONEY. Yes, indeed.

Mr. GEORGE. The Finance Committee never undertakes to estimate the expenditures of the Government. The Finance Committee takes the estimated expenditures as submitted by the Government, because heaven only knows and we do not know what the administration is going to spend. I simply wish to correct the Senator on that point.

Mr. O'MAHONEY. I shall accept the Senator's statement, as always, when he tells me that he accepts the estimates of the Treasury Department in regard to what the expenditures may be.

Mr. GEORGE. That is true.

Mr. O'MAHONEY. But, of course, I say to the Senator from Georgia that no one knows what the Congress of the United States may appropriate for expenditure, and no one knows what the Congress of the United States may impose as taxation in order to increase the revenue of the Government. So we have the expenditure estimate accepted all along the line as \$68,400,000,000.

Mr. THYE. Mr. President, will the Senator from Wyoming yield to me, to permit me to propose a unanimous-consent agreement?

Mr. O'MAHONEY. Mr. President, if the Senator from Minnesota will permit me to do so, I desire to conclude, and I shall do so in a few moments; and then the Senator from Minnesota can obtain the floor.

Mr. THYE. I am listening to the Senator from Wyoming, and I shall wait.

Mr. O'MAHONEY. If the Senator from Minnesota will pardon me, and will let me conclude, I shall appreciate it.

Mr. THYE. Certainly.

SENATE BILL PRODUCES GREATER DEFICIT THAN HOUSE BILL

Mr. O'MAHONEY. The estimate of the Treasury Department was that under the present law the receipts would be \$58,500,000,000, and that there would be incurred a deficit of \$9,900,000,000. Under the House bill the Treasury staff estimates that the receipts will be increased to \$62,300,000,000 leaving a deficit, not of \$9,900,000,000 but of \$6,100,000,000.

The Treasury's estimate is that under the Senate bill, with expenditures the same, \$68,400,000,000, the receipts will be reduced to \$60,800,000,000, leaving a deficit of \$7,600,000,000.

Therefore, it is clear that from the Treasury estimate this Senate bill with its relief provisions will result in a deficit of \$1,500,000,000 more than the House bill.

The Finance Committee estimates that upon the basis of the expenditure of \$68,400,000,000 and receipts under the House bill of \$65,800,000,000, the deficit would be \$2,600,000,000. As in the case of the Senate bill, it acknowledges in its estimate that the receipts will be reduced from \$65,800,000,000, as estimated by its own staff, to \$63,600,000,000, thus producing a deficit of \$4,800,000,000, or an increased deficit of \$2,200,000,000.

Mr. President, it seems to me that that in itself, in the words of the committee, acknowledges that this tax bill will result in a deficit, a greater deficit than under the House bill. For that reason I am firm in the conviction that the Senate should reject the excess-profits tax relief provisions, which, according to the testimony before the Finance Committee, will cut \$120,000,000 from the bill.

Mr. President, I ask unanimous consent that this table from which I have been reading may be printed at this point in the RECORD.

The PRESIDING OFFICER. Is there objection?

There being no objection, the table was ordered to be printed in the RECORD, as follows:

Estimates of revenue receipts fiscal year 1952
(Billions of dollars)

Item	Treas- ury De- partment	Finance Commit- tee
Present law:		
Expenditures ¹	68.4	68.4
Receipts.....	68.5	60.9
Deficit.....	9.9	7.5
House bill:		
Expenditures ¹	68.4	68.4
Receipts.....	62.3	65.8
Deficit.....	6.1	2.6
Senate bill:		
Expenditures ¹	68.4	68.4
Receipts.....	60.8	63.6
Deficit.....	7.6	4.8

¹ Estimated by the Bureau of the Budget.

² Finance Committee Report, p. 1, 63.6 minus 2.7 (Figure of 64.7 was error in printing; Joint Committee on Internal Revenue Staff says figure should have been 63.6)

³ Informally provided by Tax Advisory Staff, Treasury Department, over the telephone; not official estimates of the Secretary of the Treasury. He has announced no official estimates.

⁴ Finance Committee's estimate of 60.9, present law, plus 4.9, p. 2, Finance Committee Report, table 1, column 2.

Source: Staff, Joint Committee on the Economic Report; Sept. 20, 1951.

Mr. O'MAHONEY. I yield the floor.

MESSAGES FROM THE PRESIDENT

Messages in writing from the President of the United States submitting nominations were communicated to the Senate by Mr. Miller, one of his secretaries.

MESSAGE FROM THE HOUSE

A message from the House of Representatives, by Mr. Maurer, one of its reading clerks, announced that the House had passed the following bills of the Senate, each with amendments, in which it requested the concurrence of the Senate:

S. 657. An act to amend and clarify the District of Columbia Teachers' Leave Act of 1949, and for other purposes; and

S. 845. An act to amend the District of Columbia Teachers' Salary Act of 1947.

The message also announced that the House had agreed to the concurrent resolution (S. Con. Res. 48) providing for the recall from the President and the re-enrollment of Senate bill 1786 for the relief of certain officers and employees of the Foreign Service of the United States.

The message further announced that the House had passed the following bills, in which it requested the concurrence of the Senate:

H. R. 3860. An act to amend the act for the retirement of public-school teachers in the District of Columbia;

H. R. 4419. An act to amend the District of Columbia Teachers' Salary Act of 1947;

H. R. 4703. An act to provide that the Board of Education of the District of Columbia shall have sole authority to regulate the vacation periods and annual leave of absence of certain school officers and employees of the Board of Education of the District of Columbia;

H. R. 4859. An act to provide for granting to officers and members of the Metropolitan Police force, the Fire Department of the

District of Columbia, and the White House and United States Park Police forces additional compensation for working on holidays;

H. R. 5235. An act to authorize and direct the Commissioners of the District of Columbia to make such studies and investigations deemed necessary concerning the location and construction of a bridge over the Potomac River, and for other purposes;

H. R. 5256. An act to secure the attendance of witnesses from without the District of Columbia in criminal proceedings; and

H. R. 5329. An act to increase the salaries of the Metropolitan Police, the United States Park Police, the White House Police, members of the Fire Department of the District of Columbia, and employees of the Board of Education of the District of Columbia.

ENROLLED BILL SIGNED

The message also announced that the Speaker had affixed his signature to the enrolled bill (S. 810) for the relief of Howard I. Smith, and it was signed by the Vice President.

HOUSE BILLS REFERRED

The following bills were severally read twice by their titles, and referred to the Committee on the District of Columbia:

H. R. 3860. An act to amend the act for the retirement of public-school teachers in the District of Columbia;

H. R. 4419. An act to amend the District of Columbia Teachers' Salary Act of 1947;

H. R. 4703. An act to provide that the Board of Education of the District of Columbia shall have sole authority to regulate the vacation periods and annual leave of absence of certain school officers and employees of the Board of Education of the District of Columbia;

H. R. 5235. An act to authorize and direct the Commissioners of the District of Columbia to make such studies and investigations deemed necessary concerning the location and construction of a bridge over the Potomac River, and for other purposes;

H. R. 5256. A bill to secure the attendance of witnesses from without the District of Columbia in criminal proceedings; and

H. R. 5329. An act to increase the salaries of the Metropolitan Police, the United States Park Police, the White House Police, members of the Fire Department of the District of Columbia, and employees of the Board of Education of the District of Columbia.

ENROLLED BILL PRESENTED

The Secretary of the Senate reported that on today, September 25, 1951, he presented to the President of the United States the enrolled bill (S. 810) for the relief of Howard I. Smith.

THE DEFENSE SAVINGS BOND DRIVE— PAROWAN, UTAH, FIRST CITY IN UNITED STATES TO BE 100 PERCENT SUBSCRIBED

Mr. BENNETT. Mr. President, at this time I rise to bring to the attention of the Senate the wonderful job being done by the people of America in supporting their country in the huge savings bond drive now going on throughout the United States. The national drive began last September 3 and is being given substantial support by Americans everywhere.

It is not surprising that the people of America, and the people of Utah, particularly, support their country in times of need. However, I feel that the performance of some of the people in my State is worthy of considerable commendation. As encouragement to the

people of America in general, I desire to briefly bring to the attention of the Senate a few of the facts surrounding the current bond drive which was launched in the communities of Utah as recently as September 17.

Mr. Thomas L. Husselton, Director of National Organizations, United States savings bonds, has advised me this morning that the city of Parowan is the first city in the United States to be 100 percent subscribed to the bond drive. This city has a population of approximately 1,500 people. It normally would not be reached by organized promoters of the Treasury Department program. However, the tremendous community spirit of its citizens has resulted in every employer in the city setting up a bond-subscription program and every employee subscribing for some bond purchases through his employer. This is a record that has not yet been equaled by any other town in America, regardless of size and prominence.

Mr. President, I ask that the remainder of my remarks may be printed following this statement, in the body of the RECORD.

The PRESIDING OFFICER. Is there objection?

There being no objection, the remainder of Mr. BENNETT's statement was ordered to be printed in the RECORD, as follows:

Another illustration of the patriotism of the people of Utah and of the people of America is the almost unbelievable response of the people of Panguitch, in Garfield County, Utah, and of Monroe in Sevier County, Utah. At the outset of the bond drive in Utah, Nelson Aldrich, chairman of the community activities group of the State savings bond drive, offered a plaque to the first community with 80 percent employers subscribed to savings bonds plans—80 percent employers subscriptions is basis for being declared a so-called "flag city." The Utah drive got underway 8 a. m. on September 17. Before 8:05 a. m. the local representatives of Monroe and Panguitch were in a tie effort to reach the State headquarters by telephone to report their attainment of "flag" qualifications and to claim the right to the coveted plaque. Because of the tie Mr. Aldrich has decided to award each of the cities a plaque.

Utah has also accredited herself in the bond drive. At the present time it leads the entire Nation, regardless of population variance, in the number of flag cities. At the present time 14 cities have received flag awards and 4 others have submitted qualifying data and await only official notice. The 14 Utah cities with flag awards are: Richmond, Wellsville, Centerville, Farmington, Huntington, Panguitch, Parowan, Morgan, Monroe, Garfield, Helper, Bountiful, Toccole, and Moroni.

Mr. President, I think substantial credit is due to Mr. Charles Smith, of Salt Lake City, Utah, State chairman in this bond drive. Tremendous impetus has been given to the community activities drive, by Nelson Aldrich, who heads the drive, and to Sheldon Olds, who is chairman of the Iron County committee, the county in which Parowan is located, and to Mayor E. Ray Lyman, of Parowan. But the most significant thing about their work is that they have accomplished a unity of purpose among the people of Utah and inflamed in them the desire to contribute to the needs of their country in time of emergency.

One most noteworthy fact about this entire matter, Mr. President, is the performance

by those people who are feeling the impact of the Korean war most vitally, the wives and families of our Utah servicemen who are in combat in Korea. The Parowan chairman is Mrs. Max Dalley, wife of the operations officer of the Two Hundred and Thirteenth Armored Field Artillery Battalion, which has served with unexcelled distinction in Korea the past 6 months. She spearheaded this drive in the home communities of this National Guard battalion. Despite hardships and privations caused by the absence of their loved ones, these people have supported their men overseas by their sponsorship and contributions in this bond drive. No finer American spirit could be shown than that now being displayed by these people.

I want to quote a brief portion from a letter which has been received in my office from one of the officers of the Two Hundred and Thirteenth Armored Field Artillery to illustrate what our Utah men are doing while receiving such unqualified support from home. This officer wrote:

"On April 23 the Sixth ROK Division left us and we pulled out, under orders, and intact, making an 8-mile withdrawal to Kap-yong and for the next 5 days made rear-guard actions down the Pukhan River. Then on May 27 we led the offense back into the same area on task forces and during the early morning hours became involved in a perimeter fight against an estimated 4,000 Chinese which ended up by noon with our battalion taking 831 prisoners. This is more prisoners than some of the American divisions have taken in the Korean campaign."

Mr. President, I suggest that that action and other comparable activity reflects credit on the approximately 600 men in the Two Hundred and Thirteenth Armored Field Artillery Battalion of the Utah National Guard. I am sure that the members of the Two Hundred and Fourth Field Artillery Battalion of the Utah National Guard have acquitted themselves in Korea with comparable credit. I think that the action of their wives and loved ones at home, in Utah, in sponsoring this bond drive and contributing unqualifiedly to it reflects the finest kind of support that they could give these fine men. Mr. President, I submit that the support to the bond drive being given by the people of Utah, in the 14 flag cities and others likely to become flag cities, is indicative of a spirit of unity and patriotism on the grass-root level. This is the spirit that makes America strong.

REVENUE ACT OF 1951

The Senate resumed the consideration of the bill (H. R. 4473) to provide revenue, and for other purposes.

Mr. O'MAHONEY. Mr. President, the pending question is on agreeing to the committee amendment entitled "Title V—Excess Profits Tax." This morning the question was decided by the Chair, namely, that title V is now before the Senate for adoption or for rejection. I have asked for its rejection, and upon this question I now ask for the yeas and nays.

The PRESIDING OFFICER. The question is on agreeing to the committee amendment with reference to the excess-profits tax. The Senator from Wyoming asks for the yeas and nays. The yeas and nays were ordered.

Mr. O'MAHONEY. I suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The Chief Clerk called the roll, and the following Senators answered to their names:

Alken	Hendrickson	McMahon
Bennett	Hennings	Millikin
Benton	Hickenlooper	Monroney
Brewster	Hill	Moody
Bricker	Hoey	Morse
Butler, Md.	Holland	Mundt
Butler, Nebr.	Humphrey	Murray
Byrd	Hunt	Neely
Cain	Ives	Nixon
Capehart	Jenner	O'Connor
Carlson	Johnson, Colo.	O'Mahoney
Case	Johnson, Tex.	Pastore
Clements	Johnston, S. C.	Robertson
Connally	Kem	Russell
Cordon	Kerr	Saltonstall
Dirksen	Kilgore	Schoeppel
Douglas	Knowland	Smathers
Duff	Langer	Smith, Maine
Dworshak	Lehman	Smith, N. J.
Eastland	Lodge	Smith, N. C.
Eaton	Long	Sparkman
Ellender	Magnuson	Stennis
Ferguson	Malone	Taft
Flanders	Martin	Thye
Frear	Maybank	Underwood
Fulbright	McCarran	Watkins
George	McCarthy	Weiker
Gillette	McClellan	Wiley
Green	McFarland	Williams
Hayden	McKellar	Young

The PRESIDING OFFICER (Mr. Moody in the chair). A quorum is present. The clerk will call the roll.

The Chief Clerk proceeded to call the roll.

Mr. BENTON (when his name was called). Here. A parliamentary inquiry. Is this a vote on the committee amendment?

Mr. O'MAHONEY. Mr. President—

Mr. KERR. Mr. President—

The PRESIDING OFFICER. The question is on agreeing to the committee amendment.

Mr. BENTON. "Yea."

Mr. O'MAHONEY. I desire to make a parliamentary inquiry.

The PRESIDING OFFICER. The Senator will state it.

Mr. O'MAHONEY. First, has a quorum been called?

The PRESIDING OFFICER. Yes. A quorum is present.

Mr. O'MAHONEY. A quorum is present. Then I desire to ask the Chair to state the question.

The PRESIDING OFFICER. The question is on agreeing to the committee amendment inserting title V on pages 288 to 331.

Mr. O'MAHONEY. Mr. President, I desire to state that the committee amendment which is under discussion now is under title V, granting certain relief from the excess-profits tax. I have asked for the rejection of that amendment and have presented what I believed to be sufficient argument to sustain the rejection of the amendment, and I shall vote "nay."

The PRESIDING OFFICER. The clerk will proceed with the call of the roll.

The legislative clerk called Mr. BREWSTER's name.

Mr. KERR. Mr. President, a point of order.

The PRESIDING OFFICER. The Senator from Oklahoma. The Chair is

informed by the Parliamentarian that the roll call cannot be interrupted.

Mr. KERR. I ask unanimous consent to make a point of order, Mr. President.

The PRESIDING OFFICER. Is there objection?

Mr. SALTONSTALL. Reserving the right to object, I should like to inquire whether any Senator has yet answered to his name on the call of roll.

The PRESIDING OFFICER. There has been a response to the roll call.

Mr. SALTONSTALL. There has been a response to the roll call?

Mr. McFARLAND. I believe the Senator from Oklahoma was on his feet trying to get recognition at the time the response was made.

The PRESIDING OFFICER. Is there objection to the request of the Senator from Oklahoma?

Mr. HUMPHREY. Reserving the right to object—

The PRESIDING OFFICER. The Senator from Minnesota.

Mr. HUMPHREY. I want to find out from the Chair: Has any Senator answered the roll call?

The PRESIDING OFFICER. The Senator from Connecticut answered the roll call.

Mr. KERR. A point of order, Mr. President.

The PRESIDING OFFICER. The Senator will state it.

Mr. KERR. I heard the Senator from Connecticut say "here" in response to what he thought was a quorum call. I was standing by him when he did it.

The PRESIDING OFFICER. Is there objection to allowing the Senator from Oklahoma to make a statement?

Mr. SALTONSTALL. Reserving the right to object; if the clerk's record shows that a Senator's name has been called and he has voted either "yea" or "nay," then I must respectfully object.

Mr. TAFT. Mr. President, I did not hear the Chair say "A quorum is present. The clerk will call the roll." Those words may have been said, but I was sitting here listening, and I heard no such statement.

The PRESIDING OFFICER. The Chair did so state.

Mr. STENNIS. Mr. President, a point of order.

Mr. O'MAHONEY. Mr. President, I want to make this statement. When the—

The PRESIDING OFFICER. The Senator from Wyoming.

Mr. O'MAHONEY. The roll call has not been started.

Mr. STENNIS. Mr. President, a point of order.

Mr. McFARLAND. Mr. President, a point of order.

Mr. O'MAHONEY. Mr. President, I ask unanimous consent that the Senator from Oklahoma may make an argument in response to the argument I made this morning.

The PRESIDING OFFICER. Is there objection to the request of the Senator from Wyoming? Hearing none, it is so ordered.

Mr. McFARLAND. Wait a minute. A parliamentary inquiry. I heard the Senator from Connecticut answer "here." He did not answer "yea" nor "nay." So not any Senator has voted on this amendment.

Mr. HUMPHREY. Mr. President—

Mr. BENTON. Mr. President, when I was corrected and informed it was a vote on the committee amendment, instead of a quorum call, then I answered. I voted "yea" in response—

Mr. McFARLAND. The Senator from Oklahoma was trying to get the floor at the time, and was entitled to the floor to speak. Debate cannot be cut off when a Senator is on his feet trying to get recognition.

The PRESIDING OFFICER. Is there objection to the Senator from Oklahoma making a statement?

Mr. HICKENLOOPER. Mr. President, a parliamentary inquiry.

The PRESIDING OFFICER. The Senator will state it.

Mr. HICKENLOOPER. Does that mean that any other Senator who wishes to make a statement cannot make a statement?

The PRESIDING OFFICER. I think the situation can be straightened out if unanimous consent were granted to withdraw the roll call.

Mr. McFARLAND. Am I not correct in saying that the Senator from Oklahoma was addressing the Chair when the Senator from Connecticut voted?

The PRESIDING OFFICER. The Chair did not see him. He could have been.

Mr. BENTON. That was my impression about it.

Mr. McFARLAND. There can be no question about it. The Senator from Oklahoma was addressing the Chair at the time the Senator from Connecticut voted.

Mr. HUMPHREY. Mr. President—

Mr. McFARLAND. Mr. President, I ask unanimous consent that the vote be vacated.

Mr. HUMPHREY. Mr. President—

The PRESIDING OFFICER. If the Senator from Oklahoma will make the statement that he was addressing the Chair at the time, the roll call will be vitiated.

Mr. KERR. Mr. President, the Senator from Oklahoma was seeking recognition at the time the Senator from Connecticut said "here" in response to his name.

The PRESIDING OFFICER. Under the precedents the roll call will be vacated. The Senator from Oklahoma is recognized.

Mr. HUMPHREY. Mr. President, will the Senator from Oklahoma yield to me?

Mr. KERR. I yield to the Senator for a question.

Mr. HUMPHREY. I merely wish to state that the Senator from Oklahoma is absolutely correct. I was standing alongside him at the time he addressed the Chair, when the Senator from Connecticut was wondering whether it was a roll call or a quorum call. The Senator is absolutely correct in his statement.

Mr. KERR. The Senator is eminently correct. The Senator from Oklahoma wishes to make a few very brief remarks.

The Senator from Wyoming [Mr. O'MAHONEY] made a very brilliant, comprehensive, and effective presentation of his viewpoint, to the effect that title V of the bill as reported by the committee should not be agreed to. However, I invite the attention of Senators to the fact that repeatedly in his speech he said that the Senate should not adopt title V, because the Finance Committee had not had time to give due consideration to the relief measures which it reported. I wish to say that the Finance Committee was in session not only for days, not for weeks only, but for months.

Mr. O'MAHONEY. Mr. President, will the Senator yield?

Mr. KERR. I yield.

Mr. O'MAHONEY. I am sure the Senator will recall that my statement was not that the Finance Committee did not devote time to this bill. My statement has been that the Treasury Department has not yet completed the study upon which it is engaged, to determine what the results have been of the excess profits tax law which was enacted only on the 3d of January last, and therefore that the relief provisions reported by the Finance Committee are premature.

I make no criticism of the committee. On the contrary, I think the committee has labored very hard with a most complex problem. But I say that the presentation of relief measures now, before we have had the benefit of the Treasury's study, is altogether premature, particularly when the Senate Finance Committee says that these amendments would cut the revenue of the United States by \$120,000,000.

Mr. KERR. I thank the Senator for his remarks. In reply, let me say that the argument that the Treasury has not had time to make its study with reference to relief provisions under this bill is equally applicable to the fact that the Treasury itself did not ask for any increase in the excess-profits-tax bill. The Senate Finance Committee was not confronted with a theory, but with a fact. The House had made drastic increases and sweeping changes with reference to the excess-profits tax.

Mr. O'MAHONEY. Mr. President, will the Senator yield?

Mr. KERR. I shall be glad to yield in a moment. The action of the House differed from that which had been enacted by the Congress in the preceding year, and the Senate Finance Committee was confronted with the alternative either of accepting what the House did or merely deleting it, or, on its own—which is in accord with both its responsibility, and its duty, as well as its privilege—making a study upon which it could feel justified in reporting to the Senate certain corrective amendments and changes which it might feel were not only justified, but mandatory, in order that the tax structure might not be punitive, might not be solely for the purpose of penalizing, but in order that

it might be on the basis of that which would equitably, justly, and appropriately bring in as much revenue as possible without at the same time destroying those who produce it.

I now yield to the Senator from Wyoming for a question.

Mr. O'MAHONEY. Is not the Senator aware that the question before the Senate at the moment does not include the action of the Finance Committee in striking out what the House did about excess profits taxes?

Mr. KERR. Certainly the Senator from Oklahoma is aware of that.

Mr. O'MAHONEY. All questions about the House action are irrelevant to the pending issue, which is merely whether or not the Senate shall approve the reduction of \$120,000,000 by way of relief from the excess-profits tax contained in title V.

Mr. KERR. It is not at all irrelevant, because the distinguished Senator from Wyoming himself, at the beginning of his remarks, said that in view of the close relationship between the question of retaining title V on the one hand, and the question of striking the provisions written by the House—as was done by the committee—on the other hand, the two subjects should be considered together. It was only on the objection of the chairman of the committee that they were not considered together.

Mr. O'MAHONEY. Mr. President, will the Senator yield for a question?

Mr. KERR. I yield for a question.

Mr. O'MAHONEY. The Senator will recall, I am sure, that when I rose this morning I propounded a parliamentary inquiry, introducing it with the statement that because of my appreciation of the deep and arduous labors of the committee and of its members I would like to expedite action and therefore wanted to know whether we could vote en bloc upon the two amendments. It was decided that we should not vote en bloc, and that we should confine ourselves to title V; and I am sure the Senator will recall that thereafter throughout the discussion I did confine myself to the relief provisions.

Mr. KERR. The Senator is entirely correct; but that does not change the conclusion stated by the Senator from Oklahoma, that the same argument with reference to the lack of ability on the part of the Treasury to make the study which the Senator from Wyoming indicates it desires to make, and needs to make before being prepared to do that which it wishes to do with reference to recommending changes, is applicable to the fact that the Treasury itself has not sought during this session to increase the burden of the excess profits tax. It was only when the House did so that the Senate Finance Committee, in accordance with its responsibility, went into the question for months and listened to the cases and to the arguments of those who were adversely affected and in many cases were faced with destruction if relief provisions were not formulated and written into the bill. On that basis it was done; and

I certainly hope that the Senate will support the recommendation of its committee in this regard.

Mr. TAFT. Mr. President, will the Senator yield?

Mr. KERR. I yield.

Mr. TAFT. Is it not also true that under the excess-profits tax of the World War there was a general relief provision, which we refer to as section 722—I think not quite accurately? Under that provision a board was set up to consider various cases of hardship brought about by the excess-profits tax, because it was recognized that we could not enact an excess-profits tax without many cases of hardship.

Mr. KERR. The Senator is entirely correct.

Mr. TAFT. Is it not true that it was on the request of the Treasury last year that we put no such provision in the law? The Treasury itself said, "We think it ought to be dealt with by statute." In the last year there were two or three general relief provisions.

The extension of further relief provisions is in entire accord with the general theory of the Treasury. To a certain extent our committee sat as a section 722 board. In other words, since it opposed the creation of a separate board to consider relief cases, the committee had to consider relief cases itself. Therefore, the particular relief provisions in the bill are special provisions recognizing certain definite inequities, pointed out to us by clear evidence in one case after another, in order to afford the same kind of relief which was afforded under section 722 in the World War Tax Act.

Mr. KERR. The Senator from Ohio is entirely correct. The committee was further convinced, on the basis of its own deliberations, as well as on the basis of the recommendations of the Treasury, first, that there was needed a provision embodying the principle enunciated in section 722, but that it would be far wiser to approach it on the basis of definite legislation in every instance possible, instead of again reenacting section 722 which was written in a previous statute and which had been found both by the Treasury and the taxpayers to be very cumbersome and almost unworkable.

One of the points to which I should like to invite the Senate's attention is the provision in these amendments with reference to new business and small business. The committee held long hours of hearings on the cases of small business and new business which did not have an experience during the base period and which would not be benefited by it if it did. Much of the language which the Senator from Wyoming seeks to strike from the bill is that which is aimed directly and solely toward benefiting small business and new business, which was not even in operation during the base period.

I repeat, Mr. President, that it would be tragic if this title were stricken from the bill.

Mr. GEORGE. The Senator from Wyoming has left the Chamber, but I am willing to give unanimous consent.

after only a 10- or 15-minute statement, to vote on this particular amendment and his amendment to strike out a subsequent section of the bill. If we can have an agreement for a vote on the amendment without further debate, I shall be very glad to have that done.

Mr. MILLIKIN. Mr. President, I did not quite hear the proposal of the distinguished Senator from Georgia.

Mr. GEORGE. I said that I would be willing to join in a unanimous-consent agreement, if we can get it, to vote upon the motion to strike out all of title V, and also the motion which the Senator from Wyoming said he wished to include in it, to disagree to title VI, which deals with the base period of 75 percent as against 85 percent. I said I would be willing to vote on both the proposals if I could have 10 or 15 minutes to speak on them, or if any other member of the committee could have that time to discuss them.

Mr. MILLIKIN. I should like to have 4 or 5 minutes.

Mr. GEORGE. I should be glad to give the Senator from Colorado the entire time. If we could get that kind of agreement, I should be very glad to enter into it.

Mr. O'MAHONEY. Mr. President, if I may respond—

Mr. GEORGE. If we could have 15 minutes to respond to the Senator from Wyoming, I should be glad to vote on both title V and the subsequent title.

Mr. O'MAHONEY. Since I made the proposal this morning to vote upon these amendments en bloc—and it was rejected by the Senator—I find that there are numerous Members of the Senate who feel that different amendment of the committee fall into different categories, and they would prefer to split title V.

The Senator from Georgia said that one of the amendments effected no result at all, and that some Senators may wish to offer an amendment to it. So I shall not consent to a unanimous-consent agreement for such a vote until I have had an opportunity to consult other Senators who are in general agreement with the position which I have taken. If the Senator from Georgia will defer his request for a little while, perhaps we can come to an understanding, but at the moment it would be impossible for me to agree to such a request. I was merely endeavoring to expedite the action of the Senate.

Mr. GEORGE. I was only saying that I would be willing to join in such an agreement, if the Senator wished it. I am still willing to do so. I do not know how long the Senator would want to enable him to ascertain whether other Senators wished to speak on the amendment.

Mr. O'MAHONEY. Title V comes from the committee containing sections 501, 502, 503, 504, 505, 506, 507, 508, 509, 510, 511, 512, 513, 514, 515, 516, 517, 519, 520, and also 521, which is merely the effective date section. The committee recommends section 518, which is an amendment to provide for the consolidation of newspapers. The Senator from Georgia has said that that section really accom-

plishes nothing. I should be very glad indeed to have section 518 presented now for a vote.

Mr. GEORGE. The Senator's motion to strike out the whole of title V is what I had reference to. I am willing to vote on that. I only ask for about 10 or 15 minutes to reply to the Senator from Wyoming.

Mr. O'MAHONEY. I believe the Senator from Georgia misstates the parliamentary situation. The Senator from Wyoming has made no motion. Under the agreement which, on the request of the Senator from Georgia, was entered when the bill was first taken up for consideration it was provided that the committee amendments should be agreed to en bloc, with the proviso that upon the request of any Senator any amendment could be considered de novo. That parliamentary status was clearly indicated this morning. I shall be completely frank with the Senator from Georgia. Since the conclusion of the argument some Members of the Senate have stated to me that they would like to support some of the committee amendments and oppose other committee amendments.

Mr. CASE. Mr. President, a parliamentary inquiry.

The PRESIDING OFFICER (Mr. UNDERWOOD in the chair). Does the Senator from Georgia yield for that purpose?

Mr. CASE. Mr. President, will the Senator from Georgia yield to permit me to propound a parliamentary inquiry?

Mr. GEORGE. I yield, so far as I am concerned.

The PRESIDING OFFICER. The Senator from South Dakota will state the parliamentary inquiry.

Mr. CASE. Has not an order already been entered for a yea-and-nay vote on a certain amendment or motion; and if so, what is the amendment or motion?

Mr. GEORGE. Mr. President, my information is that that occurred while I left the Chamber for lunch.

I wish to speak for not more than 10 or 15 minutes. If what the Senator from South Dakota has suggested is true, of course the amendment cannot be altered or changed, under the rule.

The PRESIDING OFFICER. The ordering of the yeas and nays on an amendment does not preclude—

Mr. KERR. Mr. President, will the Chair speak a little louder, please?

The PRESIDING OFFICER. The Chair is informed by the Parliamentarian that the ordering of the yeas and nays on an amendment does not preclude the offering of a perfecting amendment to it, which would take precedence over the original amendment and over the order for the call of the yeas and nays.

Mr. GEORGE. Mr. President, I am not offering a perfecting amendment. I am accepting the amendment as offered; and the yeas and nays have been ordered on it, as I understand. I would simply like to have a short time in which to argue and debate it.

Mr. O'MAHONEY. Mr. President, I have not submitted an amendment. The only amendments before this body

now are the amendments reported by the Finance Committee; and under the agreement entered on request of the chairman of the Finance Committee, which he presented to the Senate in his own words, those amendments were adopted en bloc on the day the Senator from Georgia made his statement on the bill, and then they were open—in his own words—to being considered de novo upon the request of any Senator.

The parliamentary ruling of the Chair now is, I think, entirely correct, namely, that a perfecting amendment is in order at any time. If the Senator from Georgia wants me to offer a perfecting amendment, I shall offer an amendment, but not at the moment.

Mr. KERR. Mr. President, will the Senator from Wyoming yield for a question?

Mr. O'MAHONEY. I ask the Senator to wait a moment, please.

Under the parliamentary ruling of the Chair, it would be possible for me to offer a perfecting amendment to the committee amendment, by striking out section 518, and I shall be prepared to do so if I cannot arrive at an understanding with the Members of the Senate, so that we may proceed in an orderly manner.

My attempt all during today has been to conserve the time of the Senate, and particularly the time of the members of the committee.

Mr. KERR. Mr. President, will the Senator from Wyoming yield for a question?

Mr. GEORGE. Mr. President, the motion by the distinguished Senator from Wyoming was to strike out all of title V. I am offering no amendment; I merely wish to be heard on that motion.

Mr. O'MAHONEY. Mr. President, I offered no such motion. I requested the Senate to reject the amendment of the committee.

Mr. President, I move a perfecting amendment: to strike out the—

Mr. KERR. Mr. President, will the Senator from Wyoming yield for a question?

The PRESIDING OFFICER (Mr. Moody in the chair). Does the Senator from Wyoming yield to the Senator from Oklahoma?

Mr. O'MAHONEY. Yes, I yield.

Mr. KERR. Did the Senator from Wyoming request the yeas and nays a few moments ago?

Mr. O'MAHONEY. Yes.

Mr. KERR. On what question did the Senator request the yeas and nays?

Mr. O'MAHONEY. On the question of rejecting the entire committee amendment.

Mr. KERR. On the question of rejecting title V?

Mr. O'MAHONEY. Exactly.

Mr. KERR. That is the way I understood it.

Mr. O'MAHONEY. Yes; and the Chair has just ruled that title V is open to perfecting amendments.

Mr. GEORGE. Mr. President, I may say to the distinguished Senator from Wyoming that I do not want to sponsor

a bill which he will perfect. I have not asked him to perfect it. His purpose is not to perfect; it is to scuttle.

Mr. O'MAHONEY. Oh, Mr. President—

Mr. GEORGE. Mr. President, I have the floor.

Mr. O'MAHONEY. Very well.

Mr. GEORGE. Mr. President, the motion of the Senator from Wyoming is of course entirely out of order. The motion was to strike out the whole title V. I suggested specific amendments. The Senator from Wyoming insisted on the motion to strike out all of title V. Under the ruling of the Chair, that motion was presented, and it has been under debate. On that motion a yeas-and-nays vote has been ordered. Now the distinguished Senator from Wyoming, who made the motion, himself wishes to submit a perfecting amendment. Perfecting what, Mr. President? Perfecting what has already been moved to be stricken out entirely.

Mr. President, I am quite sure the Chair cannot rule upon that except by merely saying that the motion of the Senator from Wyoming is now out of order.

It might be true that if I wished to submit a perfecting amendment or if some other Senator wished to submit a perfecting amendment before the final vote was taken, we might do so. However, I have no perfecting amendment to submit.

I have not said that the section referred to by the Senator from Wyoming is entirely useless. I have said that in my opinion it did no more than what is already done under general law in connection with the consolidation of the mechanical facilities of printing two newspapers in a given State. However, I wish to speak on this whole question.

I have suggested that if the Senator wished to incorporate in his motion a motion to disagree to what the Senate did on the excess-profits tax with respect to the average earnings base, I would be willing to have the vote taken upon both issues.

I have no desire to stay here all the year and discuss this matter, but there seems to be a desire upon the part of some Senators and there seems to be a wish upon the part of some Senators to prolong the debate and to stay here interminably.

Of course, Mr. President, I know the Senate will not strike all of title V from this bill, because the very first section of title V is the section which undertakes to give relief to all the small, newly formed corporations in the United States, many of which were organized by men who fought in World War II, and who returned to the United States and established businesses after the beginning of the base period fixed in the bill, and who now find that they will be crucified by the excess-profits tax unless they can obtain some relief. They sent representatives to Washington to testify. Personally, I was not able to stay during the entire hearings on the bill; but my colleagues on the committee, the other members of the committee, were kind enough to hear those young men.

There are contained in title V at least three provisions which will be helpful to them. Those provisions will not excuse them entirely, but will be helpful to them. Now, the Senator from Wyoming wishes to strike all of those provisions from this bill.

I know the Senate will not do so. That is the first provision the Senator from Wyoming wishes to have stricken out, without any fair consideration of what we were undertaking to do. I know very well the Senate will not vote to strike it out.

Upon what ground does the Senator from Wyoming propose that it be stricken out? He proposes that it be stricken out on the ground that all corporations might save a little money if these provisions were included. Mr. President, when we undertook to consider an excess-profits-tax bill, and when we passed it, we said positively that we would be obliged to remit, to a subsequent date, certain relief provisions, such as that coming under section 722 of the World War II Act. What did we do? We said, "We will levy the tax from July 1, 1950; we will apply it from July 1, 1950," although we did not pass it until the very end of December 1950. We also said, "But we will expect to give suitable relief to just cases when facts which justify relief in connection with them are presented to us." Now the distinguished Senator from Wyoming is saying that the Treasury has not reported, the Treasury has not submitted its recommendations.

Mr. President, there will be many casualties across the Nation, from the Atlantic to the Pacific, if we do not give the relief now. I myself am unwilling to see these casualties occur, when we know the facts, when we have learned them, although the taxpayers have made no returns to the Treasury, and although the Treasury has not had time to submit a report.

Mr. President, all the provisions of title V were carefully considered by the full committee. Regarding some of them there may have been a dissenting vote or two, but generally speaking the committee agreed upon the relief provisions. These we could agree to without awaiting the day when the carcass of American enterprise would be whitening and bleaching on the plains of insolvency, before the Treasury could make up its mind to make a report. The Treasury does not make the policies of the Government, even when it comes to taxes, though we are glad to have its recommendations.

Mr. President, that leads me to a discussion of the analysis which was offered by the distinguished Senator from Wyoming in his original address to the Senate. I hope I shall not be too severe; I probably shall be severe enough. In his analysis the Senator quoted an official of the Treasury Department, not a policy-making official, but one whose views were presented, as the RECORD will show, as the policy of this Department of Government. I say this with some reluctance, because I have no disposition to be unduly critical of the gentleman who furnished information, after

he was perhaps advised to give information, but I mention the matter because of the facts disclosed by this gentleman's statement. I refer to the statement made by a gentleman whom the distinguished Senator from Wyoming mentioned with respect to the excess-profits-tax amendments contained in the committee bill. The Senator appeared to rest his case on the letter from Mr. Thomas J. Lynch, general counsel of the Treasury Department, which he inserted in the RECORD, along with certain additional material which was attached to Mr. Lynch's letter.

The material attached to Mr. Lynch's letter contains what purports to be a description of 8 of the 21 excess-profits-tax amendments reported by your committee. Only 8 of them are condemned under the critical eye of Mr. Lynch, yet the distinguished Senator from Wyoming, who, along with some of his other very able colleagues, has given long study to these proposals, is proposing to strike out all 21 of the amendments, although Mr. Lynch himself was critical of only 8. There was no explanation as to why only 8 of the amendments were selected to be described by Mr. Lynch and to be by him condemned. The descriptions appear to be clearly slanted in an effort to cast doubt upon the merits of the provisions. While the descriptions avoid giving the reasons why your committee recommended the amendments, they do not entirely avoid comments on the amendments where comments can be made in such a manner as to cast an unfavorable light on your committee's actions. I do not stop to commend that as a praiseworthy attitude upon the part of a public official of this Government; I let it speak for itself.

First, Mr. President, let us take up the provisions relating to radio and television broadcasting. The Senate has heard about that this morning. It is an indisputable fact that the companies which pioneered in television broadcasting during the years 1946 through 1949 suffered heavy losses in these television broadcasting activities. The fact that these losses would be suffered was clearly envisioned by these companies, but they had courage and foresight to see that television broadcasting would eventually become a profitable business. Now that television broadcasting has become profitable, however, these companies find that they not only have no normal earnings credit to apply against their television income for excess profits tax purposes, but even their normal base period income from radio broadcasting and the other businesses in which they engaged during the base period has been reduced below the normal level by the base period television broadcasting losses. That is the simple story.

This problem confronted your committee with an obvious and compelling need for amendment of the excess profits tax. The description attached to Mr. Lynch's letter does not even recognize the existence of this problem. Instead it confines itself to describing the method which your committee worked out in giving television broadcasters an equi-

table base period earnings credit. And the description of your committee's amendment dealing with this problem is inaccurate. The description states that where companies engaged in radio and television broadcasting also derive part of their income from some other business, the corporation is permitted to substitute a rate of return on its broadcasting assets equivalent to that realized in the other business during the base period. In fact, your committee's amendment does not permit any corporation to base its television broadcasting credit on a rate of return determined by any business other than the radio and television business. Under your committee's amendment, a company engaged in some other business would determine its earnings credit for that portion of the business under the general average method and, keeping the other business completely separate, would determine a rate of return only on its radio broadcasting business, applying this ratio rate of return to its radio and television assets. I submit, Mr. President, that this is a fair rule.

The description in Mr. Lynch's letter of section 516 of your committee's bill does not give any indication of the reason for that section, except to the extent that the reason can be inferred from the title of the section, which is, "Transition From War Production and Increase in Peacetime Capacity." In fact, your committee was confronted with the problem of companies which completely disrupted their pattern of peacetime production in order to devote their resources entirely to war-time products during World War II. After the war was over, the problem of reconverting to civilian products and rebuilding markets in the civilian economy, combined with the fact of a tremendous increase in productive capacity which was not reflected in the income of the early base-period years, made the 4-year period of 1946 through 1949 an unfair basis upon which to compute a normal earnings credit. Consequently, the committee worked out a series of extremely restrictive eligibility requirements under which such a company could qualify for one of the benefits of the growth alternative in computing its normal earnings credit.

The material attached by Mr. Lynch's letter contains a description of the amendment under which a company is permitted to substitute its industry rate of return for that of a year where earnings were less than 35 percent of the average of its two best base-period years. Although this description is liberally interspersed with comments on the pending amendment, there is no explanation of the reason why the committee took its action.

I think it is important to point out that, under the present excess-profits tax, a corporation may substitute a figure based in its industry rate of return for its third best year, if it can convince the Bureau of Internal Revenue that the earnings for that year were depressed because of abnormalities. This substitution is permitted even though the actual earnings in that year may have

been much greater than 35 percent of the average of the two best base-period years, and, unlike the committee's amendment, the figure based on the industry rate of return may be substituted under the present law even though it is larger than the actual earnings in the other years. In other words, the provision in the committee's bill is more restrictive than the provisions in the present excess-profits-tax law. The committee amendment is based on the very logical assumption that where earnings are less than 35 percent of normal the taxpayer has obviously suffered an abnormality and should not be required to convince the Bureau of Internal Revenue that this is so.

The material attached to Mr. Lynch's letter also describes section 503 of the committee's bill which permits a fiscal year taxpayer to elect to compute his average earnings credit on the basis of his earnings during 48 months ending with March 31, 1950. This is a reasonable provision in view of the fact that fiscal year taxpayers whose fiscal years end on March 31, 1950, are already entitled, under the present excess-profits-tax law, to use this same 48-month period.

With respect to section 508 of the committee's bill, the material attached to Mr. Lynch's letter merely states that it permits tax-exempt bonds held by dealers to be included in invested capital for the purpose of computing the excess-profits credit. The description does not state that municipal-bond dealers who elect to take this treatment are required to include the interest from these tax-exempt bonds in computing their excess-profits net income. Nor does the description point out that most of the income of these dealers with respect to their tax-exempt bonds is derived from the sale of the bonds, and that this income from the sale of the bonds is already subject to excess-profits tax. In other words, the committee's amendment is designed to correct the situation in which municipal bond dealers were required to pay excess-profits tax on their profits from sale of their ordinary inventories while they were not permitted to treat the amount invested in these inventories as a part of their invested capital.

The material in Mr. Lynch's letter also contains a very brief description of section 517 of your committee's bill which was designed to establish a normal earnings record for a year in which the taxpayer suffered a catastrophe from a fire, storm, explosion, or other similar casualty. The provision merely permits such a taxpayer to assume that his earnings during the year of the catastrophe would have been the same as his earnings in his earlier base-period years if the catastrophe had not occurred. This amendment permits only a very moderate adjustment to take care of these extreme cases. The committee deliberately decided not to permit relief in these cases through a reconstruction based on speculation as to the level which earnings might have attained if the catastrophe had not occurred. In this connection, I should like to answer the allegation of the Senator from Minnesota

[Mr. HUMPHREY] that this provision was proposed to provide relief for the Monsanto Chemical Co. A representative of this company did appear in the hearings, but he asked for relief in the form of a reconstruction of what the earnings on a corporation would have been if the catastrophe had not occurred. As I stated before, the committee decided that relief of this sort would be undesirable, and the automatic relief provision which the committee adopted will not even cover the case of the Monsanto Chemical Co., because that company's earnings during the year of the catastrophe were greater than its earnings during its previous base-period year.

The material in Mr. Lynch's letter contains a cryptic reference to section 511 of the committee's bill, stating that it makes available a relief provision of the present law to certain companies whose changes in products did not take place prior to the end of the base period, as required under present law. In fact, what section 511 of the bill does is to provide that where a company had definitely contracted during the base period to produce a new product and had actually commenced construction of a plant for the production of the new product before June 30, 1950, such a taxpayer would be entitled to treat the new product as having been commenced during the base period. That is all the committee amendment does. Your committee's amendment does not relax the requirement in the present law that the new product must be produced in sufficient quantities within 3 years after the close of the base period to account for 40 percent of the taxpayer's gross income or 33 percent of the taxpayer's net income.

The material attached to Mr. Lynch's letter devotes one paragraph to a description of the extremely complex provisions of section 520 of your committee's bill, which permits a purchasing corporation to use the base period earnings experience of a selling corporation or partnership where substantially all the assets of a business operated by the seller are acquired by the purchaser. Mr. Lynch's description fails to note that this provision is limited to purchases which occurred before December 1, 1950—it is difficult to see how an official's vision would be so restricted that he could not see the pertinent facts of the amendment—and that it is limited to cases where a selling corporation or partnership was completely liquidated so that there is no possibility of a duplication of earnings credits based on the earnings experience of the seller. Mr. Lynch's description is devoted largely to one provision in section 520 which permits the purchasing company to use the earnings experience of the selling company where it purchased all the assets of the selling company and holds a franchise which is substantially identical to the franchise which was held by the selling company. From the attention devoted by Mr. Lynch to this relatively minor provision of section 520, I would infer that he feels there is something wrong with it. Your committee considered this provision very carefully and we reached the obvious conclusion

that where a purchasing company is using the same assets which were used by the selling company and is operating under an identical franchise, the normal earnings of the new purchasing company can be determined by reference to the earnings of the seller who was using the same assets and the same franchise.

I do not know whether or not it is possible to infer, from the fact that Mr. Lynch has written a rather unflattering description of eight of your committee's 21 excess-profits tax amendments, that he is in favor of the remaining 13. In any event, I do not believe it wise to make tax policy depend upon Mr. Lynch's judgment or any one else connected with the Treasury Department.

In conclusion I would again like to emphasize that if this host of amendments which have been presented on this tax bill were to be accepted, it would represent a vote of no confidence in your Finance Committee which has considered practically all of these various proposals at length during its extended public hearings and executive sessions. Mr. President, there has never been a successful tax bill written on the floor of the Senate, and I do not anticipate that there ever will. Tax questions are far too intricate for such casual consideration.

Mr. President, just a word regarding what the distinguished Senator from Wyoming had to say—and I have great admiration for him, although I do not think he has not studied the question of inflation as thoroughly as he should have studied it. Certainly I think I would agree with the distinguished Senator from Wyoming about the danger of inflation; but I wholly disagree with him about his remedy for inflation. His remedy is more and more taxes out of the pockets of the American people. That is not the remedy, Mr. President, at all.

Mr. O'MAHONEY. Mr. President, will the Senator yield?

The PRESIDING OFFICER (Mr. PASTORE in the chair). Does the Senator from Georgia yield to the Senator from Wyoming?

Mr. GEORGE. I yield.

Mr. O'MAHONEY. I am sure the Senator from Georgia must have heard me say that that is only a part of the remedy.

Mr. GEORGE. Yes.

Mr. O'MAHONEY. I am not of the belief that taxes alone can solve the problem of inflation.

Mr. GEORGE. I got that impression, although I do think the Senator made the statement which he said he made; and I do not question it if he says he made it. But, Mr. President, the whole emphasis by this administration has been upon more and more taxes out of the pockets of the taxpayers. I do not hesitate to say it; and I regret it very much. But I am obliged to say it to the American people, although I believe they know it.

Moreover, the American people know very well that it does not make any difference how high taxes are raised if more is going to be spent than is raised by taxes. There will still be a deficit,

with whatever evil effects come therefrom.

I have been among those—I hope not an extremist—but among those who have sought to reduce Federal spending. I assert now, and I believe the American people know it to be true, that we never will solve the problem of inflation by taxation alone. Indeed, Mr. President, the one certain thing that must be done is to reduce Federal spending. That is the indisputable prerequisite for any solution of this problem.

Mr. MALONE. Mr. President, will the Senator yield?

Mr. GEORGE. Will the Senator pardon me until I finish this point?

Mr. MALONE. Yes.

Mr. GEORGE. But, Mr. President, I must now do something I would rather not do. Your committee has faced reality in its fight to get some revenue, and not merely to propose theories.

The President on the very morning when this tax bill was taken up, sent to the Senate a most significant letter. I call attention to a part of it:

Although the Congress has not yet completed action on all appropriation bills, it is already apparent that the costs associated with the defense program—

Please note the words—

associated with the defense program will exceed our expectations at the time the budget was prepared for the fiscal year ending June 30, 1952.

That statement is factually true. There is no doubt about the truthfulness of the statement.

Further, the President said:

Only last week—

Now week before last—

the Senate raised total appropriations for the military functions of the Defense Department by nearly \$2,000,000,000 over the budget requests.

Who had charge of that bill on the floor of the Senate? The distinguished Senator from Wyoming [Mr. O'MAHONEY] had charge of that bill on this floor.

I repeat the President's statement:

Only last week, the Senate raised total appropriations for the military functions of the Defense Department by nearly \$2,000,000,000 over the budget requests. Since the beginning of this fiscal year, the Government's receipts have not kept pace with expenditures. Without new revenue legislation, the deficit for the year will be in the neighborhood of \$10,000,000,000.

That is the President's statement; and on the basis of appropriations the statement is correct. But what I am now going to say I am saying to the American people, and I stand back of my declaration. If there had been the faintest bugle call from the other end of Pennsylvania Avenue for a reduction in that expenditure the Congress would have responded. Was there a bugle blast from the President warning us that we were going beyond his own budget recommendations? Not one single sound. On the contrary, the other end of Pennsylvania Avenue was as silent as death, and the distinguished Senator who was in charge of that bill on this floor now tells us about the frightful consequences

of inflation, of spending more than we are raising, and asks us to take the money out of the pockets of the taxpayer.

Mr. President, not only does he ask us to take the money out of the taxpayer, but a distinguished Senator who interrupted him to cast his weight into this battle said, as I understood him—and I would not want to misunderstand him—"We must raise more money out of the taxpayers to stop inflation."

Go back home and ask the poor man who is earning two, three, or four thousand dollars a year under present prevailing high prices how much he is adding to inflation. How much do we want to take out of his pocket to stop inflation? He is not adding to inflation. Go and ask the teachers, the policemen; go and ask the merchants in the small towns; ask anyone who is working for a very moderate salary, "How much have you got that you are using to push up the inflationary spiral?" and see what sort of answer is made. Such a worker will say frankly that he does not need any Government nor any agency of Government to tell him that he must be taxed more in order to keep him from destroying himself through inflation.

Mr. President, I was amazed when I read, in the report entitled "National Defense and the Economic Outlook," issued in August 1951, just a few days ago, about the remedy for this dreadful inflation, which can be cured only by taxes taken from the pockets of American taxpayers. I read from the report on page 2:

The pending House-passed tax bill—

They have demolished the House bill. Now they are after this one, and they want to write one of their own.

The pending House-passed tax bill, raising about \$7,000,000,000 in a full year and collecting about \$5,000,000,000 in 1952, would fall short of producing the revenue required to close the inflationary gap and to balance the administrative budget. The additional revenue for maximum anti-inflationary effect should be derived largely from groups in the \$3,000 to \$10,000 income brackets.

There is the remedy of the administration, I assume. It is certainly the remedy proposed by the proponents of this particular proposal and various others which are coupled with it.

How are we going to stop inflation? Are we going to stop inflation by taking more money from the little fellow who earns between \$3,000 and \$10,000? Face him, if you please—north, east, south, or west—and he will say very frankly, "You have not enough sense to run my business." He knows that he cannot pay more taxes. What little he has is not causing inflation. What is causing inflation is the disposition of the administration to spend more than the American people ought to be called upon to bear as taxes. Unless we face that issue, we shall never come out of this thing. Since the Korean war, since the first shot fired across the thirty-eighth parallel faded away, the committee has recommended and the Congress has voted—before this tax bill—measures which took more than \$10,000,000,000 out of the pockets of the American taxpayers,

much of it from the little fellow with a \$3,000 income. Including those in this bill, the taxes proposed by the committee and voted by Congress since the first shot was fired in Korea will run easily to \$16,000,000,000 or \$17,000,000,000. Yet that does not satisfy them. They want more. The cry is "More. More. More." Why? Do I need to answer?

I should like to read a letter from a gentleman who has the respect and confidence, I believe, of most Members of this body. I am referring to Bernard M. Baruch, who has certainly reached that advanced age in life where he has no disposition to mislead his fellow countrymen. Omitting the salutation:

As you say, the increased taxation since Korea would bring in about \$17,000,000,000. If you add to that \$6,000,000,000, which Senator BYRD thinks it is possible to cut down on nondefense items, you will have \$23,000,000,000. This is an important step in the fight against inflation. But just as important—and it ought to be simultaneous—we can also halt inflation by controlling prices of everything, including wages.

That is not my language, Mr. President.

We can also halt inflation by controlling prices of everything—

Not only on the milk of the coconut—including wages.

I continue to read from the letter:

If you estimate the increased cost of government since Korea at 25 percent, on a budget of about \$55,000,000,000, inflation has cost us \$11,000,000,000. At 33⅓ percent, the increased cost amounts to \$14,000,000,000. I think that the increased cost of the things and services to the Government averages close to 33⅓ percent.

This vast sum could have been saved by putting into effect what the experience of two wars taught us to be necessary; when Government steps in and takes men, money, and materials out of the economy in such large amounts as it has been doing, it must protect both itself and the public by imposing controls, both direct and so-called indirect. If this had been done at the time of the Korean incident, there would have been a saving to the Government of between \$11,000,000,000 and \$14,000,000,000. The Government has, however, done nothing except to thunder in the index. The price ceiling and other controls which should have been put into immediate effect would have held the line until your committee had put forward its tax program and the Federal Reserve Board program of credit controls, and the priority regulations commenced to be effective.

Every increase in taxes—

Please note—

Every increase in taxes, labor, and costs will be followed immediately by an increase in price, because the producer will not bear the burden alone and indeed he will add a little extra to be certain.

What I wish to emphasize is how unfortunate it was that the other controls of inflation, besides taxation, were not put into effect and indeed none of them has been put in yet. The law of supply and demand which ordinarily governs prices requires time in which to operate. In the present circumstances there is no time, and controls are imperative if we are to avoid threatened chaos.

Not more taxes out of the pockets of the little \$3,000-a-year man, as the distinguished Committee on Economic Control recommends. Perhaps I should not

add the last paragraph, but I have his express consent to do so, and I therefore use it. I know how he feels about it, and I know how we all feel about it.

I am awaiting with some anxiety the results of the Government's efforts to induce the people to put their savings into bonds when at the same time it is lessening the purchasing power of those savings.

Mr. President, what are we asked to do? Including the taxes provided by this bill, we will have taken since Korea at least \$17,000,000,000 out of the pockets of the American taxpayer. Yet the cry is for more and more and more taxes.

As for myself, I am willing to do whatever should be done for my country, but I am bound to say now, and I stand back of it, that this administration has had but a mild will, at best, to control prices and wages. Control of both is absolutely indispensable if we are to avoid inflation, when the Government is proposing to take so many men, so much money, and so much material out of our economy. There is no other answer; there cannot be any other answer.

Mr. President, I confess to some discouragement and to some frustration when the President of the United States sends a letter to the Senate in which he says that the Defense Department was only last week given \$2,000,000,000 more than his budget request, when a single blast upon his horn would have stopped it.

Did you hear it, Mr. President? Did the American people hear it? All we hear is that the little people are pushing up prices and that they are bringing about inflation. The cry is for more taxes, more taxes, more taxes.

Here the immediate proposal is, not that the relief provisions—some 20 of them—are inherently unfair or unjust or improper, but that the corporations can afford to pay that much more, rather than to see the Treasury suffer a loss of approximately \$100,000,000 or \$120,000,000 next year. In other words, we are not to do justice, after we, under pressure, passed an excess-profits tax bill going back to July 1, 1950. Now it is proposed that we give justice back to 1950 only in a few of the cases which we did not have time to canvass and did not have time to consider.

Mr. President, if any one of these proposals is essentially unjust, unfair, or inequitable, the committee would be glad to correct it. However, that is not the case. The plea is that, "You are about to lose \$120,000,000, although you made the excess-profits tax"—which was not actually the law until January 3, 1951—"retroactive to July 1, 1950; you are about to do this horrible thing."

Mr. President, even if it be assumed that this tax bill will raise no more than \$5,500,000,000, I wish to close with this statement: The total "take" from the American people would exceed the highest amount collected during World War II by more than \$21,500,000,000. Yet the cry is for more and more taxes, as if that were the only answer to inflation. Mr. President, that is not the answer to inflation, in the face of a Congress which

has raised and, with this bill, proposes to raise some \$17,000,000,000 or perhaps \$18,000,000,000, depending upon the level of production since the war in Korea started.

MESSAGE FROM THE HOUSE

A message from the House of Representatives, by Mr. Snader, its assistant reading clerk, announced that the House had insisted upon its amendments to the bill (S. 355) to adjust the salaries of postmasters, supervisors, and employees in the field service of the Post Office Department, disagreed to by the Senate; agreed to the conference asked by the Senate on the disagreeing votes of the two Houses thereon, and that Mr. MURRAY of Tennessee, Mr. MORRISON, Mr. DAVIS of Georgia, Mr. HAGEN, and Mr. REES of Kansas were appointed managers on the part of the House at the conference.

The message also announced that the House had insisted upon its amendment to the bill (S. 622) to increase the basic rates of compensation of certain officers and employees of the Federal Government, and for other purposes, disagreed to by the Senate; agreed to the conference asked by the Senate on the disagreeing votes of the two Houses thereon, and that Mr. MURRAY of Tennessee, Mr. DAVIS of Georgia, Mr. WHITAKER, Mr. REES of Kansas and Mrs. ST. GEORGE were appointed managers on the part of the House at the conference.

The message further announced that the House had insisted upon its amendment to the bill (S. 1046) to readjust postal rates, disagreed to by the Senate; agreed to the conference asked by the Senate on the disagreeing votes of the two Houses thereon, and that Mr. MURRAY of Tennessee, Mr. RHODES, Mr. BURNSIDE, Mr. REES of Kansas, and Mr. CORBITT were appointed managers on the part of the House at the conference.

REVENUE ACT OF 1951

The Senate resumed the consideration of the bill (H. R. 4473) to provide revenue, and for other purposes.

Mr. O'MAHONEY. Mr. President, the issue before the Senate now is the committee amendment and the several amendments which constitute title V of the bill. They deal with excess-profits tax relief.

Nothing that I have said has any bearing upon the very eloquent, forceful, and quite sincere argument made by the Senator from Georgia.

We are living in a day of heavy taxation. I hold in my hand the report of the Finance Committee, on page 3 of which is the statement of the committee with respect to changes in individual income taxes. I read the following from the report:

Your committee's bill, in a new rate schedule, provides the lower of the following two increases: An 11-percent increase in present tax rates, or an 8-percent additional tax based on the surtax net income remaining after the deduction of present taxes.

That is the first sentence of the report on page 3, under the heading "III. Changes in the individual income tax." It is a plain and direct statement that the Finance Committee has reported to the

Senate an increase in individual income-tax rates. The committee would not have done that if it had not been convinced that the increased revenue was necessary.

So the splendid argument made by the Senator from Georgia in regard to the general provisions of the bill clearly is without point, so far as the excess-profits tax changes included in the bill are concerned.

In order that there may be no doubt about the parliamentary situation and issue, Mr. President, I wish to read from page 11878 of the CONGRESSIONAL RECORD of September 19, 1951, at which time the Senator from Georgia [Mr. GEORGE], chairman of the Finance Committee, was speaking:

Mr. GEORGE. Mr. President, the committee bill provides that where land is sold together with the unharvested crop or fruit upon such land, the gain resulting from such sale shall be treated as a capital gain.

Then he proceeded with a few other remarks; and then he said:

The other provisions of the bill are fully explained and set forth in the report.

Then follows this statement:

Mr. President, I should like to submit a unanimous-consent request, as follows:

"Ordered, by unanimous consent, that the committee amendments to the pending bill H. R. 4473, the Revenue Act of 1951, be agreed to en bloc: *Provided, however,* That such action with respect to any specific amendment shall, upon the request of a Senator, be deemed to be rescinded, and the consideration of such amendment shall then be proceeded with in accordance with the rules of the Senate."

That is the unanimous-consent order under which we are operating. It means that at the request of the Senator from Georgia, the action of this body in approving all the committee amendments may be rescinded at the request of a single Senator.

Mr. President, I requested action, under that unanimous-consent agreement, with respect to title V of the bill.

So the parliamentary situation in which we now find ourselves is that the action of the Senate in approving title V has been rescinded; and that title, with all its various amendments, is now before the Senate for consideration.

Mr. MILLIKIN. Mr. President—

Mr. O'MAHONEY. I yield to the Senator from Colorado.

Mr. MILLIKIN. Mr. President, a parliamentary inquiry.

The PRESIDING OFFICER. The Senator will state the inquiry.

Mr. MILLIKIN. Can the issue, in terms of votes, be stated in this way: Those who favor the committee amendment should vote "yea," those who oppose the committee amendment or favor the O'Mahoney amendment should vote "nay"?

Mr. O'MAHONEY. Again I say there is no O'Mahoney amendment. I have offered no motion. By the action of the Senate, under the unanimous-consent agreement, the committee amendments in title V are now before the Senate, because the action agreeing to them was rescinded by unanimous consent.

Mr. MILLIKIN. Mr. President, may we now have an interpretation of the parliamentary situation?

The PRESIDING OFFICER. A vote in the affirmative is a vote for the insertion of title V of the committee amendment; a vote in the negative is a vote to approve the position taken by the Senator from Wyoming, to strike it from the bill.

Mr. MILLIKIN. To strike what?

The PRESIDING OFFICER. To strike title V from the bill.

Mr. MILLIKIN. Those who favor title V, should vote "yea."

The PRESIDING OFFICER. That is correct.

Mr. MILLIKIN. Those who are opposed to title V and favor the O'Mahoney version, should vote "nay."

The PRESIDING OFFICER. In that case Senators will vote in the negative.

Mr. CASE. Mr. President, is it not also true that an order has been entered for a yea-and-nay vote, and that that yea-and-nay vote was ordered on all of title V?

The PRESIDING OFFICER. That is correct.

Mr. O'MAHONEY. Mr. President, has it not been the ruling of the Chair that since title V is before the Senate on the initiative of the Committee on Finance, any Member of the Senate is entitled to propose an amendment with respect to it?

The PRESIDING OFFICER (Mr. Moody in the chair). The Senator is correct. A proposal to amend any part of it would be in order.

Mr. O'MAHONEY. Mr. President, a parliamentary inquiry.

The PRESIDING OFFICER. The Senator will state the inquiry.

Mr. O'MAHONEY. Is there any motion or other business before the Senate, except the committee amendment?

The PRESIDING OFFICER. There is not.

Mr. O'MAHONEY. Then, Mr. President, that being the case, I shall undertake to move that title V—

Mr. GEORGE. Mr. President, did I correctly understand the Chair to say there was no motion before the Senate?

The PRESIDING OFFICER. Other than the question of agreeing to the committee amendment, there is not.

Mr. GEORGE. There is a proposal to strike title V of the bill, is there not?

Mr. O'MAHONEY. Mr. President, the Senator is mistaken. It was stated by the Presiding Officer at the very outset that the question is on agreeing to the committee amendment. That is the issue.

The PRESIDING OFFICER. That is correct.

Mr. GEORGE. It could be stated affirmatively, but I thought a motion was made to strike it out.

Mr. O'MAHONEY. I am proceeding, I may say to the Senator, under the rule or agreement which he wrote.

Mr. GEORGE. Mr. President, there is no trouble about the rule, none in the world, and the present occupant of the chair a few moments ago correctly stated it, when he stated the issue. I am willing to be bound by that.

Mr. O'MAHONEY. Very well. Then the action of the Senate in approving the committee amendments has been rescinded.

Mr. GEORGE. Oh—

Mr. O'MAHONEY. And the action of the Senate the other day having been rescinded, all of title V is before the Senate de novo. Therefore, Mr. President, I move to strike out section 508 of the committee amendment, on page 306, that being the section dealing with election with respect to certain inadmissible assets.

Mr. GEORGE. Mr. President, a point of order.

The PRESIDING OFFICER. The Senator will state it.

Mr. GEORGE. The point of order is that a motion was made to strike the whole of title V. A yea-and-nay vote has been ordered upon that. No further amendment is now permissible.

The PRESIDING OFFICER. The order for the yeas and nays does not shut off the right to amend, under the precedents of the Senate, the Chair is advised by the Parliamentarian.

Mr. GEORGE. Very well, then, if it is the wish of the administration leadership to prolong this bill indefinitely, it may do so.

Mr. O'MAHONEY. Mr. President, I move to strike section 508, dealing with election with respect to certain inadmissible assets, which appears on page 306. This is the section which permits dealers in municipal bonds to include in their inventory all invested capital, by which the invested capital base is made up, and tax-exempt bonds, upon which they pay no taxes, because the bonds are exempt from taxation; and this section permits them to include those tax-exempt bonds in their computation of the invested capital base, so that they may reduce their excess-profits tax liability.

This amendment has the result, Mr. President, of enabling the bond dealer with tax-exempt securities to gain a tax reduction advantage of from three to four times the value of his tax-exempt income, and I think the amendment should be stricken from the bill. That, Mr. President, is my motion.

Mr. GEORGE. Mr. President, I understand the Senator's motion, but I simply want to have the plain facts stated. That is not the effect of the amendment. The amendment is to permit the bond dealer who sells bonds to add them to his base, provided he puts the interest on the bonds in his taxable income. The Senator has stated only a part of it, and I am willing to have a vote.

The PRESIDING OFFICER. The question is on agreeing to the amendment of the Senator from Wyoming.

Mr. KEM. Mr. President, may we have a yea-and-nay vote on this motion?

Mr. O'MAHONEY. I ask for the yeas and nays.

The yeas and nays were not ordered.

Mr. TAFT. Mr. President, will the Senator yield?

Mr. O'MAHONEY. I yield.

Mr. KEM. Mr. President, I understood I had been recognized.

The PRESIDING OFFICER. The Senator from Ohio.

Mr. TAFT. I only wanted to ask the Senator a question. As I understand, the amendment recommended by the

committee simply provides a special formula for dealers in municipal bonds.

Mr. GEORGE. That is all.

Mr. TAFT. Because their business is dealing in municipal bonds they have always been entitled in making their income-tax returns to include in their base the profit they made on municipal bonds, both in the base period and in the current year. The amendment simply provides that they may also include in their base and in their whole calculation of profits, both for the base and for the current taxes, not only the profit they may make on municipal bonds, but also the interest they may receive during the time the municipal bonds happen to be in their inventory, where they are not treated as an investment, but as a part of their business assets, which are the whole basis for their operations. To be exact it is the value of the bonds which are included in the capital of the base period.

The theory of the inadmissible-assets section is that people have certain income which is not taxable and which is used merely for the purpose of investment in their particular field. But we are considering now dealers in a different category, because their whole business is dealing in municipal bonds, with a constant turn-over. Some interest is received as they hold those bonds, during the time they hold them, and it is a part of their business income. Under the amendment it would be considered a part of their income in the base period, and it would be considered a part of their income in the current period. That, as I understand, is the reason for the amendment.

Mr. GEORGE. The Senator is entirely correct. Let me read four or five lines from the report.

Mr. KERR. What page?

Mr. GEORGE. Page 81. I read:

Your committee's bill provides, in effect, that where tax-exempt bonds are held by a dealer primarily for sale—

They do not represent his investments—

primarily for sale to customers in the ordinary course of his trade or business, the dealer may elect to treat such bonds—

He may elect to treat them—
as admissible assets, provided—

This is what the Senator from Wyoming did not state—

provided that he also elects to include in his excess profits tax net income the interest on such bonds.

Mr. KEM. Mr. President, the pending measure provides that an additional \$5,500,000,000 be taken each year from the people in taxes—an additional fifty-five hundred million dollars. If enacted, this would be the third increase in taxes during the past year, a total increase of \$15,500,000,000.

As is pointed out in the committee report, never before has so much additional revenue been raised in so short a period of time. For many taxpayers the rates imposed under the pending bill are higher than the highest rates imposed during World War II.

In the face of these staggering increases in taxes, spending is racing far ahead. Federal bureaucrats have found

new and easy ways to spend the people's money. They are spending it faster—much faster—than the dollars have rolled into the Treasury. The Government is suffering from billionitis, or perhaps, as the Senator from Indiana [Mr. JENNER] has diagnosed the case, it is elephantiasis. Under Mr. Truman's administration, the Federal Government has been on the wildest spending spree in history—in this or any other country. The President's budget for this year calls for more than the United States Government spent in the first 131 years of its existence. To be alarmed over this situation is not to be partisan. The comment of the Senator from Virginia [Mr. BYRD], Democrat, on President Truman's budget message was: "This message represents the very height of fiscal irresponsibility." Mr. Truman talks economy in a big way. But that is as far as he goes. The facts speak for themselves.

Federal expenditures during the fiscal year ending June 30, 1952, have been estimated at \$75,000,000,000. I think this is a conservative estimate. Even if the pending bill becomes law, tax collections this year will amount to only \$64,700,000,000. This indicates a deficit of more than \$10,000,000,000 during the current fiscal year.

In his letter to the Senate of September 20, 1951, President Truman said:

Since the beginning of this fiscal year, the Government's receipts have not kept pace with expenditures. * * * The Government's revenues should be increased by an amount that approaches as nearly as possible the \$10,000,000,000 I recommended.

While the President has had much to say about substantial increases in "everyone's tax load" and the necessity of the people tightening their belts, he has vigorously defended his inflated budget. He has stoutly adhered to the tax-and-tax, spend-and-spend, elect-and-elect philosophy. He evidently feels, as did the late Harry Hopkins, that "the public is too damn dumb to understand."

In a speech at the cornerstone laying of the Government's new General Accounting Office Building on September 11, 1951, Mr. Truman declared:

I am proud of the budgets that have been prepared since I've been President. I want to say to you I know every figure in every one of them.

I pause to congratulate the President. Then Mr. Truman said:

I am proud of the way the financial affairs of the Government are handled. * * * Our budget is as tight and solid as we can make it.

Finally, the President said:

If we want to keep the country on a sound financial basis and hold down inflation, we must pay this money as we go.

CONGRESS IS CAUGHT IN A VICIOUS CIRCLE

If we shall continue to give Government bureaucrats more money so that they can spend more extravagantly, the spiral will go up and up. By considering at this time a bill to raise more taxes, we are going at the problem backward. We are putting the cart before the horse.

I believe in the pay-as-we-go principle. Since I have been a Member of Congress I have never voted against a gen-

eral tax bill. I cannot justify financing today's expenditures by putting them on the backs of our children and our grandchildren. Those who come after us are entitled to more consideration than that.

But there Mr. Truman and I part company. He wants to make up the deficit by new taxes. I believe we should first eliminate unnecessary spending, and then consider what is needed in the way of new taxes.

Our order of business should be to economize first and tax afterward. Until that is done I shall oppose adding a single dollar to the tax burden of our people.

The tax bill now before the Senate is not pay-as-we-go legislation. It is pay-as-we-drop-further-behind legislation.

The President has had much to say about raising taxes to prevent inflation. In his letter of September 20, to the Senate, he said that adequate taxes are necessary to restrain inflationary pressures.

Control inflation by new taxes, is his theme. Yet his administration is continuing its uncontrolled spending, a fundamental cause of inflation.

The theory of the administration is that if we take dollars from the low-income group—from the little man—and reduce his purchasing power so he will not be able to enter the market as a buyer, we will cut down the purchasing power available for goods and thus hold down prices. We are told we must tax the money out of the pockets of the people so they cannot go into the market places and bid up the price of goods. This is a false, wicked theory, so long as the money is being turned over to Federal bureaucrats to go into the market places and bid up the price of goods.

It is pure nonsense to argue that new taxes will be anti-inflationary, if the Government continues its policy of reckless spending. The administration has shown no indication that it means to economize. The majority in the Congress—and I say it with regret—has done no better.

In its more practical aspect and to a considerable extent the problem is how Congress can outwit and outmaneuver the power-hungry bureaucrats, and the host of technical experts and political smoothies who infest many of the departments of Government. It is the duty and responsibility of the Congress to protect the earnings of the people from them. We of the Congress must constantly ask ourselves: Are we voting taxes for what the people need, or are we voting taxes for what the Government wants?

CONGRESS SHOULD REGAIN CONTROL OF THE PURSE STRINGS

The question is frequently raised: Why does not Congress do something more about cutting down the President's budget?

One reason for the failure of Congress to effect more substantial economies may be found in a study of Federal expenditures recently completed by the Committee on Federal Tax Policy. The committee found that out of the President's budget of \$71,600,000,000, only

about \$24,000,000,000 is clearly and definitely under annual congressional review and control.

The fact that Congress has actual control over only one-third of the funds called for in the budget is a substantial roadblock in the way of economy, regardless of the desire of Members to economize.

Congress must regain control of the purse strings.

The pending pay-as-we-go-deeper-in-the-red tax bill will not bring in sufficient additional revenue by many millions of dollars to balance the budget, in spite of the heavy new drain on low-income groups. This tax bill will be just another cog in the administration's tax-and-tax, spend-and-spend, elect-and-elect machine.

We must have enough guns, planes, tanks, and atomic bombs. We must also have a sound economy. The Russians prefer to defeat us by forcing us to spend ourselves to our destruction. Easy money created by deficit financing and defense spending is giving many of our people a false feeling of prosperity. The plain fact is our home defense is sagging.

WHAT SHOULD CONGRESS DO?

We stand at the cross roads in history. If we act with determination, with courage, and with dispatch we may see our way out of the swamp of financial instability in which we are now bogging down. Here is my two-point program:

First. Congress should make a fresh start on appropriations. Congress must service notice that, as of October 15, authorization to spend for other than defense purposes is suspended, unless before that date the President's Bureau of the Budget has submitted a revised budget reducing spending by \$10,000,000,000. In the meantime, the tax bill and further appropriation measures, particularly all appropriations for foreign aid, should be held up.

Mr. President, this may seem to be drastic. But drastic situations call for drastic action. The national debt stands at \$256,000,000,000, and we are going deeper in the red every day.

Second. The second step is to cut down the Federal Government to size—to send back to the State capitols, to the county courthouses, and the city halls, and to private citizens generally, the power that belongs to them and is rightfully theirs. For years a process has been under way by which the Federal Government has arrogated to itself powers and responsibilities that the Constitution never intended that the Central Government should have.

The Hoover Commission addressed itself to this problem. It found that the Federal Government has been absorbing to the disadvantage of other branches of Government important sources of taxes and then doling out the money of the people to be spent only as the Federal Government designates. The political brokerage is, of course, taken out.

As functions are taken out of Washington, the responsibility of Congress to raise taxes will be lightened. Committees should be appointed to study this

problem. These committees should get to work, and report as soon as possible. The Senate should then take upon itself the task of dismantling our vast Federal establishment. This will prove to be a quick way to reduce Federal expenditures and Federal taxes. It will also greatly add to the value and efficiency of the remaining Federal agencies. It will put in them once again the fear of the law and the Constitution. When this is accomplished, I believe we will be well on the way to the solution of the grave problem which is posed by this tax bill. For this reason I shall vote against the passage of this tax bill.

Mr. O'MAHONEY. Mr. President, I wanted to make one additional comment about the motion which I have made to strike out section 508. Beginning on line 23, the section provides—

Mr. JOHNSON of Texas. Will the Senator give the page of the bill?

Mr. O'MAHONEY. Page 306, beginning at the top of the page. Rather, I will read beginning in line 7, the portion of the section which deals with treatment of Government obligations as admissible assets. I read as follows:

(c) Treatment of Government obligations as admissible assets: If the taxpayer elects for any taxable year, in accordance with regulations prescribed by the Secretary, to increase its excess profits net income by an amount equal to the amount by which the interest received or accrued during the taxable year on Government obligations exceeds the sum of—

(1) the amount of interest paid or accrued during such year which is not allowed as a deduction under section 23 (b), and

(2) the amount of the adjustments required for the taxable year under section 22 (c) (relating to adjustment for certain bond premiums), but not in excess of the amount of interest received or accrued during the taxable year on Government obligations to which such section is applicable. then for the taxable year for which the election is made the term "admissible assets" shall include Government obligations, and the term "inadmissible assets" shall not include Government obligations.

There is a clear, specific statement in the language of the bill that assets which are now inadmissible have become, by this amendment, admissible. My motion, Mr. President, is to strike that provision from the bill, and upon that motion I ask for the yeas and nays.

Mr. KERR. Mr. President, with reference to the motion—

Mr. O'MAHONEY. Mr. President, will the Senator yield for a moment?

Mr. KERR. I yield.

Mr. O'MAHONEY. Is not the Senator willing that we have the order entered for the yeas and nays?

Mr. KERR. Oh, certainly.

The PRESIDING OFFICER (Mr. MOODY in the chair). Is the request for the yeas and nays sufficiently seconded?

The yeas and nays were ordered.

The PRESIDING OFFICER. The Senator from Oklahoma.

Mr. KERR. Mr. President, the motion to strike section 508 from the bill illustrates how easy it is to fall into error with reference to what the bill provides. My distinguished friend from Wyoming is most sincere in his belief that the sec-

tion should be stricken, but in arriving at that conclusion he is completely in error. The provision does not do what the Senator indicated he feared it would do as a basis for his motion to strike it from the bill.

Municipal bonds are required to be excluded from the taxpayer's invested capital. Therefore, he is in practice denied an invested capital credit with which to offset his normal earnings from the sale of such bonds. This inequity did not arise under the World War II excess-profits tax because, under that law, taxpayers were permitted, at their option, to treat tax-exempt or partially-tax-exempt bonds as admissible assets if they elected to include the interest received from such bonds in excess-profits-tax net income. The committee believes that while a similar option should not be extended to all taxpayers under present law because the invested capital credit rates, ranging from 8 to 12 percent, are disproportionate to the low interest rates on tax-exempt bonds, such treatment should be extended to municipal bond dealers, since most of their income with respect to such bonds arises from profit on their sale, and such income is subject to excess-profits tax. As a result, this section provides, in effect, that where tax-exempt bonds are held by a dealer primarily for sale to customers in the ordinary course of business or trade, the dealer may elect to treat such bonds as admissible assets, provided he also elects to include in his excess-profits-tax net income the interest on such bonds.

The Senator stated that his objection to the provision was that the dealer would be permitted not only to receive the interest on the bonds as tax-free income but to include the cost of the bonds in his invested capital base. However, a close examination of the language shows that just the opposite is true. If he does elect to use the amount invested in bonds as a part of his invested capital base, he cannot then treat the income from such bonds as tax-free income, but must include it in his excess-profits-tax income, upon which his excess-profits tax is computed.

For that reason, I think the motion of the Senator from Wyoming should not be agreed to.

Mr. TAFT obtained the floor.

Mr. HUMPHREY. Mr. President, will the Senator yield?

Mr. KERR. If I may yield for a question.

The PRESIDING OFFICER (Mr. FREAR in the chair). The Chair recognized the Senator from Ohio. Does the Senator from Ohio yield?

Mr. TAFT. Mr. President, I should like to make a brief statement.

What is an excess-profits tax? It is an attempt to tax a man or business on income received today which was not received in the base period. If the income during the war period has increased, the excess-profits tax is levied on such increase.

Let us look at the business of a municipal bond dealer. He has a certain income. He makes some money out of the interest on the bonds which he hap-

pens to be holding. He makes money on the purchase and sale of such bonds. He may make money in business on other bonds. What is the fair way to say what his excess profit is? Obviously, the fair way is to ask, "How much money is he making today compared with what he made in the base period on his whole business?"

That is what this provision does, and that is all it does. It says that he shall be taxed on the difference. Unless he consents, he cannot be taxed today on the income which he receives from the holding of municipal bonds, because of the Constitution of the United States. So we have to say that we must exclude that income, and that therefore, in the base period, we will exclude a similar item with respect to interest on bonds. That is a very awkward approach.

All this provision says is that if he is willing to waive his constitutional right to have his income from municipal bonds excluded today, then we will include in his previous income the income which he had from municipal bonds during the base period. That is all there is to it.

All this amendment does is to say that if he is willing to waive his constitutional rights he will receive the treatment we would have given him if there had been no constitutional provision; he will receive the treatment which is accorded to everybody else. He is taxed on that part of his total income today, as compared with the income he had in the base period.

Mr. MILLIKIN. Mr. President, will the Senator yield?

Mr. TAFT. I yield.

Mr. MILLIKIN. Does it not come to this: This amendment provides a mechanism whereby he will pay an excess-profits tax rather than not having to pay it under the present situation?

Mr. TAFT. Yes.

Mr. MILLIKIN. So this is not a device to decrease the excess-profits tax.

Mr. TAFT. I do not think so.

Mr. MILLIKIN. At the present time, in connection with municipal bonds, which the Senator has cited, a dealer makes a profit on the sale. So far as income is concerned, we cannot tax him from the income standpoint. But if he puts those assets into his capital base, if he is reporting them for that privilege, he must elect to pay an excess-profits tax.

Those who are opposing the committee amendment, I assume, are out to stop ways of decreasing the excess-profits tax. This is a method of increasing it, I suggest. Also, I think perhaps a determinative factor is that the revenue loss cannot be calculated. If it could be calculated, everyone admits that it would be entirely negligible.

Mr. TAFT. Any revenue loss would be negligible.

These dealers are getting just the treatment which all other businessmen get. If this provision goes into effect, they will be paying taxes on the total business income which they have today, insofar as it exceeds the total business income which they had during the base period.

The PRESIDING OFFICER. The question is on agreeing to the motion of the Senator from Wyoming [Mr. O'MAHONEY] to strike out section 508.

Mr. CASE. I suggest the absence of a quorum.

Mr. HUMPHREY. Mr. President—
The PRESIDING OFFICER. Does the Senator from South Dakota withhold his suggestion of the absence of a quorum, so that the Senator from Minnesota may be recognized?

Mr. CASE. I do.

Mr. HUMPHREY. Mr. President, I know that it is desired to move along toward a vote, but a moment ago a statement was made which I think needs to be challenged, at least momentarily. It will be challenged much more extensively as we proceed.

I listened to the eloquent remarks of the distinguished chairman of the committee [Mr. GEORGE]. I regret that he is not in the Chamber at the moment. I trust that he will soon return.

The remarks of the chairman of the committee were more or less in two areas: First, the inflation which is upon us, from his point of view, is due to the alleged extravagant policies of the Federal Government and the failure to apply effective controls.

The second argument is that this tax bill raises substantial revenue, and that to talk about taxing the lower-income groups as a means of checking inflation is to deny the economic facts which affect the low-income groups.

I am impressed by that argument, but not in its relationship to this tax bill. In substance the chairman of the committee is saying that he does not want to be a party, nor does his committee want to be a party, to the excessive taxation or unusually heavy taxation of the lower-income groups.

He is also saying that the income group between \$3,000 and \$10,000 has taken just about as much as it can. No Senator has stated that more often than has the junior Senator from Minnesota. Perhaps he has not stated it as effectively or vociferously as have other Senators, but it has been stated again and again.

Let us take a look at the bill. Let us see whether or not the bill is directed toward the welfare of the low-income groups. Let us see whether or not the proponents of the bill have had the interest of the low-income groups at heart. Let us see whether or not the various sections of the bill, title by title, really protect the needs of the low-income group.

This Senator has repeatedly stated that the group under \$5,000 income represents the low-income group, the group constituting 80 percent of the taxpayers of the country. The group under \$10,000 represents more than 90 percent of the taxpayers of the country. It is this group which has been seriously affected by the rise in the cost of living. There can be no doubt about that.

I submit that in recent votes on the Defense Production Act in this Chamber there was not the same solicitude for the low-income groups. No roll-backs were authorized, no individual price ceilings were authorized. In fact, I did not see

any overwhelming majority vote, led by the chairman of the Finance Committee or the chairman of any other committee, to see to it that we had ceiling, item-by-item prices on every single article which is sold in the American economy.

Mr. President, let me show what has happened in this bill, using only the House bill as a measurement, which is not a perfect measurement. In the pending bill the Senate Finance Committee has reduced the corporate tax and earned-income tax below the House measure by the sum of \$1,700,000,000. I brought this fact out in my remarks at page 11945 of the CONGRESSIONAL RECORD. I pointed out:

On half a billion dollars of the reduction in the yield below the House bill will go to individuals; almost \$800,000,000 will go to corporations; and \$625,000,000 will be lost because of the failure to close loopholes, as recommended by the House, and because of the addition of new loopholes in the tax laws.

I also pointed out that of the \$500,000,000, which would be a reduction in individual income taxes, \$128,000,000 would go to 80 percent of the taxpayers, and \$312,000,000 would go to 20 percent of the taxpayers.

I also pointed out that under this bill corporations will have their taxes reduced by some \$800,000,000, which has no relationship to the low-income groups.

What I am trying to say, Mr. President, is that the action of the Senate committee is not an action which really responds to the individual needs of the lower-income groups.

Mr. President, I ask, How about coal royalties? Is the provision affecting them in favor of the low-income groups? How about the change of the effective date from January 1 to April 1? Is that in favor of the low-income groups? How about the percentage depletion for oil companies, and the like? Is that in favor of the low-income groups? How about the increase in the extension of the percentage depletion for coal and other minerals? Is that in favor of the low-income people who earn under \$3,000 or \$5,000 a year? How about the capital-gains tax, Mr. President?

How about the whole capital-gains section of our tax law? Is that in favor of the low-income groups?

As a matter of fact, Mr. President, the capital-gains tax has very little relationship to the low-income groups. The preferential treatment goes to higher income groups, as has been documented again and again.

How about the splitting of incomes? How about the splitting of corporations to gain exemptions from surtaxes, which is permitted? Is that in favor of the low-income groups?

How about the family-partnership section of the bill? Is that in favor of the \$3,000-a-year people?

How about the matter of stock options which has become a problem for the Salary Stabilization Board? Do \$3,000 and \$5,000-a-year people have stock option privileges, thereby being able to cash in their gains at the capital-gains rate, instead of at the earned-income rate?

Mr. KERR. Mr. President, will the Senator yield?

Mr. HUMPHREY. Yes.

Mr. KERR. Do I understand the Senator to say that no wage earner making \$5,000 or less a year has any stock-option privilege?

Mr. HUMPHREY. No. What I said was that that section is not designed for a \$5,000-a-year-income man.

Mr. KERR. Is the Senator aware of the fact that a vast number of corporations make that privilege available to people in the \$5,000-a-year-and-less groups?

Mr. HUMPHREY. The Senator from Minnesota is aware of the fact, but before a person can take a stock option he must have some money, and no man has any money if he is a married man earning \$5,000 a year and has a family to support. The Senator from Oklahoma knows as well as I do that the stock option is a problem before the Salary Stabilization Board—not the Wage Stabilization Board, but the Salary Stabilization Board—and is primarily designed for corporation executives. That is what the Wall Street Journal recently said it was designed for.

Mr. KERR. Does the Senator from Minnesota take statements in the Wall Street Journal as being irrevocably true and not subject to check as to whether or not they are accurate?

Mr. HUMPHREY. No; the Senator from Minnesota does not, but he is also sufficiently prudent and conservative, and in this instance wise enough, to know that people who have an income of \$3,000 or \$5,000 a year are not taking advantage of the stock-option privilege in such large numbers, as is the case with some corporations. It is designed expressly for the purpose of rewarding directors and officers who receive increased income.

Mr. KERR. If there are corporations that make such privileges available to hundreds of their employees in the \$5,000-a-year field or less, it would be quite a surprise to the Senator from Minnesota; would it?

Mr. HUMPHREY. Yes, indeed.

Mr. KERR. The Senator from Minnesota should inform himself on that point, because if he did so he would find large numbers of such cases.

Mr. HUMPHREY. I should like to have the Senator from Oklahoma tell me, out of 42,000,000 taxpayers who have incomes under \$10,000 a year, how many are benefitted by stock options.

Mr. KERR. The Senator from Oklahoma says that thousands of them are. If the Senator from Minnesota will consult the records of Sears, Roebuck, American Telephone & Telegraph, and other such corporations, he will find the privilege available. That is true of dozens of corporations.

Mr. HUMPHREY. I appreciate the information which has been given to the Senate by the Senator from Oklahoma. I will say that historically the stock option privileges, particularly in this period of high earned income taxes, has been a means of rewarding the upper income groups, so that they may have an opportunity of cashing them in at the capital gains rate.

Mr. KERR. The Senator himself is not bound in his future action in every respect by what has been historically correct, is he?

Mr. HUMPHREY. I should like to consider history as being some guide for the future.

Mr. KERR. But not as a limitation or restriction beyond that which he would be willing to have it?

Mr. HUMPHREY. The Senator from Oklahoma would like to lead me down devious paths. I shall stop now.

Mr. President, I should also like to point out that in this late solicitude for the low-income groups, the redemption of stock in order to pay bad debts has nothing to do with three thousand, four thousand, and five-thousand-a-year people, who own no stock. I should also like to point out that such devices as corporate spin-offs, split-ups, and other techniques which are embodied in the bill have no relationship whatever to the low income groups.

The Senator from Minnesota will propose an amendment to the bill which will provide that no one making under \$5,000 a year shall pay any additional tax. Nevertheless, the total effect of the amendment would be to raise more money under earned income-tax rates than the present committee recommendation.

We will see whether we are going to stand up for the \$5,000-a-year people, which make up 80 percent of the taxpayers of America.

Mr. President, under this bill \$1,300,000,000 are to be collected from excise taxes. Washing machines and vacuum cleaners are taxed. Was that designed to help the low-income group?

We reduce corporate taxes by \$800,000,000, but we add \$1,300,000,000 in excise tax. A washing machine is generally a mechanism which is needed in the average worker's and farmer's home. It is needed in the home of the little man. Those in the higher income groups send their laundry out.

Does this evidence a heart-warming solicitude for the low-income groups? Indeed not.

The committee bill has not sufficiently taken into consideration the low-income groups. I will tell the Senate what has happened. According to the argument I have heard we are getting a preparatory orientation for the day when the proposals of the NAM and other similar groups for a universal manufacturers' excise tax will be brought to the floor of the Senate. We are being prepared for the day when, instead of having excise taxes on consumer durable goods there will be an excise or sales tax enacted to raise the revenue the Nation needs.

Before that proposal is ever brought to the floor of the Senate the loopholes which the Senator from Minnesota and other Senators have mentioned had better be closed and the capital-gains tax structure and the whole capital-gains program had better be completely revised, restudied, and relegislated.

Mr. President, the low-income people obtain little or no good from the capital-gains rate. The capital-gains tax is not designed for the \$3,000-a-year or the \$5,000-a-year man.

Finally, Mr. President, let me say that the budget has been legislated by the Congress. Senators can condemn the President as long as they may desire, and apparently there is a desire on the part of some to do a good deal of condemning. However, the fact remains that the Congress makes and has made the appropriations. The President made his recommendations, but the Congress made the appropriations. I repeat that too often the President's recommendations have not been held in very high regard in the Senate and in the House of Representatives.

Of course, the Congress has a right to make its own decisions. The President sent his recommended budget to the Congress, and the congressional committees went through that budget and studied it, and thereafter the Members of the House and the Members of the Senate voted on the budget, after receiving the recommendations of their respective committees, which were made on the basis of the budget which came to the Congress from the Bureau of the Budget. We have determined what the appropriations are to be, and we have asked the people of the country to get busy with the defense of the United States. I say we have taken that responsibility upon ourselves.

We, the Congress, have determined what are to be the appropriations and what are to be the expenditures which will be made for the Government. The Congress, not the President, has done that. We have done the spending, and now we must do the paying.

It does little or no good to talk about the low-income groups and at the same time fail to take into consideration what will be the effect of a \$5,000,000,000 or a \$8,000,000,000 deficit.

The Senator from Wyoming [Mr. O'MAHONEY] pointed out this morning what that situation might be. I hold in my hand a newspaper article by the Associated Press, which surely is at least a guide. The heading of that article is, "Deficit of \$8,000,000,000 is held possible as defense outlay rises."

Mr. President, I say that we may possibly have a deficit of \$7,000,000,000. Others say we may have underestimated the expenditures and may have overestimated the revenues. Be that as it may, we certainly shall have a deficit, and a large one.

The article to which I have referred tells the story:

A big Government deficit affects everyone. To get money not coming in from taxes, the Government sells bonds or other securities to investors who take the money from their reserves. The Government throws this money into the spending stream, bidding up prices and pumping up inflation.

Whose prices are pumped up, Mr. President? To a man with an income of \$25,000 a year, it does not make too much difference whether the automobile he drives costs \$2,200 or \$2,500, or whether the washing machine his wife wants and needs cost \$150 or \$175. It does not make too much difference to him whether the train ticket or the airplane ticket has increased in price 5 percent or 10 percent, or has not increased in price at

all, because a man in that income group can generally "roll with the punch," unless the inflation goes completely berserk and out of hand.

However, when prices rise, they affect the man who is being paid \$40 or \$50 a week and who has a wife and has children in school, and has to pay, because of the rise in prices, a somewhat larger amount for clothing, for medical care, for food, and to maintain the automobile in which he must drive to work. Those little increases in the cost of the things he has to buy can be catastrophic to him and can wreck him.

Mr. President, at this time of a shortage of durable and consumer goods, deficit financing, which means packing more purchasing power into the stream of the economy, means higher prices, particularly when there is a weak price-control law, which is what we have.

All I am saying, Mr. President, is that the low-income group is now being fashioned to be taken to the cleaners unless we do something to properly balance the budget, to put this program on a pay-as-you-go basis, or at least to make every possible effort to do so.

The Senator from Georgia has said, with deep sincerity, "Cut the expenditures." That is what he feels we should do. However, I repeat that in this body we rule by majority vote. We did not cut the expenditures enough to please some; we cut the expenditures more than enough to please others. However, we have made a calculated decision.

I say that to increase spending without increasing revenue means exactly what I have said before, namely, high prices in the markets, high prices for furniture, high prices for everything from diapers to the finest formal dress which could be worn at a Washington party. I say that increased spending without increased revenue means high prices, and primarily it means high prices to be paid by the little people who can least afford to pay them. It also means higher prices for bombers and tanks and everything else our Government buys, and that means increased expenditures; and that can mean one of two things: Either more and bigger deficits or more and greater taxes.

Mr. President, I submit that no one can defend an arrangement by means of which, of the \$1,700,000,000 which would be lost by the Senate Committee version of the bill, as compared with the version of the bill passed by the House of Representatives, \$1,535,000,000 would go to the corporations and to persons having incomes of \$5,000 or more. \$1,535,000,000 of that which is lost—computing the loss on the basis of the House figure, as compared with the Senate committee figure will go to corporations, which have the highest profits in the history of American enterprise, or will go to the persons in our country who have taxable incomes of more than \$5,000 a year. That is not what we mean by taking care of the low-income groups; not on your life, Mr. President.

I think the Senator from Georgia is eminently correct when he says the low-income group has already paid until it hurts.

I submit that unless we tighten up the provisions of this measure, unless we revise the corporate tax rate and the excess profits tax rate, unless we eliminate some of the loopholes in the tax law, and unless we do something to revise the entire capital-gains structure provided by this bill, the little fellow will pay even more. He will pay it either through taxes or through inflation. If he pays it through inflation, he will pay it on a cost-plus basis.

That is my argument, Mr. President; and I believe that it is a valid one.

I do not contend that everything has been done as it should have been done. I have been critical of the administration for its hesitancy in applying controls; indeed, I have been critical publicly and privately. But I say, after all that has been done, what have we done to strengthen the law? We have heard it said that the administration did not carry out the law so well, so we should make it weaker. What else were we told? We were told that credit controls and taxes would correct the evils prevalent. Mr. Baruch wrote to the Senator from Minnesota. I have in my hand a letter dated September 20, 1951, in which Mr. Baruch said:

MY DEAR SENATOR HUMPHREY: As you know, I have been an advocate of very high taxes in war or preparation for war or defense, such as we are going through now. You may recall that I wanted to go all-out for 2 years—no piecemeal program such as we have had.

That is what Mr. Baruch says. He is for high taxes. He is for the kind of controls which are effective. He continues:

The bill that was passed over a year ago was a pretty good bill if they had only used the power granted. But apparently there was no desire to use the controls where to do so might interfere with large political pressure groups.

I think perhaps he is right, and I have spoken my mind on this subject to the President, the Economic Stabilizer, the Wage Stabilization Board, and all with whom I have conferred, pressure groups, and others. I have voted in the Senate against farm pressure groups, if one wishes to call them that, labor pressure groups, and business pressure groups. Many of these people had honest grievances, as I have discovered because I have come in contact with them. But it does no good to warm over old biscuits. We all make mistakes. The fact of the matter is that the cost of living is at a perilous height. The fact of the matter is that the cost of living is continuing to rise, and the fact of the matter is that, even though someone on Pennsylvania Avenue may not have done as well as he ought to have done, we in this body have to do what needs to be done in this tax bill.

I have read the testimony of the United States Chamber of Commerce in the record of the hearings. I read Mr. Alvord's testimony. I read the testimony of the Committee for Economic Development. I read the testimony for the National Association of Manufacturers. I read the testimony of the CIO and of the A. F. of L., of those who spoke

for the farmers, and of men who spoke for the Farm Bureau.

Mr. President, the fact of the matter is that there is now a crusade on in this country, and a new subtle party line, a new party line. What is the party line? "Prepare thyself, humble servant, for the day of the Federal sales tax." That is what the new party line is. That new line is buttressed by such thoughts as "corporations do not pay taxes, only people pay them." That line is buttressed by such statements as "We have gone as far as we can with the tax program, we can go no further." Can we not?

Mr. President, we can go further, as we will when American corporations making gross profits of \$49,000,000,000 or \$50,000,000,000 are properly taxed. We can go further, when we are squeezing out another \$5 or \$6 a month from the poor little family which is trying to eke out a living. We can go further.

We can plug up some of the loopholes in the tax laws, of which there are plenty. We can salvage the entire tax structure, if we desire to do so. I know it is not easy. But I submit, Mr. President, that the easy way out is to do what some people have already recommended, enacted a manufacturers' excise tax all the way down the line. That is the easy way out. But let me tell you, Mr. President, that way out is not going to be accepted without political repercussions and economic repercussions.

Let not anyone say that an economy which is producing a national income now at the rate of almost \$275,000,000,000 a year cannot bear this tax bill. Let not tell me that, when we find such reports as the one I had brought to my attention this morning, the Business News Reports of the United States Department of Commerce, Office of Business Economics. I read:

Plant expansion and equipment expenditures for the full year 1951 are expected to amount to \$24,800,000,000 as compared to \$18,600,000,000 last year, and \$19,200,000,000 in 1948, the previous peak year. Though costs of capital expansion have lessened since 1948 it appears that the physical amount of plant and equipment purchased this year will be about one-sixth more than in 1948, and one-fourth more than last year.

Mr. President, \$21,000,000,000 worth of savings were reported last year, \$21,000,000,000 worth of savings, despite the fact that in the low-income group the debt increased by over 34 percent. Thousands of our little people went into debt; and when I say the little people, I mean the great rank and file of the American taxpaying public, those receiving less than \$5,000 or \$6,000 a year.

Mr. McFARLAND. Mr. President, will the Senator yield?

Mr. HUMPHREY. I will yield in a moment. Those people are going into debt for what? To repair their cars, that they may go to work. When they trade their car in, they get a low trade-in allowance on a high-priced new car. A car to be used for what? To drive to work in the big industrial plant. The farmer wants new machinery, and he must pay new high prices. The farmer

wants fertilizer, and for that he must pay new high prices. The farmer wants seed, and for that he must pay new high prices.

Mr. President, I appeal to the Senate, there is one element in our economy which is making the greatest profits in the history of American enterprise, and there are those who are out to tax them out of business. I simply do not want them to come around here to tell this Senator or any other Senator that they cannot bear more. As the Senator from Wyoming so well said, American enterprise, grand as it is and great as it is, has everything to lose if we falter. The one weapon this country has, which Stalin does not have, is a great economic system, the greatest economic system in the world, and here we are playing with it, and I submit we are playing with it when, in the first full year of our mobilization, we admit to the world that we cannot pay the bill. What is going to happen in the second year, when General Eisenhower asks for a step-up development? What is going to happen in the third year, when we know that in order to protect our freedom, our free economic system, we have to do more than we are doing now?

Mr. President, I submit that an economy which employs 65,000,000 persons, an economy whose gross national product is \$330,000,000,000, whose annual income is more than \$275,000,000,000, an economy which has a greater production than anyone ever dreamed was humanly possible, can pay the cost of the present program for this year at least; and I submit that it can pay for it without squeezing out the last ounce of blood from the low-income group. We have already hurt them; we have already driven them into despair and distress. As one who has been privileged in America to have a little better income than some others, I can pay more taxes, and so can all other Senators. Anyone receiving \$10,000 or \$15,000 a year can pay more. Anyone receiving \$20,000 a year can pay more. Shame on us if we say we cannot. There are thousands of people in America in that group. The facts speak for themselves.

Mr. President, I have evidence of the facts from the committee itself. There are in America approximately 1,342,865 taxpayers with incomes of from \$10,000 to \$25,000. There are in America today approximately 247,141 taxpayers with incomes of from \$25,000 to \$50,000. I do not say that these people shall be penalized, but I say they have more to lose than anyone else, and it is preposterous to say they cannot pay more taxes. It may not be popular to say it, but it is preposterous to say they cannot pay more taxes. We can all pay more if we give up a little bit of our vacation, a little bit of some of the luxuries of life. We are not asking America to tighten her belt, but only to give up a little bit of her luxury; that is all. I refer to the kind of luxury we see when we go to the resorts and beaches of America, and up and down the land. Everyone will have to contribute a little. I am pleading for the bill to be judged on the basis of two factors:

No. 1. Does it meet the commitments which we as honorable men have already made? We have appropriated, and we have outlined the rate of expenditures. Does this bill meet the situation? The answer is "No."

No. 2. Is this bill based upon the fair and equitable principle of ability to pay? It is not. Does this bill, Mr. President, close the gaps of our tax law? Does it fundamentally alter our tax structure so that there will be less tax avoidance and tax evasion? No, indeed.

Until that is done, Mr. President, I intend to fight to improve the bill. Some people say, "You talk too much about the bill." I am talking about \$500,000,000, and that is worth fighting for and talking for. People fight for much less than that. I am talking about getting equity in the program. If it takes 2 weeks, we shall take 2 weeks; if it takes a week, or 2 days, we shall take that amount of time. We want reasonable debate on each and every amendment.

Mr. McFARLAND. Mr. President, will the Senator yield?

Mr. HUMPHREY. I yield.

Mr. McFARLAND. If I may so suggest to the Senator, I do not believe that talking for 2 weeks is going to gain any votes on any amendment. I say that in all kindness. We can come just as near to securing the adoption of any amendment by using a reasonable time in debate as by speaking for 2 weeks. Some of us are charged with the responsibility of trying to map out a program so that Senators can know on what to count. I should like to know, if the Senator does not mind telling me, how long he intends to speak, and whether we can expect to have a vote on the first amendment today. I might state to the Senator that yesterday there were 57 pages of talk in the CONGRESSIONAL RECORD, not including the Appendix, and that cost the Government approximately \$5,000. Of course, that is not much money as compared with the amounts we are talking about in connection with the bill, but I dare say the talk did not accomplish very much by way of gaining votes. I think most of the arguments have been made several times.

Mr. HUMPHREY. The Senator knows that the junior Senator from Minnesota does not object to having a unanimous-consent agreement. I wish we could agree to a time limitation on all the amendments. I am ready to enter into an agreement now. We adopted an amendment which, according to the committee report, will raise \$10,000,000. I will trade \$5,000 for \$10,000,000 any day. The fight which we are putting up in connection with this bill is simply to—

Mr. McFARLAND. Mr. President, will the Senator yield further?

Mr. HUMPHREY. I yield.

Mr. McFARLAND. I should like to invite the Senator's attention to the fact that each one of these amendments could be debated for 1 hour, 30 minutes to a side, and there would be more Senators on the floor to hear the arguments than would be present if the speeches lasted for hours and wore everyone out.

Mr. HUMPHREY. Let me say to the majority leader that I have listened to talk here that did not have to deal with as much as we are discussing at this time. We are talking about billions of dollars of revenue. As I said on Saturday and on Monday to the Senator, I should like to enter into a unanimous-consent agreement. Let us have the proposal. Let us enter into a unanimous-consent agreement.

Mr. McFARLAND. Mr. President, will the Senator yield for that purpose?

Mr. HUMPHREY. Indeed I will.

Mr. McFARLAND. Mr. President, I ask unanimous consent that the debate on each amendment be limited to 1 hour, 30 minutes on a side, to be controlled by the proponents of the amendment and by the distinguished Senator from Georgia [Mr. GEORGE] if he opposes the amendment; if not, by the acting minority leader; that a like limitation be placed upon each motion or appeal, and that the debate on the bill be limited to 2 hours.

Mr. CASE. Reserving the right to object, personally, Mr. President, I would be very much in favor of what the distinguished majority leader has suggested. However, it will be necessary for me to suggest the absence of a quorum before that kind of an agreement can be made. Therefore, I suggest the absence of a quorum.

The PRESIDING OFFICER (Mr. FREAR in the chair). Does the Senator from Minnesota yield for that purpose?

Mr. HUMPHREY. I shall be glad to yield for that purpose, provided that at the end of the quorum call we shall be able to enter into such an agreement.

Mr. McFARLAND. I cannot guarantee that we can enter into a unanimous-consent agreement.

Mr. HUMPHREY. I realize that no one can guarantee anything in this body.

Mr. GEORGE. Mr. President, I object to the Senator from Minnesota yielding for the purpose of suggesting the absence of a quorum.

The PRESIDING OFFICER. Objection is heard.

Mr. CASE. I withdraw my suggestion.

Mr. McFARLAND. Mr. President, the Senator from Minnesota has yielded the floor, and I have presented my request.

Mr. HUMPHREY. I have yielded the floor, Mr. President.

Mr. GEORGE. I have no objection, then, of course.

The PRESIDING OFFICER. The clerk will call the roll.

The Chief Clerk called the roll, and the following Senators answered to their names:

Aiken	Dworshak	Humphrey
Bennett	Eastland	Hunt
Benton	Eaton	Ives
Brewster	Ellender	Jenner
Bricker	Ferguson	Johnson, Colo.
Butler, Md.	Flanders	Johnson, Tex.
Butler, Nebr.	Frear	Johnston, S. C.
Byrd	Fulbright	Kem
Cain	George	Kerr
Capehart	Gillette	Kilgore
Carlson	Green	Knowland
Case	Hayden	Langer
Clements	Hendrickson	Lehman
Connally	Hennings	Lodge
Cordon	Hickenlooper	Long
Dirksen	Hill	Magnuson
Douglas	Hoey	Malone
Duff	Holland	Martin

Maybank
McCarran
McClellan
McFarland
McKellar
McMahon
Millikin
Monroney
Moody
Morse
Mundt
Murray

Neely
Nixon
O'Connor
O'Mahoney
Pastore
Robertson
Russell
Saltonstall
Schoeppel
Smathers
Smith, Maine
Smith, N. J.

Smith, N. C.
Sparkman
Stennis
Taft
Underwood
Watkins
Welker
Wiley
Williams
Young

The PRESIDING OFFICER (Mr. MOODY in the chair). A quorum is present.

Is there objection to the request of the Senator from Arizona [Mr. McFARLAND]?

Mr. SALTONSTALL. Mr. President, will the presiding officer please state the question?

The PRESIDING OFFICER. Will the Senator from Arizona restate his request, please?

Mr. McFARLAND. Mr. President, my request was that debate be limited on each amendment to 30 minutes to the side, the time to be controlled by the proponent of the amendment and the distinguished Senator from Georgia [Mr. GEORGE], or in the event that the Senator from Georgia is in favor of the amendment, then by the acting minority leader or any Senator he designates; that all amendments must be germane; that the same limitation be made as to motions and appeals; that debate on the bill be limited to 2 hours, to be controlled by the distinguished Senator from Georgia and the minority leader, or anyone he may designate.

I understand from the Senator from Minnesota [Mr. HUMPHREY] that he has an exception; he wants 1 hour to each side to be given to each of the four amendments he named on the floor. I am trying to enter into some arrangement whereby we will complete action on the bill at some time. I am willing to make an exception of the four amendments the Senator from Minnesota specified on the floor.

Mr. HUMPHREY. Mr. President, I will send those amendments to the desk. They are marked on a sheet.

The PRESIDING OFFICER. The list will be received.

Mr. TAFT. Mr. President, will the Senator yield?

Mr. HUMPHREY. I yield.

Mr. TAFT. There is only one amendment, as I understand, which will take any considerable time. The proposed agreement may, in fact, lengthen the debate. I would not want it to be understood that if debate on one of the four amendments were concluded before 2 hours, the amendment could not be voted on.

Mr. McFARLAND. No. There is simply a limitation on the length of time debate can continue. I would hope that we could finish the debate on each of the four amendments mentioned by the Senator from Minnesota in less than 2 hours. In fact, one of the amendments has been debated on the floor, not once, not twice, but at least a half a dozen times. Some of the others have been debated at length. I do not see any reason for as much as 2 hours debate on any of the four amendments.

Mr. BUTLER of Maryland. Mr. President, will the Senator yield?

Mr. McFARLAND. I yield.

Mr. BUTLER of Maryland. Is it contemplated that the pending amendment shall come under the agreement? I should think we could vote on that now. We have debated it all this afternoon. Let us vote now on the pending amendment and try to save time.

Mr. McFARLAND. That would be fine, but I wish to see if we can enter into the proposed agreement. I will do anything that is reasonable to expedite matters.

Mr. McCARRAN. Mr. President, will the Senator yield?

Mr. McFARLAND. I yield.

Mr. McCARRAN. Mr. President, I regret to say that I must object. I think this is probably the first time in my career that I have objected to a unanimous-consent request to limit debate. The status of the bill and the debate that has proceeded on it compels me to object to any limitation of debate at this time. I may not maintain that position, but at this time I cannot agree.

Mr. McFARLAND. Will the Senator withhold his objection for a moment?

Mr. McCARRAN. Certainly.

Mr. McFARLAND. Mr. President, I want to work out an agreement if it can be done, and in order to do so I should like to know if there are any other objections, so we can contact the Senators as we have the Senator from Minnesota [Mr. HUMPHREY].

Mr. SALTONSTALL. Mr. President, reserving the right to object, with the assistance of the clerks on the side of the minority I have checked the minority so far as I can, and I find the situation to be about as follows: Of the Senators on the minority side who had objections yesterday, one has withdrawn his objection entirely. The Senator from Oregon [Mr. MORSE] believed that there should be debate. I think I should wish to consult him finally, but I believe that he would be entirely satisfied by the suggestion of the Senator from Minnesota, to which I understand the Senator from Arizona agrees.

Mr. McFARLAND. Is the Senator referring to the Senator from Oregon [Mr. MORSE]?

Mr. SALTONSTALL. Yes.

Mr. McFARLAND. I talked with him yesterday evening.

Mr. SALTONSTALL. The junior Senator from Nevada [Mr. MALONE] feels substantially as does the senior Senator from Nevada, but I think he would be satisfied if he were assured of at least 2 hours' discussion on the bill, either tomorrow or next day.

The Senator from North Dakota [Mr. LANGER] has just entered the Chamber. I think I am correct in saying that there should not be any agreement entered into at the present time. So far as I know, with the exceptions I have mentioned, no other Member on the minority side is opposed to some form of unanimous-consent agreement.

Mr. O'MAHONEY. Mr. President, will the Senator yield?

Mr. McFARLAND. I yield.

Mr. O'MAHONEY. It is obvious that unanimous consent will not be given with

respect to the entire bill. However, there is a possibility that unanimous consent might be given with respect to that portion of the bill which has been the subject of most of the discussion today. The Senator from Minnesota [Mr. HUMPHREY], the Senator from New York [Mr. LEHMAN], the Senator from Illinois [Mr. DOUGLAS], and other Senators have a group of amendments to which they wish to devote more time.

With respect to the amendments which affect the excess-profits tax—

Mr. MCFARLAND. Mr. President, may I ask the Senator if he would be willing to agree to a limitation of debate on the amendment which he has presented?

Mr. O'MAHONEY. Yes; I am quite willing to do so.

Mr. MCFARLAND. How much time would the Senator want?

Mr. O'MAHONEY. So far as I am concerned, that amendment has been fully debated, and I am ready to vote now.

Mr. MCFARLAND. Mr. President, I ask unanimous consent that we may vote immediately on the pending amendment.

The PRESIDING OFFICER. Is there objection?

Mr. SALTONSTALL. Reserving the right to object, the Senator from North Dakota [Mr. LANGER], who has just left the Chamber, asked me on his behalf to register an objection to any unanimous-consent agreement at the present time.

Mr. GEORGE. Mr. President, I demand the regular order.

The PRESIDING OFFICER. The question is on agreeing to the motion of the Senator from Wyoming [Mr. O'MAHONEY] to strike out section 508.

Mr. CASE. A parliamentary inquiry. The PRESIDING OFFICER. The Senator will state it.

Mr. CASE. As I understand, the vote is on the O'Mahoney amendment, which is to strike from the committee amendment the section having to do with dealers in municipal bonds. A vote "yea" would be to strike that section from the committee amendment, and a vote "nay" would be a vote to support the committee position. Is my statement correct?

The PRESIDING OFFICER. The Senator is correct.

The yeas and nays have been ordered, and the clerk will call the roll.

The legislative clerk called the roll.

Mr. JOHNSON of Texas. I announce that the Senator from New Mexico [Mr. ANDERSON] is absent by leave of the Senate.

The Senator from New Mexico [Mr. CHAVEZ], the Senator from Tennessee [Mr. KEFAUVER], and the Senator from North Carolina [Mr. SMITH] are absent on official business.

I announce further that if present and voting, the Senator from New Mexico [Mr. CHAVEZ] and the Senator from North Carolina [Mr. SMITH] would vote "nay."

Mr. SALTONSTALL. I announce that the Senator from New Hampshire [Mr. BRIDGES] is absent because of illness of his immediate family.

The Senator from New Hampshire [Mr. TOBEY] is absent because of illness.

The Senator from Nebraska [Mr. WHERRY] is necessarily absent.

The Senator from Wisconsin [Mr. McCARTHY] is detained on official committee business, and, if present, he would vote "nay."

The Senator from Minnesota [Mr. THYE] is absent by leave of the Senate, and, if present, he would vote "nay."

The result was announced—yeas 22, nays 65, as follows:

YEAS—22

Benton	Hunt	Murray
Douglas	Kilgore	Neely
Fulbright	Langer	O'Mahoney
Green	Lehman	Pastore
Hayden	Magnuson	Smathers
Hennings	McMahon	Sparkman
Hill	Moody	
Humphrey	Morse	

NAYS—65

Aiken	Frear	McFarland
Bennett	George	McKellar
Brewster	Gillette	Millikin
Bricker	Hendrickson	Monroney
Butler, Md.	Hickenlooper	Mundt
Butler, Nebr.	Hoey	Nixon
Byrd	Holland	O'Connor
Cain	Ives	Robertson
Capehart	Jenner	Russell
Carlson	Johnson, Colo.	Saltonstall
Case	Johnson, Tex.	Schoeppel
Clements	Johnston, S. C.	Smith, Maine
Connally	Kem	Smith, N. J.
Cordon	Kerr	Stennis
Dirksen	Knowland	Taft
Duff	Lodge	Underwood
Dworshak	Long	Watkins
Eastland	Malone	Welker
Eaton	Martin	Wiley
Ellender	Maybank	Williams
Ferguson	McCarran	Young
Flanders	McClellan	

NOT VOTING—9

Anderson	Kefauver	Thye
Bridges	McCarthy	Tobey
Chavez	Smith, N. C.	Wherry

So Mr. O'MAHONEY's amendment to the amendment of the committee was rejected.

Mr. O'MAHONEY obtained the floor.

Mr. MCFARLAND. Mr. President, will the Senator from Wyoming yield briefly to me for an explanatory statement?

Mr. O'MAHONEY. Yes.

Mr. MCFARLAND. I should like to make a statement involving the vote yesterday on the amendment affecting the tax on cooperatives, offered by the senior Senator from Delaware [Mr. WILLIAMS]. The senior Senator from North Dakota [Mr. LANGER] has been very much interested in the tax provisions on cooperatives. He had spoken to me, expressing the hope that a vote be not taken on the Williams amendment until he returned from San Francisco. I regret that the Senator from North Dakota's request escaped my mind completely last evening when I was one of those on the floor who was pushing for a vote on the Williams amendment. Of course, if the vote had not resulted as it did, the senior Senator from North Dakota would have had the right to move to reconsider the vote upon his return. I regret very much that the vote was taken in his absence, since had I recalled his request, I certainly would have asked that the vote be deferred to today.

Mr. LANGER. I thank the Senator from Arizona.

Mr. CAPEHART. Mr. President, does the Senator's statement mean that at

any time when a Senator is absent he can have a vote reconsidered on his return?

Mr. MCFARLAND. The Senator from Indiana knows that any Member may move to have a vote reconsidered, if such a motion has not already been made and disposed of.

Mr. CAPEHART. Does it mean also that a speech will be made for any of us who happens to be absent?

Mr. MCFARLAND. If the Senator from Indiana had requested me to do what the Senator from North Dakota, did, and his request had escaped my mind, I would be most happy to state on the floor in his behalf that the request had been made. I would do that for any Senator.

Mr. O'MAHONEY. Mr. President, I regard the vote which has just been taken as rather indicative of the votes which may be taken on some of the other amendments which I have in mind with respect to the elimination of the relief provisions of the bill. I have learned from Members of the Senate, some of whom voted against the amendment which has just been rejected, that they would prefer to vote on the acceptance or rejection of the committee amendment to the House bill. It is the amendment which appears at page 332 of the bill. The amendment is brief, and it can be easily explained. The House, in passing the tax bill, proposed to lower the base relating to the excess profits credit based on income. The House provision has the effect of saying that the excess profits tax shall fall only upon the top 25 percent.

Mr. GEORGE. Mr. President, I should like to inquire of the Senator from Wyoming whether he is referring to title V. Does he have any further amendment to that title?

Mr. O'MAHONEY. I still have further amendments which I may care to offer. I am trying to expedite matters. I said a moment ago that I am inclined to believe that the vote which has been taken is indicative of the persuasive eloquence of the Senator from Georgia. I am not disposed to stand upon the floor and take up the time of the Senate unnecessarily.

Mr. President, I have been explaining to the Senator from Georgia that my purpose now is to turn to page 332 and ask, under the unanimous-consent rule which was adopted on September 19, that the action agreeing to committee amendment striking out section 502 be now regarded as rescinded. I am ready to have it come to a vote without more than 10 minutes debate on my part.

Mr. TAFT. Mr. President, will the Senator from Wyoming yield?

Mr. O'MAHONEY. Yes.

Mr. TAFT. Do I understand correctly that the Senator from Wyoming is withdrawing the pending amendment?

Mr. O'MAHONEY. The amendment which was pending was rejected by the Senate. That was the only amendment which the Senator from Wyoming had offered.

Mr. TAFT. The Senator from Wyoming had opened up the committee amendment on title V.

Mr. O'MAHONEY. That is true.

Mr. TAFT. That amendment is before the Senate now. The Senator from Wyoming has already spoken twice on it. He is now trying to speak a third time on it.

Mr. O'MAHONEY. The Senator from Ohio is mistaken. If the Senator will listen to what I am saying, he will see that he is in error. I have just said to the Senator from Georgia—and I shall be guided entirely by what the Senator from Georgia says about it—that in my opinion action upon the excess-profits phases of the bill will be expedited if we now have a vote on the committee amendment which strikes out the House provision changing the base.

Mr. TAFT. Mr. President, will the Senator yield?

Mr. O'MAHONEY. Yes.

Mr. TAFT. My point is that under the general consent agreement the Senator has opened up the question on title V.

Mr. O'MAHONEY. The Senator from Ohio is quite correct about that.

Mr. TAFT. Therefore, that committee amendment is now before the Senate. Until the Senate disposes of the committee amendment, I suggest that the Senator from Wyoming cannot move to another committee amendment in section 502.

Mr. O'MAHONEY. The Senator from Ohio is speaking from his knowledge. I am speaking from knowledge given to me by the Senator from Georgia, who tells me that he may wish to offer an amendment to the committee amendment. I also know that the Senator from Colorado wishes to offer an amendment to the committee amendment. Therefore, I am at a loss to know just what to do until the members of the committee perfect their own amendment.

Therefore, I am seeking, in the interest of expediting action on the bill, to have the Senate reach a vote on the committee amendment striking out the House provision.

Mr. TAFT. I suggest that the Senator from Wyoming can do that only by unanimous consent.

Mr. O'MAHONEY. Yes, of course.

Mr. TAFT. Because the other committee amendment is before the Senate, and until it is disposed of, we cannot deal with another committee amendment.

The PRESIDING OFFICER. That is correct.

Mr. TAFT. The Chair agrees with that.

Mr. O'MAHONEY. The Senator from Georgia indicates that he would like to offer some perfecting amendments to the excess-profits-tax provisions reported by the committee in title V. I have no objection to proceeding in that way.

However, I say that the position taken by the Senator from Ohio is not my understanding of parliamentary procedure. The mere fact that a Member of this body reopened the entire title V did not constitute a rule that the Senate could consider only title V. In order to demonstrate that, it is only necessary

to read the unanimous-consent agreement, which is as follows:

Ordered, by unanimous consent, that the committee amendments to the pending bill (H. R. 4473), the Revenue Act of 1951, be agreed to en bloc: *Provided, however*, That such action with respect to any specific amendment shall, upon the request of a Senator be deemed to be rescinded, and the consideration of such amendment shall then be proceeded with in accordance with the rules of the Senate.

I am willing to allow the Senator from Georgia to proceed; and I yield the floor.

Mr. GEORGE. Mr. President, I merely wish to offer two clarifying amendments to section 507, beginning on page 303. They are purely clarifying; I do not think there can be any objection to them. I wish to do that before we finally dispose of this whole title.

I should like—and I think the situation is apparent if one examines that portion of the bill—to offer a clarifying amendment to the committee amendment, beginning on page 303, where will be found section 507, entitled "Decrease in Inadmissible Assets." The amendment would be as follows: to revise section 435 (g) (10) (B) (i), to read as follows:

Property used in the taxpayer's trade or business within the meaning of section 117 (j) (1), except that such property need not be held more than 6 months.

The only purpose of including that provision was to describe the property. This section relates solely to the conversion of inadmissible assets into admissible assets if they are invested in operating property. That is all that is intended. However, some fear has arisen on the part of some persons who have read the section that we were requiring that before they could convert an inadmissible asset into an admissible asset by, let us say, selling a bond and investing the proceeds of the bond in a boiler or an engine, they would have to hold the boiler or the engine for 6 months. Of course, that was not true. When we referred to section 117 (j) (1) it was merely for the purpose of description; that is all we intended to do.

The other amendment which I wish to offer to the section is purely clarifying. It relates to section 435 (g) (10) (C), and reads as follows:

The amount determined under paragraph (9) shall be subject to reduction to the extent that the Secretary determines.

That amendment is purely clarifying and is not intended to change the sense or the meaning at all. However, inasmuch as the descriptive term first used might indicate that before one could convert an inadmissible asset into an admissible asset, he would have to hold the property for 6 months, it seemed necessary to offer this amendment to the committee amendment.

So, Mr. President, I offer those two amendments to the committee amendment.

The PRESIDING OFFICER. The amendments submitted by the Senator from Georgia to the committee amendment will be stated.

The LEGISLATIVE CLERK. In the committee amendment on page 305, after line 3, it is proposed to revise section 435 (g) (10) (B) (i) to read as follows:

Property used in the taxpayer's trade or business within the meaning of section 117 (j) (1), except that such property need not be held more than 6 months.

In the committee amendment on page 305, after line 18, it is proposed to amend section 435 (g) (10) (C) to read as follows:

The amount determined under paragraph (9) shall be subject to reduction to the extent that the Secretary determines * * *

The PRESIDING OFFICER. The question is on agreeing to the amendments submitted by the Senator from Georgia to the committee amendment.

The amendments to the committee amendment were agreed to.

Mr. GEORGE. Mr. President, I have no other amendment to offer to the committee amendment.

Mr. JOHNSON of Colorado. Mr. President, I desire to offer an amendment to the committee amendment on page 320, section 518, entitled "Consolidation of Newspapers." This amendment to the committee amendment is technical in nature. It refers to the consolidation of newspapers occurring after the base period, but prior to 1950. Prior to the consolidation of the business of the two newspapers, they had very heavy expenses and paid very low taxes; but after they were reorganized, they had, of course, more profits because they had reduced their expenses.

So in arriving at what their profits should be, and in order not to affect their profits in an abnormal way, it is proposed that they may add their expenses to their profits in the base period, which will give a better picture of what their base period should be.

So, Mr. President, I send to the desk the amendment to the committee amendment. As I have said, the amendment is very technical in nature.

Mr. O'MAHONEY. Mr. President, will the Senator from Colorado yield to me, to permit me to ask a question?

Mr. JOHNSON of Colorado. Yes; I yield for that purpose, although I do not know whether I can answer the question.

Mr. O'MAHONEY. I rather think the Senator from Colorado will be able to answer the question, judging from what he has already stated.

Mr. President, do I correctly understand from the description the Senator from Colorado has given of this provision of title 5, namely, section 518, which deals with consolidation of newspapers, that it was written into the bill for the express purpose of dealing with one consolidation?

Mr. JOHNSON of Colorado. No; of course not. All tax measures have to be general in their application and have to apply to every taxpayer.

Mr. O'MAHONEY. Is this not a case of general language designed to accomplish a specific result?

Mr. JOHNSON of Colorado. Oh, I would not say that, necessarily.

The PRESIDING OFFICER. The clerk will state the amendment.

The LEGISLATIVE CLERK. On page 320, it is proposed to strike out lines 19 through 22, and insert in lieu thereof the following: "from July 1, 1950, if—", and on page 321, in line 24, it is proposed to strike out "determined under section 435 (d) (4)" and insert "determined under section 435 (d) (4); the taxpayer's average base period net income determined under this subsection shall be an amount computed under section 435 (d) plus an amount equal to the excess of the average of the amounts paid or incurred as expenses in the conduct of the operations described in paragraph (1) during the two taxable years of the taxpayer next preceding the taxable year in which such consolidation began over such amounts paid or incurred during the first taxable year of the taxpayer beginning after such consolidation."

The PRESIDING OFFICER. The question is on agreeing to the amendment offered by the Senator from Colorado to the amendment.

Mr. O'MAHONEY. Mr. President, I have no objection to agreeing to the perfecting amendment offered by the Senator from Colorado, but after it has been adopted, I merely want to say a word about the propriety of such action.

The PRESIDING OFFICER. The question is on agreeing to the amendment of the Senator from Colorado to the amendment of the committee.

The amendment to the amendment was agreed to.

Mr. O'MAHONEY. Mr. President, with respect to the committee amendment itself, as amended—

Mr. FREAR. Mr. President, will the Senator yield?

Mr. O'MAHONEY. I yield to the Senator from Delaware.

Mr. FREAR. I have one little clarifying amendment to title V.

Mr. O'MAHONEY. In the same section?

Mr. FREAR. It is in title V.

Mr. O'MAHONEY. Let us dispose of this section first. Section 518 is now before the Senate, as amended by the Senator from Colorado. It is clear from the record that this is a relief provision which is designed to give special consideration to a special condition. The taxpayer to be benefited by this consolidation of newspaper operations must first, after the close of the first half of the base period and prior to July 1, 1950, have "consolidated its mechanical, circulation, advertising, and accounting operations in connection with its newspaper publishing business with such operations of another corporation engaged in the newspaper publishing business in the same area."

All in the world that means is that a particular newspaper corporation must before July 1 have purchased the assets—the mechanical assets, the circulation, the accounts, and so forth of it—of another, and by the result of such purchase reduced the expenses of its operations, thereby increasing its profit. That is clear from the next paragraph, paragraph 2.

Mr. JOHNSON of Colorado. Mr. President, will the Senator yield?

Mr. O'MAHONEY. Will the Senator let me read this, please?

Mr. JOHNSON of Colorado. Certainly.

Mr. O'MAHONEY. Second, this is applicable only if the taxpayer, in addition to the foregoing, establishes to the satisfaction of the Secretary that, during the period beginning with the consolidation and ending with the close of the first taxable year beginning after the consolidation, such consolidation resulted in substantial reductions in the amounts which would otherwise have been paid or incurred as expenses in the conduct of the operations described in paragraph (1). So here we have a combination, a consolidation, purchase of the machinery and purchase of the assets, which reduces the expense, and which must necessarily, therefore, increase the profit. I yield to the Senator from Colorado.

Mr. JOHNSON of Colorado. Mr. President, the Senator may be correct in the example which he has stated, but the particular case which I mentioned as one of the examples of the situation in which this would apply did not include the purchase of the machinery. There was not a purchase of the machinery. There was not a purchase of the plant. There was consolidation in the operation of two newspapers, and the savings grew out of the consolidated operations; and instead of having heavy expense and loss, they were able, not at all due to the war but due to great efficiency in their operations, to make a profit. Now the excess-profits tax comes along and taxes them for their more efficient method, and the better service rendered to the community.

Mr. O'MAHONEY. Mr. President, what the Senator has said means but one simple thing: There was a consolidation which has reduced expenses and increased profits and made the newspaper more capable of paying taxes. It is obviously a special condition. It seems to me that the amendment should be rejected.

The PRESIDING OFFICER. The question is on agreeing to title V as amended.

Mr. O'MAHONEY. No, Mr. President, the question is on agreeing to section 518, as amended.

Mr. KERR. Mr. President, a parliamentary inquiry.

The PRESIDING OFFICER. The Chair is informed by the Parliamentarian—

Mr. O'MAHONEY. Mr. President, in order to make the matter perfectly clear, then, I move to strike section 518 as amended.

The PRESIDING OFFICER. The question is on agreeing to that section as amended.

Mr. GEORGE. No, Mr. President, there is a motion to strike.

Mr. O'MAHONEY. Mr. President; I am making the formal motion to strike section 518, as amended, and those who wish to strike this section should vote "aye," and those who wish to vote with

the Senator from Colorado should vote "no."

The PRESIDING OFFICER. The Parliamentarian informs the Chair that the question is on agreeing to the section as amended. A negative vote will accomplish the purpose of the Senator from Wyoming; an affirmative vote will accomplish the opposite.

Mr. MILLIKIN. Mr. President, we are unable to hear the ruling of the Chair.

Mr. O'MAHONEY. It all depends upon which way the Chair submits the question. If the amendment is submitted as a committee amendment, as amended, then those of us who are opposed to it should vote "no." If, however, it is submitted upon my motion, which is altogether similar to the motion I made with respect to section 508, that section 518, as amended, be stricken from the committee amendment, then those who do not believe this special arrangement should be made should vote "aye." I propound the parliamentary inquiry, How is the Chair going to submit the question?

The PRESIDING OFFICER. The Chair is informed that such questions are submitted in the affirmative. The question is on agreeing to section 518, as amended.

Mr. O'MAHONEY. Mr. President, on that I merely desire to say that those who agree with the Senator from Colorado should vote "aye," and those who agree with the few remarks I have made on this matter should vote "no."

The PRESIDING OFFICER (putting the question.) The "ayes" have it, and the amendment is agreed to.

Mr. FREAR. Mr. President, I offer an amendment to section 514.

The PRESIDING OFFICER. The clerk will state the amendment.

The CHIEF CLERK. On page 315, line 8, after "(d)," it is proposed to insert "(without regard to the requirement of payment of the lessor's taxes by the lessee)."

Mr. FREAR. Mr. President, this amendment is designed to clarify the application of section 514 of the bill which provides that railroad lessor corporations will be permitted to qualify for the regulated public utility credit under the excess-profits tax where they file consolidated returns with their railroad lessee corporations. It appears that the provision as it appears in the bill could be interpreted so as to deny this right in certain areas. The amendment is designed to carry out the original purpose of the finance committee in including this provision in the bill.

The PRESIDING OFFICER. The question is on agreeing to the amendment of the Senator from Delaware [Mr. FREAR] to the amendment of the committee.

The amendment to the amendment was agreed to.

Mr. CAPEHART. Mr. President, I send to the desk an amendment.

The PRESIDING OFFICER. The clerk will state the amendment.

The LEGISLATIVE CLERK. On page 316, line 17, it is proposed to amend section 516.

Mr. O'MAHONEY. Mr. President, may I interrupt the clerk? The amendment offered by the Senator from Delaware was an amendment to section 514. Section 514 as amended has not yet been acted upon, and I suggest that the question be submitted. I have no objection to it; I am not going to raise any question.

Mr. TAFT. Mr. President, I think the Senator has a wrong idea of what we are doing. It is an amendment to the whole committee amendment. It has now been adopted and we have now before us the question of whether we shall adopt title V.

Mr. O'MAHONEY. The Senator is quite correct.

Mr. TAFT. Unless we vote, as the Senator did, to strike it out, there is no purpose in dealing with that particular section.

Mr. O'MAHONEY. My only purpose is that I may be protected, because there are some additional amendments which in due course I should like to present. I have no objection to this particular amendment.

Mr. GEORGE. Mr. President, I think we can shorten the debate by saying that the amendment offered by the distinguished Senator from Delaware was a purely clarifying amendment, and I think we might approve section 514 by an affirmative vote.

Mr. O'MAHONEY. That is precisely what I stated.

Mr. TAFT. Mr. President, a point of order.

The PRESIDING OFFICER. The Senator will state it.

Mr. TAFT. We have no jurisdiction to approve the section unless a separation is asked for.

Mr. GEORGE. Mr. President, I think the Senator from Ohio is technically correct, but I thought we might shorten the deliberations by getting rid of this amendment which is purely a clarifying amendment.

Mr. TAFT. If that procedure is followed, we shall have to approve every amendment to title V. It would seem to me that the question is, Shall we adopt title V as a whole?

Mr. GEORGE. I think that is true, and I hope we shall soon do so.

The PRESIDING OFFICER. The clerk will state the amendment offered by the Senator from Indiana [Mr. CAPEHART].

The LEGISLATIVE CLERK. On page 316, line 19, it is proposed to amend section 516 as follows:

Section 516 is hereby amended by amending new section 459 (a) as follows:

"(a) By adding the following language at the end of subsection (2) thereof: 'Or, (A) the adjusted basis for determining gain of taxpayer's total facilities (as defined in section 444 (d) on the last day of its base period was 180 percent or more of the adjusted basis for determining gain of its total facilities on the first day of its base period, (B) the taxpayer's principal raw materials during 1950 were metals subject to the stockpiling program of the United States Government, or scrap containing such metals, and (C) the percentage of the taxpayer's aggregate gross income which was from prime contracts with

the United States was less than 1 percent for the calendar year 1950.'

"(b) By adding the following language at the end of subsection (4) thereof: 'or, the taxpayer's gross receipts (as determined under paragraph (5) of section 435 (c) for the calendar year 1950 equals or exceeds 160 percent of its gross receipts for the calendar year 1949.'

Mr. FLANDERS. Mr. President, will the Senator from Indiana tell us the page number of the bill to which the amendment relates?

Mr. CAPEHART. Page 316.

Mr. President, this is a technical amendment, in that it takes care of certain categories of businesses, primarily, the minerals business, which lost money in 1949, and which was in an unusual situation as a result of converting from war production into civilian production. I was hopeful that the chairman of the committee would take the amendment to conference and study it in conference. The amendment was prepared by the Senate Finance Committee, and I should like to ask the able chairman of the committee if he will take it to conference and see if it is not worth while.

Mr. GEORGE. Mr. President, I have had no opportunity to study the amendment. I have no recollection of its having been presented to the committee. If it was, I do not recall it. Without some study I would not be able to take it to conference, because it would simply add to the burden of work in connection with a long bill. If the Senator will leave the amendment with us, I shall be glad to look at it.

Mr. CAPEHART. Mr. President, a parliamentary inquiry.

The PRESIDING OFFICER. The Senator will state it.

Mr. CAPEHART. Are we going to be estopped from offering amendments to this section if the entire section is voted upon?

Mr. GEORGE. That would be true, Mr. President, unless unanimous consent were given to accept amendments for the conference which pertained to the particular section. If the Senator's amendment is left with us, we can study it.

Mr. CAPEHART. I withdraw the amendment and will offer it at a later date, after consulting with the chairman of the committee and the staff.

Mr. HENDRICKSON. Mr. President, I have an amendment identified as "9-20-51-F."

Mr. GEORGE. Mr. President, that amendment was presented to the committee. I should like to have the Senator offer it so that the Senate may see what it is. I have no hesitancy in saying that, so far as I am concerned, the amendment presents a meritorious case for consideration. As I recall, it involves a situation where a taxpayer in the base period made contracts for the expansion of his plant to the extent of approximately 190 percent of his investment, or at least involving large expenditures.

Mr. HENDRICKSON. That is correct.

Mr. GEORGE. The improvements were constantly going on until he reached

the end of the base period, and, of course, if he could not take into consideration his investment already committed, already in progress during the greater part of the base period, he would be terrifically penalized so far as any excess-profits credit was concerned. I think I recall the amendment, and other members of the committee may recall it. It occurs to me as being a meritorious amendment, and I have no objection to it. But I should like to have the Senator present it and let the Senate pass upon it.

Mr. HENDRICKSON. Would the Senator from Georgia like to have the amendment presented at this time?

Mr. GEORGE. Yes. It relates to excess profits. It is a peculiar case, in that the capacity of the plant was greatly increased. It was done on borrowed money, but the commitment was made in the base period. The work was commenced and carried on in the base period and was practically completed in that period. If the borrowed money is paid back, the taxpayer loses his base for invested capital. It struck me as being a meritorious situation.

Mr. HENDRICKSON. Mr. President, I offer the amendment, which I send to the desk and ask to have stated.

The PRESIDING OFFICER. The clerk will state the amendment offered by the Senator from New Jersey.

The LEGISLATIVE CLERK. At the proper place in the bill it is proposed to insert the following:

SEC. —. Section 444 (f) (relating to increase in capacity for production or operation) is hereby amended to read as follows: "(f) Rules for application of section:

"(1) The benefits of this section shall not be allowed unless the taxpayer makes application therefor in accordance with section 447 (e).

"(2) Any increase in the taxpayer's capacity for production or operation consummated during any taxable year ending after the last day of the base period, as a result of the construction of additional facilities begun and continued during the base period, shall be deemed to be an increase in capacity in existence on the last day of the base period."

Mr. HENDRICKSON. Mr. President, as the distinguished from Georgia has said, this is a meritorious amendment. The able Senator has thoroughly explained it, perhaps with more accuracy than could the junior Senator from New Jersey. I am not going to labor it further.

Mr. GEORGE. Mr. President, I should like to have it understood that I am willing to accept the Senator's amendment and take it to conference. I think we should be free in conference to discuss these questions.

Mr. HENDRICKSON. The junior Senator from New Jersey quite agrees to that suggestion.

The PRESIDING OFFICER. Without objection, the amendment offered by the Senator from New Jersey is agreed to.

Mr. HENDRICKSON. Mr. President, I ask unanimous consent to have inserted in the RECORD at this point in my remarks an explanation of the amendment.

The PRESIDING OFFICER. (Mr. FREAR in the chair). Without objection, it is so ordered.

The statement is as follows:

STATEMENT BY SENATOR HENDRICKSON

I have called up my proposed amendment to H. R. 4473 designed to help smaller business which is now being subjected to an excess-profits tax on normal profits attributable to expanded facilities.

Everyone knows the circumstances under which the present excess-profits tax law has been drafted. The intent of Congress was not to impose an excess-profits tax on the normal earnings of corporations, but only to siphon off increased corporate profits attributable to the Korean war and the large military expenditures of our defense effort. Congress faced the problem of fitting a complicated statute to even more complicated business affairs. Congress was dissatisfied with the relief provisions contained in the World War II excess-profits tax. We felt that relief should be extended in specific sections rather than in a general section like section 722. At the same time we fully realized that experience with the statute would inevitably reveal situations which we had inadvertently failed to cover.

My amendment deals with one of these situations. By and large this situation affects smaller corporations which decided in the early part of the base period—1946-49—to expand their facilities and did not complete their expansion until some time shortly after the end of the base period. As the law now stands, these corporations are deprived of any credit for the normal earnings attributable to the additional facilities. Yet clearly Congress did not, and does not, intend to impose tax upon corporations making a large capital investment in new facilities before the beginning of their first excess profits tax year even though the construction of the new facilities was not completed by the end of the base period. Otherwise we would be punishing progressive expanding small companies and in many cases threatening their very existence. Even the much-criticized section 722 of the former excess profits tax allowed a normal earnings return on this kind of capital investment.

My amendment has particular reference to corporations which took the risk of borrowing large sums of money in the base period in order to obtain capital for expanded peacetime production capacity. An excess profits tax on the normal earnings produced by their expanded capacity simply means that a good many of these corporations will not have left, after taxes, sufficient earnings to repay their loans according to their borrowing contract.

My amendment relates principally to smaller corporations because these corporations are less likely to have other funds or resources with which to keep faith with their creditors.

Existing law, through no fault of Congress which worked on the statute under great pressure, does not take care of the kind of situation I have in mind. Section 444 is inadequate because it makes no provision for those corporations which, because of the extended nature of their expansion, did not complete the new productive capacity before the end of the base period. Section 435 (f) is inadequate because it makes no provision for those companies which invested capital funds in expanded facilities more than 2 years before their first excess profits tax year. This section overlooks the fact that, in many instances, such investments could not be finally converted into production until after the end of the base period.

The harshness of existing law is intensified in the case of corporations which have borrowed heavily to expand their facilities. Under existing law these businesses are not only deprived of any credit for their expanded

peacetime facilities; in addition, the credit which they would otherwise have is reduced as they repay the heavy indebtedness incurred in building the new facilities.

The harshness is further intensified by the fact that a new corporation would get relief measured by an industry rate of return. Older corporations in the same basic situation get no relief.

Clearly, with a number of excess-profits-tax amendments in the statute, the situation I have described calls for affirmative relief at this time. The committee has already adopted a meritorious amendment which goes much further than the amendment I am about to offer. I am referring to the amendment dealing with expanded facilities and product changes where commitments were made before the end of the base period and construction began before June 30, 1950.

We cannot afford to endanger the continued existence of progressive, growing businesses at a time when their industrial potential capacity is most urgently needed. As the Senate Finance Committee specifically stated last year, an excess-profits tax should be "so framed as not to interfere with the normal expansion of the industrial capacity of the Nation." My amendment is designed to prevent any such interference.

Mr. O'MAHONEY. May I inquire whether there are any other amendments to be offered to this section by the members of the committee? Apparently not. That being the case, Mr. President, I offer the following amendment: That section 517 on page 318 entitled "Base Period Catastrophe" be stricken from the bill. My reason for doing this, Mr. President, is to be found in the report of the committee itself. On page 85 item 20 states:

Section 442 of the code provides that, in the case of corporations having abnormalities in one of their three highest base-period years, their industry rate of return for the year of the abnormality, multiplied by their total assets in such year, may be substituted for the earnings in their year of abnormality. In the case of abnormalities in two or all of their three highest years, it provides that the average industry rate of return for the base period, multiplied by their average total assets for the base period, may be substituted for their base-period earnings.

That this section is unnecessary is clear from the next sentence of the committee report:

Although your committee believes that this is satisfactory in the case of most abnormalities, it appears that where a fire or explosion or other similar catastrophe has destroyed an important part of the corporation's productive facilities, the credit computed under section 442 may be inadequate.

There is no judgment by the committee that it is inadequate. The existing law provides for credit in the case of abnormalities. A catastrophe is an abnormality. I can see no reason for the adoption of this committee amendment except that it apparently would apply to a particular case or a particular small group of cases. It was already explained in the case of one amendment that has been adopted that there was a consolidation of newspapers involved. I believe it is altogether unwise in a tax bill of this character to adopt amendments which on their face deal with special cases.

Mr. SCHOEPEL. Mr. President, will the Senator yield?

Mr. O'MAHONEY. I yield.

Mr. SCHOEPEL. I should like to ask the distinguished Senator from Wyoming whether the objection which he raises would in any way affect those who might be entitled to relief as a result of the devastating floods that have happened.

Mr. O'MAHONEY. No; I am sure it would not, because as the committee report says, under the existing law, section 442, there is provision for credit in case of abnormalities, and a flood is an abnormality, and as a matter of fact it is so stated under section 442.

Mr. GEORGE. Mr. President, I am afraid that it might affect the flood situation. I wish to be perfectly frank about the section. It may have been urged by taxpayers who would get no benefit from it. But actually it is not a bad amendment. It is a valid amendment. I think it has merit. All it means is this, that if the taxpayer suffers a catastrophe in one year, then he is not obliged to take the industry experience for that one year, but may take his own experience for the prior year, that is, the year before the catastrophe year. I must say that I think it would apply to taxpayers in the flood areas who may be excess profits earners though the flood destroyed the profits. What it means is simply this, that in the year the taxpayer would not be obliged to take the industry experience as his earnings, but he could say, "Well, now, last year I was in business. I had no catastrophe, and I ought to take that experience." That is all it means. It only affects his base, but the base itself, of course, is important in calculating and computing the excess profits taxes.

Mr. SCHOEPEL. Mr. President, will the Senator yield further.

Mr. O'MAHONEY. I yield.

Mr. SCHOEPEL. I desire to thank the Senator from Georgia for the explanation, because there could be a most important factor to be taken into consideration in that area.

Mr. GEORGE. I think there could. This amendment was probably urged upon the committee by some who had other experience. It would not accomplish anything for the others who urged it; but it would be a valid amendment as I see it, affecting any taxpayer who suffered from a great catastrophe, a great flood, or anything else. In the cases that were actually submitted which led us to believe it to be meritorious, it appears that they had an experience which would not have been of use to them. But in the case of many of the taxpayers in the flood areas, I think they might be helped by this amendment.

Mr. CONNALLY. Mr. President, I have just hurriedly come into the chamber. I have been in a conference committee downstairs. I understand a motion is pending to strike out section 517.

The PRESIDING OFFICER. That is correct.

Mr. CONNALLY. Mr. President, I submit that in my State we had a terrific catastrophe for which the people in that State were in no wise to blame. A French ship loaded with explosives and munitions came to Texas City, and as it was pulling up to the dock it exploded, resulting in the loss of hundreds of lives and the destruction of factories

and plants. The disaster was severe. The explosion resulted in extremely serious disadvantage to the industry and the business of the people of that city and area. As I said, it killed hundreds of people. I am not exaggerating when I make that statement. If that is not a case in which there should be recognition of the desirability and humanity of a provision of this kind, as carried in the bill, to allow the relief that is provided in the section, I do not know what kind of a case could be presented.

Mr. President, next to the great Galveston disaster in Texas comes this tremendous disaster in Texas City. The Galveston-flood disaster would not, of course, be affected by this provision of the bill. In the Galveston flood of 1900, 10,000 of the citizens of my State were drowned. The sea simply moved in and submerged the city. Bodies floated out to sea in great numbers. As I said, next to the Galveston disaster the Texas City disaster is the greatest calamity that has ever struck my State.

Mr. President, I beg the Senate not to deny the advantages of this section to those people. The Texas City disaster is simply one illustration. Other great calamities have occurred; for example, the great floods in Kansas and Missouri which occurred recently. Will any Senator tell me that he would put a man who loses money in a business venture in which he has undertaken to make a profit in the same class with these innocent people who suffered the loss of their property, and many of whom lost their lives? I think not.

Mr. President, I do not want to take the time of the Senate to labor the point. I simply plead with the Senate not to drive the dagger into the very heart of these poor, innocent people who have already suffered the loss of their property, in many cases the loss of their future, in a terrible calamity, a loss which no one can repay them for or restore to them, not even the Finance Committee.

Mr. O'MAHONEY. Mr. President, will the Senator yield?

Mr. CONNALLY. I yield.

Mr. O'MAHONEY. Does the Senator from Texas wish the Senate to understand that this amendment deals with individuals who lost their property in the great disaster which he has described?

Mr. CONNALLY. It makes no difference to me whether it relates to individuals or property owned by individuals. I know that a number of great plants upon which the people depended for employment and as a means of livelihood were affected. There is no reason on earth why a company, a plant, or a corporation which innocently suffers tragic disaster should be denied the benefits of legislation of this character.

Mr. MILLIKIN. Mr. President, will the Senator yield?

Mr. CONNALLY. I yield.

Mr. MILLIKIN. As I recall the case to which the senior Senator from Texas has so vividly referred, it was one of the great national tragedies. Whole businesses were completely obliterated. It was not a question of lowering the base of a business.

Mr. CONNALLY. Not at all.

Mr. MILLIKIN. It was not a case of dealing with relative profits or losses. Whole businesses were extinguished, were they not?

Mr. CONNALLY. That is correct.

Mr. MILLIKIN. The purpose here is to provide a proper base. Instead of giving the taxpayer an industry average, when it is so situated that it had more than the industry average, we simply say, "We will allow you to use as a base the figure for the year before you had the great disaster." That is my understanding. Am I correct?

Mr. CONNALLY. The Senator from Colorado is eminently correct, as he usually is. He is correct in the view that several great plants were utterly destroyed, absolutely obliterated and covered with wreckage. Yet the stony hearts of some people give forth no response to a situation of that kind.

Mr. MILLIKIN. Mr. President, will the Senator yield?

Mr. CONNALLY. I yield.

Mr. MILLIKIN. There is a great contrast between the disaster to which the Senator has referred and other troubles which people have. There may be a strike in a certain plant, but the plant is still there, and it is ready to resume operations when the strike is over.

Mr. CONNALLY. The Senator is correct.

Mr. MILLIKIN. Such a situation as that is distinguished from a great disaster such as the one to which the Senator refers, which completely wiped out not only the business operations, but everything basic to them. It wiped out all the plant and facilities which could sustain the business.

Mr. CONNALLY. Those conditions occurred without any fault of the people affected. They did not cause the disaster. A ship came in from across the ocean. It moored at Texas City. Suddenly it exploded, and spread fire and all the other terrible things that go with such a calamity. The disaster was accompanied by hardship and ruin. It destroyed plants, and struck down the means of livelihood of the people, as well as the people themselves. I cannot give the exact figures, but it destroyed hundreds of lives. Hundreds of human beings were sacrificed in that disaster.

Mr. SCHOEPPPEL. Mr. President, will the Senator yield?

Mr. CONNALLY. I yield.

Mr. SCHOEPPPEL. I wish to say to the distinguished Senator from Texas that one of the points he is making disturbed the Senator from Kansas in connection with the motion to strike this section, because, as the distinguished chairman of the Committee on Finance has pointed out, this provision has a very direct application to the flood-devastated areas, where hundreds of businesses and thousands of people who had businesses suffered total and complete loss in many instances.

I join with the Senator from Texas in hoping that this provision will not be stricken from the bill, because I am afraid that to do so would deprive hundreds, and probably thousands, of people of a just type of relief.

Mr. CONNALLY. The Senator from Kansas is absolutely correct.

When a great flood comes down a river, who is responsible for it? The people who live along the banks of the river are not responsible for it. They cannot hold forth their hands, as Moses did when he parted the waters of the Red Sea. They cannot hold back the floods which come down the Missouri River or the Mississippi River from the North. If a flood overtakes us and destroys us and our property, who is to blame? The Senate Finance Committee is not to blame. The Senate is not to blame. Somewhere there is an unspeakable power of destruction, ruin, and evil. Such are the forces which bring about these catastrophes, these great holocausts. I do not believe it is fair for the Senate to deny the benefits of this section, which is sought to be stricken from the bill.

Mr. O'MAHONEY. Mr. President, I merely desire to remark that section 442 of the act approved January 3, 1951, the present excess profits tax law, which the great Senator from Texas [Mr. CONNALLY] was instrumental in writing into the laws of the United States, contains this provision:

(a) In general: If a taxpayer which commenced business on or before the first day of its base period establishes that, for any taxable year within, or beginning or ending within, its base period:

(1) normal production, output, or operation was interrupted or diminished because of the occurrence, either immediately prior to, or during such taxable year, of events unusual and peculiar in the experience of such taxpayer, or

(2) the business of the taxpayer was depressed because of temporary economic circumstances unusual in the case of such taxpayer,

the taxpayer's average base period net income determined under this section shall be the amount computed under subsection (c) or (d), whichever is applicable.

In other words, the existing law takes care of abnormalities and provides for relief. We are not dealing with the poor and shattered bodies of individuals who were ruined in the unaccountable disaster of which the Senator from Texas speaks. We are dealing only with the excess profits taxpayer who desires to take advantage of that great catastrophe in order to obtain an additional concession in his excess profits taxes.

The PRESIDING OFFICER (Mr. FREAR in the chair). The question is on agreeing to the motion of the Senator from Wyoming [Mr. O'MAHONEY] to strike out section 517.

The motion was rejected.

The PRESIDING OFFICER. The question recurs on agreeing to title V of the bill, as amended. The yeas and nays have been ordered, and the clerk will call the roll.

Mr. BRICKER. Mr. President, a parliamentary inquiry.

The PRESIDING OFFICER. The Senator from Ohio will state it.

Mr. BRICKER. What is the question on which the Senate is about to vote?

The PRESIDING OFFICER. The question is on agreeing to title V, as amended.

Mr. BRICKER. That is the committee amendment?

The PRESIDING OFFICER. The question is on agreeing to the committee amendment, as amended; that is correct.

Mr. KERR. Mr. President, a parliamentary inquiry.

The PRESIDING OFFICER. The Senator from Oklahoma will state it.

Mr. KERR. A "yea" vote is a vote in favor of title V, as amended; a "nay" vote is a vote in favor of striking it?

The PRESIDING OFFICER. The Senator from Oklahoma is correct.

The legislative clerk called the roll.

Mr. JOHNSON of Texas. I announce that the Senator from New Mexico [Mr. ANDERSON] is absent by leave of the Senate.

The Senator from New Mexico [Mr. CHAVEZ], the Senator from Tennessee [Mr. KEFAUVER], and the Senator from North Carolina [Mr. SMITH] are absent on official business.

I announce further that if present and voting, the Senator from New Mexico [Mr. CHAVEZ] and the Senator from North Carolina [Mr. SMITH] would vote "yea."

Mr. SALTONSTALL. I announce that the Senator from New Hampshire [Mr. BRIDGES] is absent because of illness of his immediate family.

The Senator from New Hampshire [Mr. TOBEY] is absent because of illness.

The Senator from Nebraska [Mr. WHERRY] is necessarily absent.

The Senator from Pennsylvania [Mr. DUFF], the Senator from Wisconsin [Mr. MCCARTHY], and the Senator from California [Mr. NIXON] are detained on official business.

The Senator from Minnesota [Mr. THYE] is absent by leave of the Senate.

If present and voting, the Senator from Pennsylvania [Mr. DUFF], the Senator from Wisconsin [Mr. MCCARTHY], and the Senator from Minnesota [Mr. THYE] would each vote "yea."

The result was announced—yeas 70, nays 15, as follows:

YEAS—70

Alken	Gillette	McKellar
Bennett	Hayden	McMahon
Brewster	Hendrickson	Millikin
Bricker	Hennings	Monroney
Butler, Md.	Hickenlooper	Moody
Butler, Nebr.	Hoyer	Mundt
Byrd	Holland	O'Connor
Cain	Hunt	Robertson
Capehart	Ives	Russell
Carlson	Jenner	Saltonstall
Case	Johnson, Colo.	Schoeppel
Clements	Johnson, Tex.	Smathers
Connally	Johnston, S. C.	Smith, Maine
Cordon	Kem	Smith, N. J.
Dirksen	Kerr	Stennis
Dworshak	Knowland	Taft
Eastland	Lodge	Underwood
Eaton	Long	Watkins
Ellender	Malone	Welker
Ferguson	Martin	Wiley
Flanders	Maybank	Williams
Frear	McCarran	Young
Fulbright	McClellan	
George	McFarland	

NAYS—15

Benton	Kilgore	Murray
Douglas	Langer	Neely
Green	Lehman	O'Mahoney
Hill	Magnuson	Pastore
Humphrey	Morse	Sparkman

NOT VOTING—11

Anderson	Kefauver	Thye
Bridges	McCarthy	Tobey
Chavez	Nixon	Wherry
Duff	Smith, N. C.	

So the committee amendment, as amended, was agreed to.

Mr. O'MAHONEY. Mr. President, I think we can conclude this chapter on the excess-profits tax now if I ask that section 502 of the House version of the bill, beginning on page 332, which was stricken out by the Senate committee, be made the next subject of action.

Under the unanimous-consent agreement, Mr. President, I therefore ask that the previous action on the 19th of September be rescinded, so that I may ask that this amendment offered by the committee be rejected.

The PRESIDING OFFICER. The question is on agreeing to the committee amendment. Those in favor of the position taken by the Senator from Wyoming will vote "no." Those who are in favor of the committee amendment will vote "aye."

Mr. O'MAHONEY. Mr. President, I should like to explain briefly what the House did and what the Senate will do by its action on the committee amendment.

The House, in seeking to increase the revenue of the Government from taxpayers who are subject to the excess-profits tax law, changed the 85-percent base which relates to excess-profits credit, based on income, to 75 percent. In other words, under the House version of the bill the excess-profits tax law falls upon the top 25 percent of the income of the taxpayers who are subject to the excess-profits tax. It falls only upon the upper 25 percent.

Under the present law, the excess-profits tax falls upon only the upper 15 percent.

So the House, in seeking to increase the revenue of the Government, changed that percentage by reducing it 10 percentage points. The House committee has estimated that this provision will increase by \$590,000,000 the revenue of the Government from those who are paying excess-profits taxes.

Mr. KERR. Mr. President, will the Senator from Wyoming yield for a question?

Mr. O'MAHONEY. Yes; I yield.

Mr. KERR. The result might be to get a considerable amount of increased revenue from those who otherwise would not pay excess-profits taxes. Is not that so?

Mr. O'MAHONEY. Certainly. Those who now are in the top 15-percent bracket pay the tax now; and those who are in the upper 25-percent bracket will pay the tax, and so will those who are in the 16-percent, 17-percent, 18-percent, 19-percent, and so forth, brackets, who do not pay now.

Mr. KERR. So the result would be not only to obtain revenue from those who now pay, but to extend the tax to include, and obtain money from, those who now are not included. Is that correct?

Mr. O'MAHONEY. Yes; by reducing the base 10 percentage points, that would be the effect.

Mr. President, the issue is very simple. I do not intend to take more of the time of the Senate.

Therefore, I ask for the yeas and nays on this question.

The yeas and nays were ordered.

Mr. MILLIKIN. Mr. President, I think we should have clearly in mind what the proposal of the distinguished senior Senator from Wyoming means.

Obviously, in order to have a point of reference, in order to find out what is the excess, we have to establish some base period of assumed normality against which to measure. If we had a truly normal period against which to measure, the base should be 100 percent, rather than 85 percent, which it is at the present time.

If we can consider the base period established by the existing excess-profits-tax law as a normal base, then every percentage point that we go beneath that base is confiscation, not taxation.

There are many arguments about whether the present base is a normal one.

In the light of the history subsequent to the end of that base, it might be argued that is a normal base.

In any event, many of us, when we were confronted with this excess-profits tax, figured that we should not go below 95 percent, because 95 percent was the World War II rate; and there was considerable objection to that, for the same reason, namely, that every point that we go below the period which we pick as the normal period, is a point of confiscation.

However, be it wise or be it unwise, we reduced the base to 85 percent. Many of us have thought that was going too low.

The proposal now before us is to reduce the base to 75 percent. Again I invite attention to the effect; in other words, we shall not have a true excess-profits tax unless we have an honest base. When we depreciate the base by 25 percent, we do not have an honest basis of reference, we are confiscating normal income and capital rather than taxing excess profits.

Mr. LONG. Mr. President, will the Senator from Colorado yield for a question?

Mr. MILLIKIN. I yield.

Mr. LONG. I take it that the point the Senator from Colorado has in mind is that by reducing the base below 100 percent of normal earnings for a corporation, the result is actually to tax the corporation's normal earnings as if they were excess profits. Is that correct?

Mr. MILLIKIN. The Senator from Louisiana is entirely correct.

Mr. LONG. The value of money was actually depreciated since the original excess-profits tax was imposed; so 100 percent of earnings in terms of purchasing power would be worth today, let us say, only 90 percent of its purchasing power at the time when the base was enacted. So the base has been reduced already by the decrease in purchasing power. Is that correct?

Mr. MILLIKIN. There has been a reduction in the base and there has been an increase in the amount of money in circulation.

Mr. GEORGE. Mr. President—

Mr. MILLIKIN. I yield.

Mr. GEORGE. I should like to call attention to the fact that the House provision the committee voted to strike

out does not affect the corporations which have a heavy invested capital base. It affects only the small ones which have to depend on their average earnings.

In Canada, when they had an excess-profits tax, because of the inflation they allowed 120 percent of the base, in order not to tax the normal earnings.

Mr. MILLIKIN. Mr. President, the distinguished Senator from Georgia is correct, and what he has stated gives us a perfect illustration of how many fair minds would operate if we wish to do complete justice, insofar as a fair base is concerned.

Mr. TAFT. Mr. President, will the Senator yield?

Mr. MILLIKIN. Certainly, I yield.

Mr. TAFT. Is it not also true that for the World War II tax, the base was 100 percent?

Mr. MILLIKIN. My memory is that it was 95 percent.

Mr. TAFT. Perhaps it was 95 percent; in any event, it was much higher than the present 85 percent base.

Mr. MILLIKIN. I have already stated to the distinguished senior Senator that the World War II base was 95 percent.

Mr. DOUGLAS. Mr. President, will the very able Senator from Colorado be willing to yield for a question.

Mr. MILLIKIN. Certainly.

Mr. DOUGLAS. Is it not true that the 95-percent ratio adopted in World War II was because the earning records of corporations with which they were dealing were preeminently for the period of the thirties, when earnings were low, when there was a subnormal period, and therefore, when the percentages taken out normally would have to be high? But we are now dealing with a record of earnings in periods of rising prices and great profit ratios, and is it not therefore possible for us to apply a much more reasonable percentage figure to the forties than it was to apply it to the thirties?

Mr. MILLIKIN. My answer is that it is not proper to reduce the 100-percent base under any circumstances, if it is regarded as a normal base under the circumstances.

Mr. DOUGLAS. But the point is—

Mr. MILLIKIN. I understand the Senator's point.

Mr. DOUGLAS. In the thirties, the earnings were low, and in the forties, presumably, abnormally high.

Mr. MILLIKIN. The base period for World War II relative to national income at that time, relative to national income now and relative to the state of business at that time, and relative to everything else to be considered, reflected the same theory we have now. The base period then reflected all our own preparations for war and reflected all of the foreign spending in this country for munitions of war. There was a great stimulation prior to World War I, just as it may be argued that we had a stimulation prior to Korea.

Mr. GEORGE. Mr. President, if the distinguished Senator will permit me, I should like to make a statement about the World War II tax.

Mr. MILLIKIN. I yield.

Mr. GEORGE. Actually what happened was this: The then Secretary of

the Treasury wanted to take straight invested capital as the only base. Congress rebelled, the American people rebelled, and then they placed a penalty upon the use of the average earnings. So that what we now have, when we cut the average down to 25 percent of what was being earned before, is but a prolongation of the disposition to destroy every bit of the benefit the average earning corporation gets from its base; and the average earning base is the only base upon which corporation which rely upon character, initiative, and upon their own resources largely have to depend in the face of an excess-profits tax.

Mr. MILLIKIN. I thank the distinguished Senator for giving us the benefit of that piece of history, about which I did not know. We had much time taken this morning in criticism of the pages of this bill which are intended to offer relief in special circumstances. The main reason for our having to offer relief in special circumstances comes out of base-period trouble. If we have a 100-percent base period, we would have a great deal less trouble than if we had a 95-percent base period; or an 85-percent base period, as we have now. We will have a great deal less trouble with an 85-percent base than with the proposed 75-percent base. A distorted base in the law requires special-relief provisions unless we want to have a section 722 procedure, such as we had in World War II. The reason we do not have a section 722 procedure is because I think everyone was thoroughly disgusted with it. We still have section 722 cases pending. The officials in charge of administering section 722 were fearful of taking those actions which the merits of the cases required. Sometimes sizeable relief would be necessary in order to do justice. But in any event the number of claims was so great, the complexities of the different situations were so great, the temerity of the officials dealing with them was so great, and the indecisions were so great that we still have some of those cases pending 5 years after the war. A business outfit which is to live and progress must know what its situation is—yes, from day to day, not after 5 years. So I repeat, everytime we distort this base, everytime we run it down from 100 percent, we are accentuating the very thing which was complained of here this morning, namely, writing relief provisions into the excess-profits-tax law.

We ought to have a little bit of consistency along the line. To sum up, I simply want to say that I think 85 percent is an abnormally low base. It can in many instances be a confiscatory base, and 75 percent would surely bring us more securely into the area of confiscation. As we get into these higher taxes—normal taxes, surtaxes, and excess-profits taxes—we have an accompanying need of expanded justice, if you please, Mr. President, because these taxes merely aggravate the errors of that which we do with the best of intentions. If we want the confidence of the people, if we want to progress in this period of peril, we must assure the taxpayer as best we can that we are going to treat him justly; and when we start out on our

taking of his money by loading the machine 25 percent against him, we are running a racket, not imposing a tax and the Kefauver committee ought to get on it.

The PRESIDING OFFICER. The question is on the committee amendment as it appears under title VI, on page 332, which strikes section 502, excess profits credit based on income. A "yea" vote supports the committee, a "nay" vote supports the views of the senior Senator from Wyoming. On this question the yeas and nays have been ordered.

Mr. O'MAHONEY. Mr. President, I desire briefly to call attention again to the fact that corporate profits before taxes have risen to new peaks. In 1946, they were \$23,500,000,000; in 1947, \$30,500,000,000; in 1948, \$33,800,000,000; in 1949, \$28,300,000,000; in 1950, \$41,400,000,000; in the first quarter of 1951, the rate was \$51,800,000,000, and in the second quarter of 1951, the rate was \$48,500,000,000.

Undistributed profits have risen. Dividends have risen. We are, it seems to me, confronting the problem against the background of world events, which was described by President Warren G. Harding in his inaugural address on March 4, 1921.

Mr. LONG. Mr. President, will the Senator yield for a question?

Mr. O'MAHONEY. Let me read this, and then I shall yield. I heard this inaugural address by President Harding. He was taking office as President of the United States, following World War I. He wanted to lead the world to peace by disarmament, and he negotiated the disarmament treaty; but in this inaugural address he said:

I can vision the ideal republic, where every man and woman is called under the flag, for assignment to duty, for whatever service, military or civil, the individual is best fitted; where we may call to universal service every plant, agency, or facility, all in the sublime sacrifice for country, and not 1 penny of war profit shall inure to the benefit of private individual, corporation, or combination, but all above the normal shall flow into the defense chest of the Nation.

Mr. President, upon that note I hope that the Senate may vote to reject the committee amendment.

Mr. MILLIKIN. Mr. President, will the Senator yield?

Mr. O'MAHONEY. I yield to the Senator from Colorado.

Mr. MILLIKIN. I think this is the first time in history, or in the lifetime of the distinguished senior Senator from Wyoming, that he has twice exhumed Harding in 3 days.

Mr. LONG. Mr. President, will the Senator yield?

Mr. O'MAHONEY. I yield to the Senator from Louisiana.

Mr. LONG. Are the figures which the Senator has been stating the amounts before taxes, or after taxes?

Mr. O'MAHONEY. Before taxes.

Mr. KERR. Mr. President, will the Senator from Wyoming yield?

Mr. O'MAHONEY. I yield to the Senator from Oklahoma.

Mr. KERR. I think the statements which the Senator from Wyoming has just made are arguments against the

motion he has made or against the position he has taken, rather than giving facts which would substantiate it. As he has just advised the Senate, the corporate profits in 1946, before taxes, were \$23,500,000,000; in 1947 they were \$30,500,000,000; in 1948 they were \$33,800,000,000; in 1949 they were \$28,300,000,000; in 1950 they rose to \$41,400,000,000.

The base for the excess-profits tax, except in a few rare instances, is the period including the years 1946, 1947, 1948, and 1949. Under the present law, in computing the base period, the taxpayer is given only 85 percent of his earnings in 3 of those 4 years.

From the statement which the Senator from Wyoming has just made, it is evident that there is nearly a 50-percent increase in corporate profits in 1950 as compared with 1949. If we take the three best years of the four, it will be found that there was nearly a 45 to 50 percent increase in 1950 as compared with the base period. Under the law as it is now written, all that increase in 1950 over the other years is taxed, and, in addition to that, 15 percent of what was earned in the base years is subject to the excess-profits tax.

I believe in an excess-profits tax, and we have one, but I do not believe in carrying out a program of doubling the normal tax under the name of an excess-profits tax. That is what we would be doing if we reduced the base further from the 85 percent to 75 percent, because with the 85-percent base we go back to those 4 years and tax 15 percent of the profits as excess profits.

Mr. DOUGLAS. Mr. President, will the Senator from Oklahoma yield?

Mr. KERR. I yield for a question.

Mr. DOUGLAS. Is the Senator from Oklahoma in favor of a decrease of the tax?

Mr. KERR. I do not favor it, but on the basis of an equitable excess-profits tax, it should be decreased.

Mr. DOUGLAS. May we count on the Senator from Oklahoma when we move an increase in the corporation tax itself?

Mr. KERR. We shall meet those issues when they come.

Mr. DOUGLAS. But the Senator is now making an argument to refute the proposal of the Senator from Wyoming [Mr. O'MAHONEY] to increase the excess profits tax.

Mr. KERR. The Senator from Oklahoma did not yield for a speech, he yielded for a question, and will be glad to yield for another one, but the Senator from Oklahoma is opposed to taxing as excess-profits income which under any equitable definition or arrangement cannot be other than normal income. Under the law as now written, we already take at least 15 percent of the normal income and subject it to an excess-profits tax. What the Senator from Wyoming would do would be to increase the present inequity by 66⅔ percent. I would hope that that would not be agreed to.

SEVERAL SENATORS. Vote! Vote!

Mr. KERR. Mr. President, a parliamentary inquiry.

The PRESIDING OFFICER. The Senator will state it.

Mr. KERR. A "yea" vote supports the committee and a "nay" vote supports the position of the Senator from Wyoming. Is that correct?

The PRESIDING OFFICER. That is correct.

The question is on agreeing to the committee amendment striking out section 502 on page 332.

The yeas and nays have been ordered, and the clerk will call the roll.

The Chief Clerk called the roll.

Mr. JOHNSON of Texas. I announce that the Senator from New Mexico [Mr. ANDERSON] is absent by leave of the Senate.

The Senator from New Mexico [Mr. CHAVEZ], the Senator from Iowa [Mr. GILLETTE], the Senator from Tennessee [Mr. KEFAUVER], the Senator from Nevada [Mr. MCCARRAN], the Senator from West Virginia [Mr. NEELY], and the Senator from North Carolina [Mr. SMITH] are absent on official business.

I announce that on this vote the Senator from North Carolina [Mr. SMITH] is paired with the Senator from West Virginia [Mr. NEELY]. If present and voting, the Senator from North Carolina would vote "yea" and the Senator from West Virginia would vote "nay."

I announce further that if present and voting, the Senator from New Mexico [Mr. CHAVEZ] would vote "yea."

Mr. SALTONSTALL. I announce that the Senator from New Hampshire [Mr. BRIDGES] is absent because of illness of his immediate family.

The Senator from New Hampshire [Mr. TOBEY] is absent because of illness.

The Senator from Nebraska [Mr. WHERRY] is necessarily absent.

The Senator from Pennsylvania [Mr. DUFF], the Senator from Wisconsin [Mr. MCCARTHY], and the Senator from California [Mr. NIXON] are detained on official business.

The Senator from Minnesota [Mr. THYE] is absent by leave of the Senate.

If present and voting, the Senator from Pennsylvania [Mr. DUFF], the Senator from Wisconsin [Mr. MCCARTHY], and the Senator from Minnesota [Mr. THYE] would each vote "yea."

The result was announced—yeas 62, nays 20, as follows:

YEAS—62

Alken	Flanders	McKellar
Bennett	Frear	Millikin
Benton	George	Monroney
Brewster	Hendrickson	Mundt
Bricker	Hennings	O'Connor
Butler, Md.	Hickenlooper	Pastore
Butler, Nebr.	Hoey	Robertson
Byrd	Holland	Saltonstall
Cain	Ives	Schoeppel
Capehart	Jenner	Smathers
Carlson	Johnson, Colo.	Smith, Maine
Case	Johnston, S. C.	Smith, N. J.
Clements	Kem	Stennis
Connally	Kerr	Taft
Cordon	Knowland	Underwood
Dirksen	Lodge	Watkins
Dworschak	Long	Welker
Eastland	Malone	Wiley
Eaton	Martin	Williams
Ellender	Maybank	Young
Ferguson	McClellan	

NAYS—20

Douglas	Hill	Kilgore
Fulbright	Humphrey	Langer
Green	Hunt	Lehman
Hayden	Johnson, Tex.	Magnuson

McFarland
McMahon
Moody

Morse
Murray
O'Mahoney

Russell
Sparkman

NOT VOTING—14

Anderson
Bridges
Chavez
Duff
Gillette

Kefauver
McCarran
McCarthy
Neely
Nixon

Smith, N. C.
Thye
Tobey
Wherry

So the committee amendment on page 332, line 10, was agreed to.

Mr. LEHMAN. Mr. President—

The PRESIDING OFFICER. The Senator from New York.

Mr. GEORGE. Mr. President—

The PRESIDING OFFICER. The Senator from New York is recognized.

Mr. GEORGE. Very well, Mr. President. I wish to enter a motion then to reconsider the vote by which the amendment was agreed to.

The PRESIDING OFFICER. Does the Senator from New York yield for that purpose?

Mr. LEHMAN. The Senator from New York will yield for that purpose with the understanding that he does not lose his place on the floor.

The PRESIDING OFFICER. Without objection, the Senator from New York yields for that purpose.

Mr. GEORGE. Mr. President, I move that the Senate reconsider the vote by which the committee amendment was agreed to.

Mr. JOHNSON of Colorado. I move to lay that motion on the table.

The PRESIDING OFFICER. The question is on the motion of the Senator from Colorado [Mr. JOHNSON] to lay on the table the motion of the Senator from Georgia [Mr. GEORGE].

The motion to lay on the table was agreed to.

Mr. LEHMAN. Mr. President, I ask the distinguished majority leader how long he wishes to hold the Senate in session.

Mr. McFARLAND. Is the Senator going to offer an amendment?

Mr. LEHMAN. Yes, I intended to.

Mr. McFARLAND. Will the Senator offer his amendment and then we will see, maybe we can obtain a limitation of debate on that one amendment.

Mr. LEHMAN. Mr. President, I send to the desk my amendment designated 9-22-51-1. There are a few typographical errors in the amendment as printed. The amendment I send to the desk is a corrected version. I wish also to say at this time that the name of the junior Senator from Michigan [Mr. MOODY], which was omitted from the list of sponsors of the amendment, appears on the corrected amendment which I send to the desk. His name is included as a cosponsor. I ask that official note be taken of this change.

Mr. President, since the amendment is a fairly long one I am willing to waive its reading.

The PRESIDING OFFICER. Without objection, the amendment will be printed in the RECORD at this point without reading.

The amendment offered by Mr. LEHMAN (for himself, Mr. MORSE, Mr. HUMPHREY, Mr. DOUGLAS, Mr. BENTON, Mr. KEFAUVER, Mr. MURRAY, Mr. GREEN, Mr.

LANGER, Mr. NEELY, Mr. KILGORE, Mr. MAGNUSON, and Mr. MOODY) is as follows:

CHANGE OF EFFECTIVE DATE FOR CORPORATE TAX INCREASES TO JANUARY 1, 1951

On page 36, beginning with line 12, strike out all through line 24, and insert in lieu thereof the following:

"(1) Taxable years beginning after December 31, 1950, and before January 1, 1954: In the case of taxable years beginning after December 31, 1950, and before January 1, 1954, a tax of 27 percent of the normal-tax net income.

"(2) Taxable years beginning after December 31, 1953: In the case of taxable years beginning after December 31, 1953, a tax of 25 percent of the normal-tax net income."

On page 37, beginning with line 22 strike out all through line 24; and on page 38, beginning with line 1, strike out all through line 13 and insert in lieu thereof the following:

"(1) Taxable years beginning after December 31, 1950, and before January 1, 1954: In the case of taxable years beginning after December 31, 1950, and before January 1, 1954, a surtax of 25 percent of the amount of the corporation surtax net income in excess of \$25,000.

"(2) Taxable years beginning after December 31, 1953: In the case of taxable years beginning after December 31, 1953, a surtax of 22 percent of the amount of the corporation surtax net income in excess of \$25,000."

On page 38, in line 22, strike out the word "April" and insert in lieu thereof "January."

On page 39, beginning with line 3, strike out all through line 15; in line 16 delete "(C)" and insert in lieu thereof "(B)"; and in line 17 delete "March 31, 1951" and insert in lieu thereof "December 31, 1950."

On page 43, beginning with line 11, strike out all through line 24, and revise line 25 to read as follows:

"(A) Taxable years beginning after December."

On page 44, in line 1, delete "1951" and insert in lieu thereof "1950," and in lines 2 and 3 delete "March 31, 1951" and insert in lieu thereof "December 31, 1950."

On page 44, in line 13 delete "(C)" and insert in lieu thereof "(B)."

On page 45, beginning with line 4, strike out all through line 20, and amend lines 21 and 22 to read as follows:

"(A) Taxable years beginning after December 31, 1950, and before January 1, 1954."

On page 46, in line 9, delete "(C)" and insert in lieu thereof "(B)."

On page 47, beginning with line 3, strike out all through line 9 and insert in lieu thereof the following:

"(3) In the case of taxable years beginning after December 31, 1950, and before January 1, 1954, there."

On page 47, beginning with line 17, strike out all through line 23 and insert in lieu thereof the following:

"(4) In the case of taxable years beginning after December 31, 1950, and."

On page 48, beginning with line 13, strike out all through line 19 and insert in lieu thereof the following: "period at the end thereof the following: "; except that in the case of taxable years beginning after December 31, 1950, and."

On page 50, beginning with line 22, strike out all through line 25.

On page 51, beginning with line 1, strike out all through line 8 and insert in lieu thereof the following:

"(A) Taxable years beginning after December 31, 1950, and before January 1, 1954. In the case of taxable years beginning after December 31, 1950, and before January 1, 1954, 62 per."

On page 51, in line 14, delete "(C)" and insert in lieu thereof "(B)."

On page 52, beginning with line 1, strike out all through line 9 and insert in lieu thereof the following:

"In the case of a public utility, (A) for a taxable year beginning after December 31, 1950, and before January 1, 1954, an amount equal to."

On page 52, in line 14, delete "(C)" and insert in lieu thereof "(B)."

On page 53, beginning with line 1, strike out all through line 16 and insert in lieu thereof the following:

"(1) Taxable years beginning after December 31, 1950, and before January 1, 1954: In the case of a taxable year beginning after December 31, 1950, and before January 1, 1954, an amount equal to 27 percent of its normal-tax net income computed without regard to the credit provided in this subsection.

"(2) Taxable years beginning after December 31, 1953: In the case of a taxable year beginning after December 31, 1953, an amount equal to 30 percent of its normal-tax net income computed without regard to the credit provided in this subsection."

On page 59, in lines 20 and 24, delete "March 31, 1951" and insert in lieu thereof "December 31, 1950."

On page 61, beginning with line 5, strike out all through line 19 and insert in lieu thereof the following:

"The amendment made by this part shall be applicable only with respect to taxable years beginning after December 31, 1950. For treatment of taxable years beginning in 1950, and ending in 1951, see section 131."

On page 65, in line 19, strike out "April 1, 1951" and insert in lieu thereof "January 1 1951"; and in line 21 strike out "March 31, 1951" and insert in lieu thereof "December 31, 1950."

On page 66, in line 4, strike out "March 31, 1951" and insert in lieu thereof "December 31, 1950"; and in line 17, strike out "April 1, 1951" and insert in lieu thereof "January 1, 1951."

On page 66, beginning with line 20, strike out all through line 25 and insert in lieu thereof the following:

"(g) Taxable years of corporations beginning after June 30, 1950, and before January 1, 1951, and ending in 1951: In the case of a taxable year of a corporation beginning after June 30, 1950, and before January 1, 1951 and ending after December 31, 1950, the"

On page 67 in line 6, strike out "April 1, 1951" and insert in lieu thereof "January 1, 1951", and in lines 12 and 13 strike out "March 31, 1951" and insert in lieu thereof "December 31, 1950."

On page 70, in lines 23 and 25, strike out the word "April" and insert in lieu thereof "January."

On page 71, beginning with line 7, strike out all through line 13 and insert in lieu thereof the following:

"(2) Taxable years ending after December 31, 1950.—In the case of a taxable year beginning before January 1, 1951, and ending after December 31, 1950, the tax imposed by subsection (a)."

On page 71 in lines 20 and 24, delete the word "April" and insert in lieu thereof the word "January."

On page 72, in line 1, delete "March 31, 1951" and insert in lieu thereof "December 31, 1950."

Mr. McFARLAND. Mr. President, may I ask the Senator if this is the amendment which places the effective date of corporation taxes back from April 1 to January 1?

Mr. LEHMAN. Yes; it is.

Mr. McFARLAND. Mr. President, may I ask the Senator if he would be willing to agree to a limitation of debate on this amendment?

Mr. LEHMAN. I would be willing to agree to a limitation of the debate on this amendment with the understanding that each side shall have 1 hour. It is quite possible that we will not require that length of time, but I should like to reserve 1 hour for each side.

Mr. McFARLAND. Mr. President, under those circumstances, we could not finish with this amendment until after 8 o'clock tonight. Does the Senator want to speak on it tonight, or would he be willing to have it go over until tomorrow?

Mr. LEHMAN. I am perfectly willing to postpone my remarks until tomorrow, with the understanding that I will be recognized as soon after the beginning of the session as practicable.

Mr. McFARLAND. Mr. President, I ask unanimous consent that the debate on this amendment be limited to 1 hour to a side, to be controlled by the Senator from New York [Mr. LEHMAN] and the Senator from Georgia [Mr. GEORGE]; that the limitation of debate on any amendment that may be offered to the amendment be limited to 30 minutes, to be controlled by the proponent of the amendment and the Senator from Georgia, if he is not in favor of it; if he is, then the distinguished minority leader or any Senator whom he may designate shall have control of the time; and that all amendments to the amendment must be germane.

Mr. SALTONSTALL. Mr. President, reserving the right to object, and I do not think I shall object, may I ask the majority leader when it is the intention to open the session tomorrow?

Mr. McFARLAND. At 10 o'clock in the morning.

Mr. SALTONSTALL. So that under this plan we would be free to resume debate on other phases of the bill at a quarter past or half past 12, or about that time?

Mr. McFARLAND. That is correct.

Mr. SALTONSTALL. Mr. President, reserving the right to object, I would say there is one Senator on our side of the aisle, the junior Senator from Nevada [Mr. MALONE], who would like to have an opportunity to make a speech tomorrow, but as I understand, I do not think he would object to the unanimous-consent agreement because there would be the whole afternoon free. For that reason, I shall not object.

The PRESIDING OFFICER. Is there objection?

Mr. HUMPHREY. Mr. President, I wonder if the majority leader would not include in his unanimous-consent request the fact that the junior Senator from New York shall control the time if the Senator from Georgia is in favor of any amendments that may be offered to his amendment.

Mr. McFARLAND. It is satisfactory to the majority leader to have the agreement provide that in the case the Senator from Georgia favors an amendment to the amendment, then the time will be controlled by the Senator from New York in the event he is opposed to the amendment to the amendment. If not, then the time will be controlled by the minority leader.

Mr. HUMPHREY. That is satisfactory.

Mr. LEHMAN. The Senator from New York understands that discussion of any amendment to his amendment which may be offered will be limited in time to 30 minutes to each side.

Mr. McFARLAND. No; 30 minutes would be allotted to an amendment to the amendment; 15 minutes to each side.

Mr. LEHMAN. Fifteen minutes to each side. That is satisfactory.

The PRESIDING OFFICER. Is there objection to the unanimous-consent request of the Senator from Arizona? The Chair hears none, and the agreement is entered into.

The unanimous-consent agreement, as reduced to writing, is as follows:

Ordered, That debate on the amendment of Mr. LEHMAN (for himself and others) No. 1, September 22, 1951, relating to the change of the effective date for corporate tax increases to January 1, 1951, proposed to the bill (H. R. 4473) to provide revenue, and for other purposes, be limited to not exceeding 2 hours, to be equally divided and controlled by Mr. LEHMAN and Mr. GEORGE, respectively, and that debate on any amendment or motion (including appeals) proposed thereto shall be limited to not exceeding 30 minutes, to be equally divided and controlled by the proposer of any such amendment or motion and Mr. GEORGE: *Provided*, That in the event Mr. GEORGE is in favor of any such amendment or motion, the time in opposition thereto shall be controlled by the acting minority leader or someone designated by him: *Provided further*, That no amendment or motion that is not germane to the amendment of Mr. LEHMAN shall be received.

EXECUTIVE SESSION

Mr. McFARLAND. I move that the Senate proceed to the consideration of executive business.

The motion was agreed to; and the Senate proceeded to the consideration of executive business.

EXECUTIVE MESSAGES REFERRED

The PRESIDING OFFICER (Mr. FREAR in the chair) laid before the Senate messages from the President of the United States submitting sundry nominations, which were referred to the Committee on Armed Services.

(For nominations this day received, see the end of Senate proceedings.)

EXECUTIVE REPORTS OF COMMITTEES

The following favorable reports of nominations were submitted:

By Mr. JOHNSTON of South Carolina, from the Committee on Post Office and Civil Service:

One hundred and twenty-nine postmasters.

By Mr. RUSSELL, from the Committee on Armed Services:

Herbert R. Askins, of Arizona, to be Assistant Secretary of the Navy.

The PRESIDING OFFICER. If there be no further reports of committees, the clerk will proceed to state the nominations on the Executive Calendar.

DEPARTMENT OF JUSTICE

The Chief Clerk read the nomination of A. Devitt Vanech to be Deputy Attorney General.

The PRESIDING OFFICER. Without objection, the nomination is confirmed.

RENEGOTIATION BOARD

The Chief Clerk read the nomination of Lawrence E. Hartwig to be a member of the Renegotiation Board.

The PRESIDING OFFICER. Without objection, the nomination is confirmed.

The Chief Clerk read the nomination of John Hubbard Joss to be a member of the Renegotiation Board.

The PRESIDING OFFICER. Without objection, the nomination is confirmed.

The Chief Clerk read the nomination of John Theodore Koehler to be a member of the Renegotiation Board.

The PRESIDING OFFICER. Without objection, the nomination is confirmed.

The Chief Clerk read the nomination of Frank L. Roberts to be a member of the Renegotiation Board.

The PRESIDING OFFICER. Without objection, the nomination is confirmed.

Mr. McFARLAND subsequently said: Mr. President, the Senator from North Dakota [Mr. LANGER] asks to have the nominations to the Renegotiation Board go over for a day. He was talking to me at the time the nominations were stated.

The PRESIDING OFFICER. Without objection, the vote by which the four nominations to the Renegotiation Board were confirmed will be reconsidered, and the nominations will be returned to the calendar.

JUDICIAL NOMINATIONS IN HAWAII

Mr. SALTONSTALL. Mr. President, with reference to the very important judicial appointments in Hawaii, I have had no report of objections from this side of the aisle. I should like to ask the majority leader if he knows of any objection from any member of the Judiciary Committee to the Hawaiian appointments.

Mr. McFARLAND. I know of no objection to any of them.

Mr. SALTONSTALL. Then I have no objection.

SUPREME COURT, TERRITORY OF HAWAII

The Chief Clerk read the nomination of Hon. Edward A. Towse to be Chief Justice of the Supreme Court of the Territory of Hawaii.

The PRESIDING OFFICER. Without objection, the nomination is confirmed.

The Chief Clerk read the nomination of Ingram M. Stainback to be Associate Justice of the Supreme Court of the Territory of Hawaii.

The PRESIDING OFFICER. Without objection, the nomination is confirmed.

CIRCUIT COURTS, TERRITORY OF HAWAII

The Chief Clerk read the nomination of William Burbridge Brown to be a circuit judge of the second circuit, Territory of Hawaii.

The PRESIDING OFFICER. Without objection, the nomination is confirmed.

UNITED STATES ATTORNEY

The Chief Clerk read the nomination of Charles Patterson Green to be United

States attorney for the eastern district of North Carolina.

The PRESIDING OFFICER. Without objection, the nomination is confirmed.

UNITED STATES MARSHALS

The Chief Clerk read the nomination of Walter E. Huntley to be United States marshal, division No. 3, district of Alaska.

The PRESIDING OFFICER. Without objection, the nomination is confirmed.

The Chief Clerk read the nomination of Leo H. Brooker to be United States marshal for the southern district of Florida.

The PRESIDING OFFICER. Without objection, the nomination is confirmed, and, without objection, the President will be immediately notified of all nominations confirmed this day.

THE REVENUE ACT OF 1951

In legislative session, the Senate resumed the consideration of the bill (H. R. 4473) to provide revenue, and for other purposes.

Mr. McFARLAND. Mr. President, I wish there were more Senators present to hear the announcement I am about to make. Senators on both sides have informed me that they do not expect to consume an hour on each side in connection with the pending amendment. I hope Senators can be present in the morning so that we can proceed to a vote without undue delay.

MESSAGE FROM THE HOUSE

A message from the House of Representatives, by Mr. Snader, its assistant reading clerk, announced that the House had passed, without amendment, the bill (S. 2006) to increase the lending authority of Export-Import Bank of Washington and to extend the period within which the bank may make loans.

ENROLLED BILL SIGNED

The message also announced that the Speaker had affixed his signature to the enrolled bill (S. 1349) to establish a Department of Food Services in the public schools of the District of Columbia, and for other purposes, and it was signed by the President pro tempore.

RECESS

Mr. McFARLAND. I move that the Senate stand in recess until 10 o'clock a. m. tomorrow.

The motion was agreed to; and (at 6 o'clock and 12 minutes p. m.) the Senate took a recess until tomorrow, Wednesday, September 26, 1951, at 10 o'clock a. m.

NOMINATIONS

Executive nominations received by the Senate September 25 (legislative day of September 19), 1951:

IN THE ARMY

The following-named persons for appointment in the Regular Army of the United States in the grades and corps specified under the provisions of section 506 of the Officer Personnel Act of 1947 (Public Law 381, 80th Cong.); title II of the act of August 5, 1947 (Public Law 365, 80th Cong.); Public Law

759, Eightieth Congress; Public Law 36, Eightieth Congress; and Public Law 625, Eightieth Congress; subject to physical qualification:

To be majors

Alfred O. Heldobler, MC, O419472.
Ted Johnson, MC, O309651.
Hyman Turner, MC, O336682.

To be captains

James A. Austin, MC, O976256.
William J. Brensinger, MC, O1726954.
Philip C. Canney, MC, O991174.
William A. Meriwether, MC.
Daniel Stowens, MC, O478511.

To be first lieutenants

Kenneth W. Beesting, JAGC, O2018277.
William H. Bigelow, DC, O1921547.
Richard R. Cahnovsky, DC, O975819.
Charles C. Eaves, MC, O2207487.
Murray E. Finn, MC, O2209659.
Willard G. Fischer, DC, O980949.
Morris Goldschlager, JAGC, O460165.
Stanley C. Kolodny, DC, O1919648.
John M. McGuire, MC, O976689.
Donald A. Norris, Jr., DC, O966541.
Bernard A. Ramundo, JAGC, O557455.
Veryl D. Schwartz, MC, O1921418.
Howard A. Shane, DC, O761475.
Norman R. Stoddard, DC, O980586.
Joseph P. Summa, DC, O1705968.
Charles C. Trommer, DC, O573610.
Charles W. Vandas, DC, O992400.
Robert D. Youmans, DC, O2063745.

To be second lieutenants

Nancy A. Johnson, WAC, L1020590.
Alfred D. Kneessy, MSC, O1873170.
Patricia J. McQuaide, ANC, N770169.
Alice E. Sasse, ANC, N804380.

The following-named persons for appointment in the Regular Army of the United States in the grades specified, under the provisions of section 506 of the Officer Personnel Act of 1947 (Public Law 381, 80th Cong.), subject to physical qualification:

To be first lieutenants

Neal J. Ahern, O1318004.
George E. Armstrong, O1290526.
Ernest W. Ellis, Jr., O1167825.
Gilbert J. Grout, O1032588.
Clifford D. Rhodes, O501414.
William E. Weber, O1330993.
Oliver I. West, O1011395.
Harold W. Wymer, O1317721.

To be second lieutenants

Floyd H. Abrams, Jr., O2003492.
Homer Ambrose, Jr., O1873145.
John F. Arnaud, Jr., O1914625.
Harry P. Aubright III, O2211690.
Garratt A. Austin, O2003037.
Frank S. Badger.
William E. Baum, O1914583.
William A. Beyer, O1340976.
James O. Burri, O2021467.
Leon J. Calhoun, O957817.
Archie E. Carpenter, O2211252.
Robert L. Carstens, O532751.
Rudolph D. Cassens, O2103792.
Walter B. Clark, Jr.
Charles E. Conner, Jr., O2002968.
Ollie D. Conner, Jr., O2204170.
Edwin K. Crowley, Jr., O961201.
Edmund R. Danzig.
Jay A. Davidson, O1861908.
Bernard H. Des Roches.
Charles C. Early, O2208513.
Walter W. Fade, O1013295.
John A. Farnsworth, O1304884.
James B. Forster, O2211364.
Jack N. Foshee, O2204027.
Louis C. Fry, O2206205.
Robert P. Gary, O1874221.

Dorsey B. Greene, Jr., O2003538.
Lindsey W. Hale, O2204099.
James N. Hanson, O1325003.
William B. Harvey, Jr.
Clyde T. Hathaway, O1049504.
Worten M. Hathaway.
George W. Hayden, O2201751.
Ward M. Haynes, O2102253.
Jamie R. Hendrix, O2003544.
Gustav Henningburg, O2202846.
Robert A. Hyerle, O2211358.
Leonard B. Jankowski, O2004260.
Pendleton A. Jordan III, O1873364.
Donald P. Kelly, Jr., O2104060.
George W. Keyes, O554077.
Bohuslav Z. Kostka, O1339883.
Gaylord A. Lansrud, O956594.
Robert B. Mercer.
Langdon L. Morton, Jr., O958405.
Fain M. Rankin, Jr., O1915366.
Richard N. Raunswinder, O1872620.
John R. Rhodes, Jr., O2003001.
Paul R. Ross, Jr., O2103937.
Dan E. Schilling, O1915374.
John M. Shea, O2201824.
Paul J. Slight, O2103877.
Franklin E. Staples, O560366.
William H. Talbot, Jr., O2206723.
Joseph W. Tatasciore, O960256.
Robert W. Thams, O1338877.
Paul A. Thompson, O2208540.
Rolf W. Utegaard, O1862077.
Bruce E. Wallace, O947977.
Andreul J. Wetherington, O2004026.
Thomas B. Wynegar, O2003735.
Walter J. Zarnowski, O2203022.

The following-named distinguished military students for appointment in the Regular Army of the United States, in the grade of second lieutenant, under the provisions of section 506 of the Officer Personnel Act of 1947 (Public Law 381, 80th Cong.), subject to designation as distinguished military graduates, and subject to physical qualification:

Kenneth G. Cassels, O2003050.
William H. Dinkins.
John L. Evans.
Myron R. Feldman, O1862119.
Jack R. Fleming, O1872737.
Joseph B. J. Holden.
Everett E. Hooper.
Haldor T. Jonsson, Jr.
Frank M. Simpson, Jr.
Alex Stewart, Jr., O2003904.

IN THE AIR FORCE

The following-named person for appointment in the United States Air Force in the grade of colonel, with date of rank to be determined by the Secretary of the Air Force under the provisions of Private Law 222, Eighty-second Congress:

Bernt Balchen, AO426630.

The following-named persons for appointment in the United States Air Force in the grades indicated, with dates of rank to be determined by the Secretary of the Air Force under the provisions of section 506, Public Law 381, Eightieth Congress (Officer Personnel Act of 1947), and title II, Public Law 365, Eightieth Congress (Army-Navy-Public Health Service Medical Officer Procurement Act of 1947):

To be captains, USAF (medical)

John H. George, AO463125.
Dalton L. Kinsella, Jr., AO2213534.
Gordon Saver, AO2212251.
Robert E. Shirley, AO1906683.

To be first lieutenants, USAF (medical)

William G. Sanford, AO1907138.
Harwood N. Sturtevant, AO972875.
Arthur J. Thiele, Jr., AO972601.

The following-named distinguished aviation cadets for appointment in the United States Air Force in the grade indicated, with dates of rank to be determined by the Secretary of the Air Force under the provisions of section 506, Public Law 381, Eightieth Congress (Officer Personnel Act of 1947):

To be second lieutenants

James L. Anderson Glenn B. Shaffer
Eugene Bartolich Gordon S. Walls
Irving L. Burrows, Jr. Charles F. Watson, Jr.

Subject to physical qualification and subject to designation as distinguished military graduates, the following-named distinguished military students of the senior division, Reserve Officers' Training Corps, for appointment in the United States Air Force, in the grade of second lieutenant, with dates of rank to be determined by the Secretary of the Air Force under the provisions of section 506, Public Law 381, Eightieth Congress (Officer Personnel Act of 1947):

Alwyn C. Buckland, AO2216185.
William E. Buffington.
Stephen G. Dardaganian, AO2230644.
Luis A. Davila Aponte.
Ralph L. Kitchens.
Gene W. LaFitte.
William S. Paul.
Billy J. Welch, AO1856225.

IN THE NAVY

The following-named officers of the Supply Corps of the Navy for permanent appointment as ensign in the line of the Navy:

Eugene H. Pillsbury
Spencer A. Barrow

The following-named line officers of the Navy for permanent appointment as ensign in the Civil Engineer Corps of the Navy:

Gordon A. Anderson Robert H. Nelson
John F. Dobson Calvin C. Norman
Charles M. Howe Claude E. Swecker, Jr.

The following-named officer of the Navy for permanent promotion to the grade of lieutenant (junior grade) in the Civil Engineer Corps of the Navy in lieu of the line as previously nominated and confirmed:

Gordon A. Anderson.

CONFIRMATIONS

Executive nominations confirmed by the Senate September 25 (legislative day of September 19), 1951:

DEPARTMENT OF JUSTICE

A. Devitt Vanech, of Connecticut, to be Deputy Attorney General.

HAWAII

SUPREME COURT, TERRITORY OF HAWAII

Hon. Edward A. Towse, of Hawaii, to be chief justice of the Supreme Court of the Territory of Hawaii.

Ingram M. Stainback, of Hawaii, to be associate justice of the Supreme Court of the Territory of Hawaii.

CIRCUIT COURTS, TERRITORY OF HAWAII

William Burbridge Brown, of Hawaii, to be circuit judge of the Second Circuit, Circuit Courts, Territory of Hawaii.

UNITED STATES ATTORNEY

Charles Patterson Green to be United States attorney for the eastern district of North Carolina.

UNITED STATES MARSHALS

Walter E. Huntley to be United States marshal for division No. 3, district of Alaska.

Leo H. Brooker to be United States marshal for the southern district of Florida.

Calendar No. 737

82D CONGRESS
1ST SESSION

H. R. 4473

IN THE SENATE OF THE UNITED STATES

SEPTEMBER 20 (legislative day, SEPTEMBER 19), 1951

Ordered to lie on the table and to be printed

AMENDMENT

Intended to be proposed by Mr. HENDRICKSON (for himself, Mr. SMITH of New Jersey, Mr. KNOWLAND, and Mr. NIXON) to the bill (H. R. 4473) to provide revenue, and for other purposes, viz: At the proper place in the bill insert the following:

1 SEC. . Section 444 (f) (relating to increase in
2 capacity for production or operation) is hereby amended to
3 read as follows:

4 “(f) RULES FOR APPLICATION OF SECTION.—

5 “(1) The benefits of this section shall not be allowed
6 unless the taxpayer makes application therefor in
7 accordance with section 447 (e).

8 “(2) Any increase in the taxpayer's capacity for
9 production or operation consummated during any tax-
10 able year ending after the last day of the base period,

AMENDMENT

Intended to be proposed by Mr. HENDRICKSON
(for himself, Mr. SMITH of New Jersey, Mr.
KNOWLAND, and Mr. NIXON) to the bill
(H. R. 4473) to provide revenue, and for
other purposes.

SEPTEMBER 20 (legislative day, SEPTEMBER 19), 1951

Ordered to lie on the table and to be printed

1 as a result of the construction of additional facilities
2 begun and continued during the base period, shall be
3 deemed to be an increase in capacity in existence on
4 the last day of the base period.”

PETITION

Mr. LODGE (for himself and Mr. SALTONSTALL) presented resolutions adopted by the House of Representatives of the General Court of Massachusetts, which were referred to the Committee on Post Office and Civil Service and, under the rule, ordered to be printed in the RECORD, as follows:

RESOLUTION MEMORIALIZING CONGRESS TO TAKE THE NECESSARY STEPS TO CONTINUE THE MAINTENANCE OF A POST OFFICE IN THE NORTH END DISTRICT OF THE CITY OF BOSTON

Whereas the construction of the Boston Central Artery, so called, under the accelerated highway program of the Commonwealth of Massachusetts, necessitates the demolition of the building on Hanover Street in the city of Boston wherein the post office serving the north-end district of said city is maintained; and

Whereas the discontinuance of the maintenance of a post office in said district would result in great inconvenience to business and industry in said district and to the residents therein: Therefore, be it

Resolved, That the House of Representatives of the General Court of Massachusetts hereby urges the Congress of the United States to take such steps as may be necessary to provide for the maintenance of a post office at some other suitable location in said north-end district upon the demolition of the building hereinabove referred to; and be it further

Resolved, That copies of these resolutions be sent forthwith by the secretary of the Commonwealth to the Postmaster General of the United States, to the presiding officer of each branch of Congress, and to the Members thereof from this Commonwealth.

House of representatives, September 20, 1951, adopted.

LAWRENCE R. GROVE, Clerk.

A true copy.

Attest:

EDWARD J. CRONIN,
Secretary of the Commonwealth.

REPORTS OF COMMITTEES

The following reports of committees were submitted:

By Mr. MAGNUSON, from the Committee on Interstate and Foreign Commerce:

H. R. 5013. A bill to authorize the President to proclaim regulations for preventing collisions at sea; without amendment (Rept. No. 838); and

S. J. Res. 104. Joint resolution to assist in the rehabilitation of the economy of South Korea, and for other purposes; without amendment (Rept. No. 839).

By Mr. MAYBANK, from the Committee on Banking and Currency:

S. 2180. A bill to provide for slaughter quotas and allocations of livestock; without amendment (Rept. No. 840).

BILLS INTRODUCED

Bills were introduced, read the first time and, by unanimous consent, the second time, and referred as follows:

By Mr. RUSSELL (by request):

S. 2174. A bill to amend the Universal Military Training and Service Act, as amended, and for other purposes; to the Committee on Armed Services.

By Mr. MAGNUSON:

S. 2175. A bill to authorize the Secretary of the Army to convey to the city of Pasco, Wash., certain property within the Pasco Engineer Depot, Franklin County, Wash.; to the Committee on Armed Services.

S. 2176. A bill to make clear that fishermen's organizations, regardless of their tech-

nical legal status, have a voice in the ex-vessel sale of fish or other aquatic products on which the livelihood of their members depends; to the Committee on Interstate and Foreign Commerce.

S. 2177. A bill for the relief of Daniel S. Delani-Beltayne; and

S. 2178. A bill for the relief of Jue Mei Li and Jue Wing Wah; to the Committee on the Judiciary.

By Mr. NIXON:

S. 2179. A bill for the relief of Yee Chih Gee; to the Committee on the Judiciary.

By Mr. MAYBANK (for himself, Mr. ROBERTSON, Mr. SPARKMAN, Mr. FREAR, Mr. DOUGLAS, Mr. BENTON, Mr. MOODY, Mr. CAPEHART, and Mr. IVES):

S. 2180. A bill to provide for slaughter quotas and allocations of livestock; to the Committee on Banking and Currency.

(See the remarks of Mr. MAYBANK when he introduced the above bill, which appear under a separate heading.)

By Mr. LODGE:

S. 2181. A bill for the relief of Nikolaï Perehud-Pogorelski;

S. 2182. A bill for the relief of Samuel Polsky; and

S. 2183. A bill for the relief of Voula Taloumis; to the Committee on the Judiciary.

S. 2184. A bill to establish a veterans' status for civil service purposes to certain persons who received "Discharge from Draft" certificates at the close of World War I; to the Committee on Post Office and Civil Service.

SLAUGHTER QUOTAS AND ALLOCATIONS OF LIVESTOCK

Mr. MAYBANK. Mr. President, on behalf of myself, the Senator from Virginia [Mr. ROBERTSON], the Senator from Alabama [Mr. SPARKMAN], the Senator from Delaware [Mr. FREAR], the Senator from Illinois [Mr. DOUGLAS], the Senator from Connecticut [Mr. BENTON], the Senator from Michigan [Mr. MOODY], the Senator from Indiana [Mr. CAPEHART], and the Senator from New York [Mr. IVES], members of the Committee on Banking and Currency, I introduce for reference to the Committee on Banking and Currency, a bill to provide for slaughter quotas and allocations of livestock.

The PRESIDENT pro tempore. The bill will be received, and, without objection referred, as requested by the Senator from South Carolina.

The bill (S. 2180) to provide for slaughter quotas and allocations of livestock, introduced by Mr. MAYBANK (for himself and other Senators), was read twice by its title, and referred to the Committee on Banking and Currency.

Mr. MAYBANK. Mr. President, from the Committee on Banking and Currency, I report, without amendment, the bill, (S. 2180), just introduced by me, and I submit a report (No. 840) thereon.

The PRESIDENT pro tempore. The report will be received, and the bill will be placed on the calendar.

COURTESIES EXTENDED CITIZENS OF FOREIGN COUNTRIES

Mr. KNOWLAND. Mr. President, I submit for appropriate reference, a concurrent resolution. It is very brief, and reads as follows:

Resolved by the Senate (the House of Representatives concurring), That it is the sense of Congress that the Government of the United States shall extend such courtesies and privileges to, and impose such restric-

tions upon, representatives and citizens of any foreign country as may be equivalent to those extended to or imposed upon representatives and citizens of the United States by such foreign country.

Mr. President, the purpose of the concurrent resolution is to place the United States on a quid pro quo basis with the Soviet Union and her satellites, and where they restrain the movement of our ambassadors and consular officers to see to it that their representatives operate under precisely the same restraint under which ours operate.

The concurrent resolution (S. Con. Res. 49) submitted by Mr. KNOWLAND, was referred to the Committee on Foreign Relations.

REVENUE ACT OF 1951—AMENDMENTS

Mr. JOHNSON of Colorado submitted amendments intended to be proposed by him to the bill (H. R. 4473) to provide revenue, and for other purposes, which were ordered to lie on the table and to be printed.

Mr. JOHNSTON of South Carolina (for himself, Mr. HENDRICKSON, and Mr. IVES) submitted an amendment intended to be proposed by them, jointly, to House bill 4473, supra, which was ordered to lie on the table and to be printed.

EXECUTIVE MESSAGES REFERRED

As in executive session,

The PRESIDENT pro tempore laid before the Senate messages from the President of the United States submitting sundry nominations, which were referred to the appropriate committees.

(For nominations this day received, see the end of Senate proceedings.)

ADDRESSES, EDITORIALS, ARTICLES, ETC., PRINTED IN THE APPENDIX

On request, and by unanimous consent, addresses, editorials, articles, etc., were ordered to be printed in the Appendix, as follows:

By Mr. KNOWLAND:

Address delivered by him on September 25, 1951, by transcontinental telephone hookup, to the convention of the Associated Traffic Clubs of America, meeting in Seattle, Wash., discussing the impact of the foreign policy of the United States on the domestic economy.

By Mr. WILEY:

Statement prepared by him and essays in the American Legion National essay contest on the subject Operation Comeback, designed to show how physically handicapped could overcome their disabilities.

By Mrs. SMITH of Maine:

Column by David Lawrence entitled "Everybody's Doing It" Doctrine," published September 26, 1951, discussing the use of influence by chairmen of national political committees in the making of loans by the Reconstruction Finance Corporation.

By Mr. JOHNSTON of South Carolina:

Address delivered by Senator McMAHON, Chairman of the Joint Committee on Atomic Energy, at the Federal Bar Association's dinner in honor of the Judicial Conference of the United States, at the Mayflower Hotel, Washington, D. C., on September 25, 1951.

IMPRISONMENT IN CZECHOSLOVAKIA OF ASSOCIATED PRESS CORRESPONDENT WILLIAM N. OATIS

Mr. O'CONOR. Mr. President, today we are informed by press and radio accounts that the Communists of Czecho-

slovakia are disposed to bargain for the liberation of William N. Oatis, the Associated Press correspondent, unjustly imprisoned on trumped-up charges of espionage.

The reports quote the Czech Ambassador as indicating that the Soviet puppets might be ready to deal for his freedom. Of course, it is observed that the Communists expect a high price such as liberal trade concessions or possibly more tangible terms.

I express the hope that our Government will not bargain or deal in such a righteous cause. Principle cannot be compromised. Decency is not the subject of barter. Justice and fair play are not salable commodities to be offered on the auction block.

The United States has ever been the symbol of upright conduct. Our basic law and our unbroken history bear testimony to the devotion of the American people to high ideals. Let us not descend to the level of the Communists by offering them monetary inducements in order to secure justice.

If we fall into the error of meeting the Communists on their own level we will appear before the world as ready to sacrifice principle in order to gain a temporary advantage.

I trust our State Department will not be a party to a deal for Mr. Oatis' release. He must be liberated, of course, and our Government should avail of every honorable means to secure his liberty. But that does not mean that we should offer trade concessions and financial terms which otherwise would not be considered regular in our intercourse with foreign nations.

William Oatis is an outstanding example of our great American newspapermen. As much as he desires freedom, he would be the last to want that freedom brought about by compromise and deals which were completely contrary to the dignity our Nation must command throughout the world.

Instead of giving in to the demands of the Czech Communists on trade we should abandon all trade with them and should refuse to treat them as worthy of relationship with our Nation. Their conduct in the Oatis case shows conclusively that they are not to be trusted to handle trade agreements faithfully and uprightly.

And that brings up another consideration. If we "bargain" and "deal" with them today for Mr. Oatis, we can be assured that they will resort to other moves tomorrow to gain even further concessions from the United States. Every time we pay the Communists ransom, in some form or another, we encourage them to resort to other dastardly deeds in order to gain their ends.

The readiness of the Czechoslovakian Government to "deal" now in this matter is most interesting, in that it proves the truth of the contention which I made on the Senate floor earlier, namely, that positive measures, rather than words of diplomatic representations, offer the only hope of effective action with regard to Mr. Oatis' release.

Instead of yielding now to the Communists on such measures as have been

put into effect, our Government should redouble such efforts. For instance, exports to Czechoslovakia have been stopped, and this action has hurt that country's economy. Let us tighten that pressure by stopping all imports from Czechoslovakia, which under existing law, can be done by Executive order.

Time and again, and most recently in Korea, it has been shown that the only thing the Communists listen to is force. Let us continue to use that method, which is apparently proving effective.

REVENUE ACT OF 1951

The Senate resumed the consideration of the bill (H. R. 4473) to provide revenue, and for other purposes.

The PRESIDENT pro tempore. The Senator from New York [Mr. LEHMAN] has the floor.

Mr. McFARLAND. Mr. President, I ask unanimous consent that there be a quorum call, the time consumed in the calling of the roll not to be charged to either side.

The PRESIDENT pro tempore. Without objection, it is so ordered. The clerk will call the roll.

The Chief Clerk proceeded to call the roll.

Mr. McFARLAND. Mr. President, I ask unanimous consent that the order for a quorum call be rescinded and that further proceedings under the call be suspended. The Senator from Michigan [Mr. MOODY] has a 10-minute talk which I ask unanimous consent he be allowed to make, without the time so consumed being charged to either side.

Mr. SALTONSTALL. Mr. President, reserving the right to object, and simply to keep the RECORD straight; would not the Senator from Michigan make his remarks as a preliminary matter?

Mr. MOODY. That is precisely what I should like to do.

Mr. SALTONSTALL. I have no objection.

The PRESIDENT pro tempore. Is there objection to the request of the Senator from Arizona that the order for a quorum call be rescinded? The Chair hears none, and it is so ordered.

Is there objection to the Senator from Michigan speaking at this time? Without objection, the Senator from Michigan is recognized.

SOLICITATION OF CONTRIBUTIONS FROM CANDIDATES FOR POSTMASTERSHIPS IN MICHIGAN

Mr. MOODY. Mr. President, I had the misfortune to be away from the Senate last Saturday when my distinguished colleague, the senior Senator from Michigan, discoursed at some length on the subject of Michigan politics. I regret that the pressure of Senate duties has prevented me from reading the RECORD of last Saturday until now.

Having done so now, I wish to thank my colleague [Mr. FERGUSON] for the personal courtesy he showed me in his discourse, and I wish particularly to thank my good friend, the distinguished senior Senator from Connecticut, for having inserted in the CONGRESSIONAL RECORD the complete text of a letter I addressed to 76 postal employees, or prospective em-

ployees in Michigan, in order that my views as of that moment might be more fully presented to the Senate.

I arise at this time, Mr. President, to complete the RECORD, insofar as is now possible, begun last Thursday by Representative GEORGE MEADER, of Michigan's second district, and continued last Saturday by my colleague from Michigan in the Senate.

It is my intention to correct certain misconceptions that may have resulted from the remarks now in the RECORD and from certain statements attributed to Mr. MEADER and others outside of the House Chamber.

The senior Senator from Michigan, after reiterating the presentation of Representative MEADER, expanded his discussion of Michigan politics to include the subject of political influence on the decisions of Government agencies, and particularly the attempts of the State of Michigan to obtain steel for the restoration of two burned-out floors of its State office building.

The senior Senator from Michigan stated:

The business of the Government should not be influenced by political considerations nor conducted in a purely political atmosphere.

He goes on to say:

A citizen of the United States should not be required to secure the intervention of someone directly connected with politics in order to obtain his just rights, and we should take great pains to avoid giving any impression that such intervention is necessary.

With these statements, of course, I agree.

The senior Senator from Michigan was moved to these observations, it appears, by an editorial in the Lansing State Journal, which he quoted as complaining that Governor Williams was making a political issue of the steel for the partially destroyed State office building.

I am at a loss to understand this complaint, Mr. President, for even as the State Journal editorialized thus on Sunday, September 9, its news columns carried a dispatch from its able Washington correspondent, Milt Dean Hill, which stated, in part:

Steadman (Robert F. Steadman, State controller and a Williams' Democratic appointee) acted after conferences Friday morning with members of the staff of Senator HOMER FERGUSON, who has been working ingwith NPA authorities on the matter.

FERGUSON himself is due back in Washington on Monday, and his aides say he will take the matter up with Manly Fleischmann, NPA Administrator, immediately.

Further in the news story:

Steadman talked with aides of Senator BLAIR MOODY, and indicated he would continue his efforts next week after Moody and FERGUSON return to Washington.

The final paragraph of the Lansing State Journal story is as follows:

Senator FERGUSON's office, working closely with Steadman, arranged the controller's appointments with NPA officials.

On September 18, Mr. President, the NPA granted the State a modest allotment of steel for the start of reconstruction of State office facilities. The United

Press dispatch from Lansing contains this paragraph:

Governor Williams pointed out that both Senator MOODY and Senator FERGUSON had worked on the steel problem.

I do not believe the senior Senator was accusing himself of using improper influence and therefore I am at a loss to understand his criticism of the Governor.

All this arose, as I understand, because of a facetious remark made by Governor Williams at a press conference in Lansing.

I now turn my attention, Mr. President, to the more serious side of the questions that have been raised in this chamber by my Republican colleague. There are a few discrepancies in the RECORD and in the published statements pertinent to the RECORD that I would like to clear up.

A letter was written by Howard Hunt, finance director of the Democratic State central committee, to a number of persons who had been recommended for positions in the Post Office Department, inviting them to contribute to the party. I believe the language of this letter to be entirely improper. Within an hour after I had been informed of the existence of such a letter by the distinguished Washington correspondent of the Detroit Free Press, Mr. James Haswell, and by Mr. William R. Muller, leading political writer of the Detroit News, I dictated a letter to the 76 persons whom I had recommended to the Post Office Department which said, in part:

It has come to my attention that a letter has been addressed to a number of acting postmasters by the finance director of the Democratic State central committee inviting them to contribute to the Democratic Party.

Although I have never seen the letter, I am told that my name was used in it. I repudiate this type of solicitation of those who are candidates for appointment to any office or position.

This letter was sent without my knowledge or consent. Had I known such solicitation was contemplated, I would have stopped it.

My purpose in directing this communication to you is to determine:

(1) Were you invited to make any political contribution whatsoever incident to your appointment or recommendation for appointment to any position in the Post Office Department?

(2) Were you given to understand, or in any way led to believe, that your appointment or recommendation for appointment would be contingent upon any such contribution?

(3) Have you made any political contributions whatsoever since April 23, 1951?

That was the date I came to the Senate.

If so, please state the amount, the person to whom it was given, and the circumstances under which it was given. In the interest of good Government it is imperative that we have all the facts relating to this letter, and indeed any other requests for contributions that are made incident to any appointments or recommendations. Neither Governor Williams nor I would stand for any fund raising based on the contingency of appointments and it is important to establish whether or not anything of this sort has taken place without our knowledge.

As you know, the Post Office Department is the final authority on all postal appointments. Nevertheless, I am asked to make

recommendations on these appointments and I feel a heavy responsibility to the people of Michigan in seeing that my recommendations are based on merit. My suggestions to the Post Office Department are based to a large extent on recommendations from within the State.

Therefore, I must have absolute assurance that no recommendations received by me are influenced by any contributions which may have been made or promised.

After dictating that letter I dispatched my legal counsel, James H. Lincoln, former assistant United States district attorney and former assistant prosecutor of Wayne County, which includes Detroit, to start investigating this situation and also a number of other reports of campaign fund raising.

As has been stated previously in my behalf—and I am appreciative of those statements—I unequivocally repudiate any attempts on the part of any official of the Democratic State central committee to solicit contributions for the party from any postal appointee.

The senior Senator from Michigan states flatly that the sending of the Hunt letter, the text of which he read into the record, is a violation of the law.

My colleague from Michigan is an attorney well versed in law. He was a circuit judge in the county of Wayne, and he was a one-man grand jury. I am not a lawyer, so of course, I cannot presume to contest his statement.

But if, as he says, this letter constitutes a violation of the law, then I am confident that the proper prosecuting authorities will take whatever action is indicated, when we call it to their attention, as we will do, and the courts will uphold the contention.

I know that my colleague, as a former member of the bench, will join with me in expressing complete confidence in the integrity of the courts in Detroit and Wayne County.

In behalf of my good friend, the great young Governor of my State, Mennen Williams, let me put this into the RECORD. When his attention first was drawn to the fact that the finance director of the State central committee was addressing such letters to postal appointees, he immediately ordered the practice stopped. Furthermore, every penny which had been contributed during the period was immediately returned to the contributors. As of that date, in August, 20 or 21 letters had been mailed out, and the huge sum of \$95 had been contributed.

This information he gave to the press in Lansing last week. He was quoted in Lansing dispatches as follows:

I am satisfied that those who prepared this letter did so with no improper motive. The Democratic Party has not accepted one penny of contributions as a result of the mistake. The mistake has been fully rectified.

It is my belief also that there was no improper motive in drafting this letter, but I certainly believe that it was couched in highly improper language. The inference which could be drawn from the letter was not a fortunate inference.

One further reference to the Governor's position in this matter, which has

been subject to distortion, by error and not intent, I am sure.

Last Saturday the senior Senator from Michigan read into the record portions of a news story filed from Washington by James Haswell, of the Detroit Free Press. One of the two paragraphs he elected to read states:

The Governor's appointment of Senator MOODY broke a political stalemate which had existed for several months, and gave him control of patronage reaching into every community of the State.

The senior Senator from Michigan then went on to say:

We now find that the governor of a State indicates in the newspapers that they (postmasters) are back in politics.

I suggest that the Senator read this passage again. If he does, he will note that it was Mr. Haswell, the reporter, who said that, and not Governor Williams, who nowhere was quoted, directly or indirectly, in the story.

As I said at the outset, I am concerned primarily today with clearing up the record.

Now, Mr. President, I should like to address myself briefly to the allegations and insinuations of the Representative from the Second District of Michigan, Mr. MEADER.

According to the newspaper clippings reaching me from the Republican National Committee, Mr. MEADER and others have charged that the Democratic Party in Michigan is selling jobs in the Post Office Department. That, Mr. President, is what I meant by a political smear. Mr. MEADER is a lawyer. I am surprised that he is reaching conclusions before the evidence is in. He has reached his conclusion on the basis of the fund-solicitation letter plus one letter from a constituent who complains that, as a veteran, he was passed over unlawfully for a postmaster's appointment. I immediately asked Mr. MEADER for the identity of this man.

Mr. MEADER refused to let me know the identity of the man.

Mr. MEADER must be acquainted with the civil-service and post-office laws and regulations governing these matters. He must know that without cause a veteran cannot possibly be passed over by a non-veteran. The rest of his anonymous correspondent's complaint deals with hearsay.

Now I am not dismissing this lightly. I think this is a serious charge, and I think it should be thoroughly investigated. Mr. MEADER asks that I call off my own personal inquiry into the charge on the ground that I am investigating myself. Of course I am not. I am inquiring into the alleged acts of others purportedly taken in my name without my authority.

If an anonymous caller telephones a bank president to say that the third cashier from the right has his fingers in the till, I rather imagine that the bank president would run an adding-machine tape on the teller before calling in the law. I am now running such a tape.

The chairman of the Republican State Central Committee in Michigan last week sent telegrams to all Michigan Re-

publicans in Congress urging that they demand a congressional investigation of the matters referred to here. And the response at this end was prompt. The investigation has been demanded.

My colleague, in his address to the Senate last Saturday, said he was sure that the junior Senator from Michigan would join him in asking for such an inquiry. I would be delighted if the investigating committee of the Senate, after considering any evidence before it, should decide to make a check of the situation. I shall, of course, lay before the committee headed by the Senator from North Carolina [Mr. HOEY] any facts that I am able to gather, and I am sure that the senior Senator from Michigan [Mr. FERGUSON] will agree that if the committee decides to make any investigation of the fund raising in Michigan it should go into all practices of fund raising in our State by both parties.

Clean government and respect for the holders of public office is the issue. In this connection, let me say that I am sorry that Representative MEADER has chosen to place all Michigan postmasters under suspicion by his publication of an anonymous letter.

I talked with the chairman of the Senate Subcommittee on Expenditures, informed him of my inquiry, and suggested that if his committee finds sufficient evidence to justify a formal inquiry, it should go into the whole story of campaign fund solicitation, as engaged in by both major parties in Michigan over a period of the last 5 years.

Mr. President, I have just been handed by my administrative assistant an up-to-date check of the investigation so far, which shows that a total of eight contributions were made by postal employees. They were not necessarily made in response to Mr. Hunt's letter, as some of these employees are long-time members of the Democratic Party and regular contributors.

The total sum received from these people to date was \$130.50. The largest of these contributions was \$60, while the smallest was \$3. All have been returned. Incidentally, that is an average of \$16 contributed. It is somewhat typical, I am afraid, of Democratic Party financing.

I notice that the distinguished and able senior Senator from Ohio [Mr. TAFT] has come into the Chamber. I should like to point out that the \$130 which was raised from eight contributors is far less, I am sure, than two gentlemen will be raising when they attend the \$100-plate dinner in honor of the distinguished senior Senator from Ohio at Detroit next week.

I believe it is typical that the contribution to the Democratic Party averages \$16 each.

I assure the Senate that when Mr. Lincoln, my counsel, has completed his investigation, I will make the results of it available to the distinguished Senator from North Carolina [Mr. HOEY], the chairman of the investigating subcommittee. I assure the Senate also that if there has been any violation of law—and I am confident Mr. Lincoln, a former

United States district attorney, will uncover it, if there has been such a violation—we will call upon the district attorney in Detroit to prosecute the violations.

REVENUE ACT OF 1951

The Senate resumed the consideration of the bill (H. R. 4473) to provide revenue, and for other purposes.

Mr. McFARLAND. Mr. President, it is a little discouraging that we should have so few Senators on the floor. I again ask unanimous consent that we may have a quorum call, without charging the time to either side.

The PRESIDENT pro tempore. Is there objection? The Chair hears none. The clerk will call the roll.

The Chief Clerk proceeded to call the roll.

Mr. McFARLAND. Mr. President, I ask unanimous consent that the further proceedings incident to the call of the roll be dispensed with, and that the order for the call of the roll be rescinded.

The PRESIDENT pro tempore. Without objection, it is so ordered.

The question is on agreeing to the amendment offered by the Senator from New York [Mr. LEHMAN] for himself and other Senators.

The amendments considered en bloc, offered by Mr. LEHMAN for himself and other Senators are as follows:

CHANGE OF EFFECTIVE DATE FOR CORPORATE TAX INCREASES TO JANUARY 1, 1951

On page 36, beginning with line 12, strike out all through line 24, and insert in lieu thereof the following:

"(1) Taxable years beginning after December 31, 1950, and before January 1, 1954: In the case of taxable years beginning after December 31, 1950, and before January 1, 1954, a tax of 27 percent of the normal-tax net income.

"(2) Taxable years beginning after December 31, 1953: In the case of taxable years beginning after December 31, 1953, a tax of 25 percent of the normal-tax net income."

On page 37, beginning with line 22 strike out all through line 24; and on page 38, beginning with line 1, strike out all through line 13 and insert in lieu thereof the following:

"(1) Taxable years beginning after December 31, 1950, and before January 1, 1954: In the case of taxable years beginning after December 31, 1950, and before January 1, 1954, a surtax of 25 percent of the amount of the corporation surtax net income in excess of \$25,000.

"(2) Taxable years beginning after December 31, 1953: In the case of taxable years beginning after December 31, 1953, a surtax of 22 percent of the amount of the corporation surtax net income in excess of \$25,000."

On page 38, in line 22, strike out the word "April" and insert in lieu thereof "January."

On page 39, beginning with line 3, strike out all through line 15; in line 16 delete "(C)" and insert in lieu thereof "(B)"; and in line 17 delete "March 31, 1951" and insert in lieu thereof "December 31, 1950."

On page 43, beginning with line 11, strike out all through line 24, and revise line 25 to read as follows:

"(A) Taxable years beginning after December."

On page 44, in line 1, delete "1951" and insert in lieu thereof "1950," and in lines 2 and 3 delete "March 31, 1951" and insert in lieu thereof "December 31, 1950."

On page 44, in line 13 delete "(C)" and insert in lieu thereof "(B)."

On page 45, beginning with line 4, strike out all through line 20, and amend lines 21 and 22 to read as follows:

"(A) Taxable years beginning after December 31, 1950, and before January 1, 1954." On page 46, in line 9, delete "(C)" and insert in lieu thereof "(B)."

On page 47, beginning with line 3, strike out all through line 9 and insert in lieu thereof the following:

"(3) In the case of taxable years beginning after December 31, 1950, and before January 1, 1954, there."

On page 47, beginning with line 17, strike out all through line 23 and insert in lieu thereof the following:

"(4) In the case of taxable years beginning after December 31, 1950, and."

On page 48, beginning with line 13, strike out all through line 19 and insert in lieu thereof the following: "period at the end thereof the following: "; except that in the case of taxable years beginning after December 31, 1950, and."

On page 50, beginning with line 22, strike out all through line 25.

On page 51, beginning with line 1, strike out all through line 8 and insert in lieu thereof the following:

"(A) Taxable years beginning after December 31, 1950, and before January 1, 1954. In the case of taxable years beginning after December 31, 1950, and before January 1, 1954, 62 per."

On page 51, in line 14, delete "(C)" and insert in lieu thereof "(B)."

On page 52, beginning with line 1, strike out all through line 9 and insert in lieu thereof the following:

"In the case of a public utility, (A) for a taxable year beginning after December 31, 1950, and before January 1, 1954, an amount equal to."

On page 52, in line 14, delete "(C)" and insert in lieu thereof "(B)."

On page 53, beginning with line 1, strike out all through line 16 and insert in lieu thereof the following:

"(1) Taxable years beginning after December 31, 1950, and before January 1, 1954: In the case of a taxable year beginning after December 31, 1950, and before January 1, 1954, an amount equal to 27 percent of its normal-tax net income computed without regard to the credit provided in this subsection.

"(2) Taxable years beginning after December 31, 1953: In the case of a taxable year beginning after December 31, 1953, an amount equal to 30 percent of its normal-tax net income computed without regard to the credit provided in this subsection."

On page 59, in lines 20 and 24, delete "March 31, 1951" and insert in lieu thereof "December 31, 1950."

On page 61, beginning with line 5, strike out all through line 19 and insert in lieu thereof the following:

"The amendment made by this part shall be applicable only with respect to taxable years beginning after December 31, 1950. For treatment of taxable years beginning in 1950, and ending in 1951, see section 131."

On page 65, in line 19, strike out "April 1, 1951" and insert in lieu thereof "January 1, 1951"; and in line 21 strike out "March 31, 1951" and insert in lieu thereof "December 31, 1950."

On page 66, in line 4, strike out "March 31, 1951" and insert in lieu thereof "December 31, 1950"; and in line 17, strike out "April 1, 1951" and insert in lieu thereof "January 1, 1951."

On page 66, beginning with line 20, strike out all through line 25 and insert in lieu thereof the following:

"(g) Taxable years of corporations beginning after June 30, 1950, and before January 1, 1951, and ending in 1951: In the case of a taxable year of a corporation beginning after June 30, 1950, and before January 1,

1951 and ending after December 31, 1950, the."

On page 67 in line 6, strike out "April 1, 1951" and insert in lieu thereof "January 1, 1951", and in lines 12 and 13 strike out "March 31, 1951" and insert in lieu thereof "December 31, 1950."

On page 70, in lines 23 and 25, strike out the word "April" and insert in lieu thereof "January."

On page 71, beginning with line 7, strike out all through line 13 and insert in lieu thereof the following:

"(2) Taxable years ending after December 31, 1950.—In the case of a taxable year beginning before January 1, 1951, and ending after December 31, 1950, the tax imposed by subsection (a)."

On page 71 in lines 20 and 24, delete the word "April" and insert in lieu thereof the word "January."

On page 72, in line 1, delete "March 31, 1951" and insert in lieu thereof "December 31, 1950."

Mr. LEHMAN. Mr. President, my amendment is a simple one, offered to a very complicated tax bill. The amendment is so simple and so clear that I do not believe I shall have to use all the time which has been allotted to me.

Under this amendment, the new tax rates for corporations would be effective January 1 of the current year, instead of April 1, as is provided by the Senate committee.

There is no justification, in fact or in theory, for making the new corporation taxes effective April 1.

The bill, as approved by the House, made new corporation tax rates effective January 1. The amendment I have offered, cosponsored by 12 other Members of the Senate, strikes out the change made by the Senate committee, and restores this provision of the bill to the form approved by the House.

In practical effect, Mr. President, my amendment would increase Federal revenues by about \$500,000,000. The amendment offered by the Senate committee would decrease Federal revenues by \$500,000,000, or one-tenth the size of the whole bill. The Senate committee version would forgive \$500,000,000 in corporate tax liability, even at the rates proposed by the Senate committee, and even more than that amount at the rates approved by the House.

Mr. President, there is no justification for this forgiveness. There is no reason for this cut in Federal revenues, for this special favor to corporations.

I do not know why the Senate committee set the date of applicability of the new rates for corporations at April 1. The committee report gives no firm reason. Why April 1? Why not March 1 or February 1 or June 1? There is no sense to an April 1 date, and there is a loss to the Government of half a billion dollars.

Mr. MILLIKIN. Mr. President, will the Senator from New York yield?

Mr. LEHMAN. I yield.

Mr. MILLIKIN. Will the distinguished junior Senator from New York be good enough to tell us what the forgiveness consists of? It is not forgiveness from existing law, is it?

Mr. LEHMAN. It is forgiveness of an amount to which the Government is entitled, and which the Government

would receive if the date were fixed as of January 1, instead of April 1. The January 1 date is in accordance with the almost invariable custom of the Congress of the United States.

Mr. MILLIKIN. Then as the matter stands now, since it is not a forgiveness from existing law, it is a forgiveness, for the moment, at least, from a standard in the Senator's mind. Is that correct?

Mr. LEHMAN. I think I shall develop that in the course of my remarks.

Mr. MILLIKIN. Very well.

Mr. LEHMAN. Mr. President, the committee report argues with itself on the question of whether to make the new corporate rates effective April 1, July 1, or October 1. The arguments are revenue arguments. If the effective date for the new rates was set at July 1, the committee says, Government revenue from the new corporation taxes would be decreased \$360,000,000. If the effective date were made October 1, Federal revenues would be decreased \$680,000,000.

The total take for the Government, the total revenue from the new corporation taxes in the fiscal year 1952, will be \$975,000,000, if the effective date is April 1, as proposed by the Senate committee; \$615,000,000 if the effective date is July 1; or \$295,000,000 if the effective date is October 1.

The committee report does not mention the revenue effect of changing the effective date from the House version of January 1; but the loss is estimated by the Treasury at \$500,000,000, more than half of this amount in the current fiscal year.

The report says that the Finance Committee is opposed to what it calls retroactive rate increases. Indeed, this is the only rationalization for moving the date forward from January 1; but April 1 is only 3 months less retroactive than January 1. If this so-called principle were adhered to, the committee should logically recommend that the new corporate rate should be effective November 1. But the committee does not make any such recommendation. The committee knows what the effect of such a recommendation would be. Its effect would be to make the new corporation taxes largely hypothetical as far as the present fiscal year is concerned. While individual income-tax payers would be required to contribute an additional \$1,400,000,000 in revenue to the Federal Government during the current fiscal year, corporations would pay practically nothing.

Why is this true with regard to corporation taxes? It is true because the bulk of the corporations maintain their books on a calendar year basis. They pay their taxes in four installments in the year following the year of liability. If these new rates were made applicable to corporations beginning November 1, most corporations would pay in the present fiscal year less than one-twelfth of their increased liability under the proposed tax bill. They would owe for the calendar year 1951 only two-twelfths of the proposed increase, covering 2 months; and in the present fiscal year, they would be required to pay little more than one-half of that. Even by the end of fiscal

1953, the corporations would not have paid a full year's tax at the new rate. Thus, it is unrealistic to speak of retroactivity with regard to corporations.

The Senate committee is well aware of that fact. No committee would have dared report a tax bill making corporation taxes effective as of the current date. Such a bill would, in effect, defer increased corporation tax rates for more than a year. It would bring no increased revenue to the Government. The corporations would be excused from carrying their share of the national burden, from making their share of the national sacrifice in the current fiscal year. Such a tax bill would be scandalous and insupportable.

So the Senate committee proposed making corporation tax rates effective as of April 1, although the House had voted to make those rates effective January 1. The Senate committee thus recognizes the principle of retroactivity of rates, so far as corporations are concerned. It is just a question of how much. What is the reason for an April 1 date? The only reason I can see is to forgive a half billion dollars in corporation taxes. It is a grant of that much to corporations.

Mr. President, I should like to be helpful to our great corporations and to all others. I admire the achievements and contributions of the corporations to the national economy; but my admiration does not carry to the point of forgiving them half a billion dollars of tax liability while the working men and women are asked to contribute their share, not next year, not the year after, but this year.

Mr. MILLIKIN. Mr. President, will the Senator yield for a question?

Mr. LEHMAN. I yield.

Mr. MILLIKIN. The Senator is not in favor of making the income tax on the workingman retroactive, is he?

Mr. LEHMAN. Certainly I am not.

Mr. MILLIKIN. Of course not.

Mr. LEHMAN. But the bill does not forgive them anything. They have to bear their share. In the case of the proposal of the Senate Finance Committee, the principle of retroactivity is recognized; but they set the date April 1, instead of January 1, which has been the invariable custom, as I shall point out, and they thus save the corporations an amount as large as \$500,000,000, according to the estimates of the Treasury Department.

Mr. MILLIKIN. I would advise the distinguished Senator that the April 1 date applies only to corporations, and the individual income taxpayer has no retroactivity applied to him at all.

Mr. LEHMAN. I realize that—and he never has had.

Mr. MILLIKIN. That is a highly desirable provision, as I see it.

Mr. LEHMAN. He never has had; but the corporation tax has always been retroactive, and, in almost every instance, to January 1; and I shall develop that as I go along.

Mr. MILLIKIN. Very well.

Mr. LEHMAN. The Wall Street Journal reported on September 11 that the change of effective date recommended by the Senate committee would reduce the

tax liability of United States Steel by \$23,000,000. I see no reason for Congress to make this grant of \$23,000,000 to United States Steel and comparable grants to our other giant corporations in a year when we are all being called upon to tighten our belts, to work a little harder, to contribute a little more, to spend a little less—in a year when we face a budget deficit of \$10,000,000,000, in a year when our national income is at record levels.

Mr. MILLIKIN. Mr. President, will the Senator yield?

Mr. LEHMAN. I yield for a question.

Mr. MILLIKIN. I do not desire to disturb the Senator from New York unduly, but I know he does not mind a question or two occasionally. Would the Senator mind putting in the RECORD a statement of the number of workers employed by the United States Steel Corp. and the other rich corporations to which he refers?

Mr. LEHMAN. I do not have the figures available, but, of course, I would be very glad to get them.

Mr. MILLIKIN. It is through their employment by the corporations that they get their living.

Mr. LEHMAN. I realize that, of course.

Mr. MILLIKIN. They get their living out of the well-being of the corporation which provides the payroll.

Mr. LEHMAN. I realize that, of course; but that makes no difference. They render service for their employer, and the steel corporation, of course, profits by the increasing employment given to workers, and by the increasing production.

Mr. MILLIKIN. And the profits which are retained are used to expand the plant, buy modern machines for the workers, and expand the payroll; and those profits which are not so used go to the dividend man, and he has got to have those little dividends—and most of them are little dividends—to pay the grocer, to keep a roof over his head, to buy some shoes for the children, and so forth and so on. So these great profitable corporations serve a very useful economic function; and if we did not have them, it would be necessary to invent them.

Mr. LEHMAN. Of course, it would be; but I am surprised at the statement of my distinguished friend from Colorado. I may say again, as I said last week, that I have great admiration for the Senator and for his ability. But as I interpret his remarks the Senator from Colorado says that because these great corporations give employment to so many men—and of course we know they do—they should be excused from bearing their share of the tax burden. If the Senator's thesis is correct, why permit the taxation of corporations at all? I may say that these corporations are making more money today than they ever made before; there can be no doubt about that; and their production is greater. Furthermore, in many cases the amount they put back into the business is greater than it ever has been before, in spite of the fact that dividends are greater.

Mr. MILLIKIN. Mr. President, will the Senator from New York yield?

Mr. LEHMAN. I yield.

Mr. MILLIKIN. I would not for one moment suggest that they should not pay taxes. I, on the minority side, have been a leader in the efforts to tax them. I was a minority leader in imposing the excess-profits tax on them. So I do not want any misinterpretation of my own position. But merely because a corporation is large, or because it is making big profits, does not argue either for or against an additional tax.

Mr. LEHMAN. I am not saying it does.

Mr. MILLIKIN. I think we must be careful lest we give the impression that because a corporation is large, and because it makes big profits, we should hike its taxes. That argument cannot be sustained as a generality, any more than can the arguments that their taxes should be decreased. It means nothing.

Mr. LEHMAN. Will the Senator from Colorado understand that I am not discussing any hike in taxes at all? I am discussing the date of the collection of the taxes. I am not discussing a hike in taxes. But I am delighted to hear the Senator from Colorado express his adherence to the principle of taxing corporations, because I very much hope, and now I expect, that he will support my amendment.

Mr. MILLIKIN. Mr. President, if the Senator will yield, I think since I have been in the Senate I have probably voted, and in some instances have led, in putting tax after tax upon corporations.

Mr. LEHMAN. I am aware of that.

Mr. MILLIKIN. It do not believe that because a corporation is a corporation it is entitled to any tax exemption, or merely because it is a corporation, or is a large corporation, that it is entitled either to a tax increase or to a tax decrease. The argument must rest on another basis.

Mr. LEHMAN. I am very much encouraged in the hope that the Senator will go along with my amendment.

Mr. HUMPHREY. Mr. President, will the Senator yield?

Mr. LEHMAN. I yield to the Senator from Minnesota.

Mr. HUMPHREY. Is it not true that the argument should rest upon the ability to pay, that it should rest upon the principle of simple fact as to whether an organization or an individual has the earned income or the profit which makes it possible for the appropriate payment of appropriate taxes? I think the facts bear us out and bear out what the Senator from New York is so well stating, that in the first quarter of 1951—these figures were used extensively yesterday—corporate profits before taxes were running at the rate of \$51,800,000,000; corporate profits after taxes were running at the annual rate of \$23,300,000,000; dividend payments were running at the rate of \$8,800,000,000; and undistributed profits were running at the annual rate of \$14,500,000,000 in the first quarter of 1951. That is the quarter to which the Senator from New York is directing his attention.

I agree with the Senator from Colorado that merely because someone is making money affords no reason for suddenly rushing in with a discriminatory tax and trying to take it away from him;

but I likewise point out that the record is complete that the corporations expected their tax liability to start January 1. They were notified to prepare on the basis of that, and the financial journals of Chicago, Philadelphia, San Francisco, and New York, journals which we shall place in this RECORD, show that they were prepared and preparing to meet their tax liability as of January 1, not as of April 1.

Mr. MILLIKIN. Mr. President, will the Senator yield?

Mr. LEHMAN. I yield for a question.

Mr. MILLIKIN. It is news to me that the corporations handle their business exclusively on the advice of the trade journals. I have no doubt that when that advice is believed to be sound it is followed. But I suspect that the managements of corporations preserve their own discretion in the matter, and, Mr. President, sometimes they do not have discretion to set up reserves to cover retroactive taxation. One may read something in a newspaper to the effect that corporation A is going to set up reserves for this and that, while other corporations may not have the funds with which to set up reserves. Most of the corporations are not big, sound, pot-bellied institutions. Most of them are of much smaller size, running down to very small corporations which are under great distress to meet regular taxes already imposed, let alone meeting retroactive taxes.

Mr. HUMPHREY. Mr. President, will the Senator from New York yield?

Mr. LEHMAN. I yield to the Senator from Minnesota.

Mr. HUMPHREY. The Senator from Colorado is now talking about the wages and profits of corporate industry. We get back to the same argument. But I submit that the estimated gross profits and net profits are running at an all-time high. Let me correct the Senator in one other respect.

Mr. LEHMAN. Mr. President, I have yielded to the Senator from Minnesota.

Mr. HUMPHREY. The Senator from Minnesota referred to what the financial journals had reported. This is not a figment of their imagination. Just as the reporters in the Press Gallery of the Senate report what they hear, so the financial journals report what they have heard from the corporate directors and the corporate managers about setting aside reserves for a tax liability, which tax liability has been announced earlier by the Congress in 1950.

Mr. MILLIKIN. The distinguished Senator is not recognizing the point of distinction which I am making. Again we fall into the habit of talking in generalities. Some corporations set up reserves, some voluntarily did not, perhaps unwisely, and some did not because they could not. We have to keep all those things in mind.

Mr. LEHMAN. I shall develop that point a little later in my remarks; but I may say that certainly ample warning had been given, ample warning covering a period of 8 or 9 months, and those who were not in position to set up reserves will not be disturbed or suffer any hardships. If they do not have earnings they will not pay any corporate tax.

Mr. MOODY. Mr. President, will the Senator from New York yield?

Mr. LEHMAN. I yield to the Senator from Michigan.

Mr. MOODY. I should like to ask the distinguished Senator from Colorado, since he has discussed the principle of retroactivity in taxation, why the committee set the effective date of the levy as April 1. What is the difference in principle between making it retroactive to April 1 and making it retroactive to January 1, which would include the first quarter, the most profitable quarter in corporate history?

Mr. MILLIKIN. I am glad the Senator has asked that question. It is time that he appreciates some of the practical implications of the committee bill. There is a question of adjustment, which is important when it does not sacrifice essential principles. One viewpoint was that we should go back to January 1. There was one viewpoint, which was strongly urged, that we should make the date July 1. We compromised on April 1. That is all there is to it. So far as I am concerned, I should be willing to see the date fixed at July 1, but if I cannot have July 1, I will take April 1 in preference to January 1. It is just that simple.

Mr. MOODY. Would not July 1 also be retroactive? If the Senator advocated July 1, was he not advocating retroactivity?

Mr. MILLIKIN. By July 1 there was no if's, but's, or maybe's with reference to the fact that there was going to be a tax.

Mr. MOODY. Is the Senator implying that early this year there was not adequate notice and general expectation that there would be an increase in taxes?

Mr. MILLIKIN. I do not imply it; I charge it, I allege it.

Mr. TAFT. Mr. President, will the Senator from New York yield?

Mr. LEHMAN. I yield for a question.

Mr. TAFT. I point out that there is a logical basis for the date of April 1. It is true that there were rumors that taxes would be raised, but they were only rumors. The President made some recommendations. After all, the President has nothing to do with the initiation of tax bills. That lies with the House of Representatives. It was April before there was any crystallization of sentiment in the House. I voted for the April 1 date because it seemed to me that by that time there was a pretty good assumption that the House would recommend a five-point increase. But I do not think it can be said that there was any reasonable anticipation or reasonable basis on which to fix any tentative reserve until the House committee had taken some action. That is why I think there is a logical basis for the date of April 1.

Mr. LEHMAN. I wish to continue my remarks for the sake of saving time, because I am taking up and discussing various issues which have been raised, but I may say to the distinguished Senator from Ohio, since he referred to the warning as a rumor, that I think a presidential message addressed to the Congress early in January and a bill introduced in the House of Representatives

early in January cannot be described as rumors. They certainly served notice that the disposition of the question was a very important issue.

Mr. TAFT. Mr. President, will the Senator from New York yield further?

Mr. LEHMAN. For a question.

Mr. TAFT. Is the Senator aware of the fact that the Constitution vests the whole revenue-raising power in the House of Representatives and not in the President, and that no one can assume arbitrarily that there is going to be an increase in taxes unless there is a crystallization of sentiment in the House of Representatives?

Mr. LEHMAN. Of course the Senator from New York realizes that a measure affecting revenue must be initiated in the House of Representatives, but certainly there had been ample notice that a tax bill would come before the Congress, and that there was a great likelihood of the date being fixed at January 1. It is my opinion that that was understood by most of the manufacturers. I shall develop all these questions a little later in my remarks.

Mr. HUMPHREY. Mr. President, will the Senator from New York yield?

Mr. LEHMAN. I yield.

Mr. HUMPHREY. I desire to make one comment with reference to rumors. As one person said, it was an ugly rumor based on fact. That kind of a rumor does have some compelling control.

Mr. TAFT. Mr. President, will the Senator from New York yield further?

Mr. LEHMAN. I have yielded to the Senator from Minnesota.

Mr. HUMPHREY. Earlier in the debate we discussed the whole question of the powers of revenue raising and the powers of appropriation. I have in my hand a copy of the Senate Manual, and I am referring to a section of the Constitution dealing with the powers of the Congress. Under those powers of the Congress the Constitution provides that Congress shall have power to lay and collect taxes, to provide for the common defense and the general welfare of the United States. It goes on to point out that it has power to borrow money on the credit of the United States, and it also points out that the Congress of the United States has the power of appropriation. That is exactly what the Senator from Minnesota and the Senator from New York have been saying, that the same Congress which has made appropriations has the complete and unlimited power of raising revenue. Both powers are without any limitation of jurisdiction whatsoever. It is the Congress that has made the appropriations, and it is the Congress that must enact the revenue-raising measures.

The Senator from New York is correct when he says that Congress itself had already initiated action upon the revenue-raising program, and had thereby given warning. If the Senator from Ohio wants to call it a rumor, I repeat my statement, that it was one of those ugly rumors based upon facts.

Mr. GEORGE. Mr. President, will the Senator from New York yield?

Mr. LEHMAN. I gladly yield to the distinguished chairman of the committee, but after that I would ask that I

be permitted to complete my remarks, which are of some length. Senators will understand I am limited to 1 hour. If I have any time on the completion of my remarks I shall be glad to yield for any questions. If not, the opponents of my amendment will have 1 hour, and they may talk in their own time.

Mr. GEORGE. I do not wish to interrupt the Senator. I merely invite attention to the fact that while the budget message came to Congress in January it made no reference to tax rates at all, and it was February before the Secretary of the Treasury submitted a recommendation. It was April 1 before the House Ways and Means Committee went into executive session to frame a bill.

Mr. LEHMAN. I thank the Senator very much for his statement.

Mr. TAFT. Mr. President, does the Senator prefer not to yield further at this time?

Mr. LEHMAN. I prefer not to yield further, but if I have any time later I shall be glad to yield. I do not know whether the distinguished Senator from Ohio will oppose this amendment, but those who are opposed—

Mr. TAFT. I am opposed to the Senator's amendment, and I am for the provision of the committee bill.

Mr. LEHMAN. Then the Senator may express his thoughts and opinions during the hour allotted to the opponents of the amendment.

Corporation profits, as has been stated repeatedly in the Senate during this debate, are running at the rate of \$50,000,000,000 before taxes, and \$23,000,000,000 after taxes. This is an all-time high. There may be individual instances of decreased earnings and profits. There are a few soft spots in the economic picture—in textiles and similar goods. But the corporations which are making little or no profit would be required to pay little or no increase in taxes. What we are trying to get at, what we are trying to get for the Government and for the country, is to tap the big profits, the rich and record earnings of corporations which can, should, and must help pay for the national defense effort—for the effort on which our national survival depends.

This is no time for mollycoddling either ourselves, as individuals, our people, or our corporations.

These are times for sacrifice, and especially for equality of sacrifice.

The corporations should lead the way in bearing a fair share of the national burden, not only in producing goods for the national defense, but in producing revenues for the national defense.

The Bureau of Labor Statistics reported as of July of this year that a city worker's family budget required, as a minimum, an income of \$3,800 for a family of four, to meet minimum needs of food, clothing, shelter, medical care, and recreation. Under present law an income of \$4,000 for a head of household, a married man with two dependents, a family of four, bears a tax liability of \$320. This tax is proposed to be increased by the Senate committee by 11 percent. This tax would be collectible immediately in the first pay check.

Even under present law the individual in question is paying more taxes than his budget can stand, under the minimum requirements described by the Bureau of Labor Statistics. But we are going to increase those taxes immediately by 11 percent. We are going to reduce the standard of living of that family even further below the minimum than is now the case.

Meanwhile we are also proposing to lay on more excise taxes. We propose to raise \$1,300,000,000 of additional revenues in excise taxes. These taxes will fall largely on the great mass of the people, on those of low and moderate income. They pay the bulk of these indirect taxes. They pay the taxes on toilet goods, on automobiles, on tobacco, cigarettes, distilled spirits, beer, and on most of the other 61 items and service commodities on which taxes are now levied.

Under the terms of the pending bill, another score of commodities and products are to be added to the list of those on which excise taxes are to be levied. These include such necessities as gasoline, cigarettes, washing machines, and vacuum cleaners. On some of these items, the excise tax is unjust and unwise.

I dislike most excise taxes. They are a regressive tax. They place the greatest burden on those least able to pay. But we are going to raise \$800,000,000 additional this fiscal year, in excises, above that which we already collect in excise taxes. This, too, is from the pockets of the great masses of the people.

Are we then to spare the corporations, forgive them their increased taxes this year, tell them that while we are going to raise the rates, they will not need to pay higher taxes until 1953, and that they need make only a token contribution to help balance this year's deficit,

a token contribution to this year's need for revenue? I say "No." And I am convinced the American people will say "No."

The flag of nonretroactivity is raised with regard to corporations, even though, I believe, it is meaningless. What has been the practice in other years? What has been the principle we have followed in past years, in times when there was no national emergency, no world emergency?

The records show that in every year, except in 1950, corporation taxes have always been what some might call retroactive—effective on the first day of the year in which the new tax rates have been established by law. This record, Mr. President, goes back to 1909, even before our individual income-tax law was adopted. Corporation taxes have always been levied as of January 1, by Republican Congresses and by Democratic Congresses, by conservative administrations and by liberal administrations. There was one minor exception in 1921. But, to balance that, the wartime tax bill of 1918, approved in February 1919, made the corporation tax effective as of January 1, 1918. In other words, it made the retroactive clause in the bill run for nearly 14 months.

The amendment which I have proposed, which would place the date as January 1, instead of April 1, is no innovation. My amendment is no get-tough proposal with corporations. They have always paid at new rates effective as of January 1. Otherwise the increased revenues would not be realized for 1 year or even 2 years after the new tax rates were put into effect.

Any corporation of any knowledge or experience makes provision for these increased taxes, sets aside from its earnings a sum sufficient to pay these taxes.

Mr. President, I have a table of those effective dates of past corporation-tax provisions. I ask unanimous consent to insert that table at this point in my remarks.

It is an eloquent table and should refute all arguments as to the allegedly unfair nature of a so-called retroactive corporation tax. While I am not going to read this table, but rather shall insert it in the RECORD, I do want to draw attention to certain actions which were taken showing the extent of our principle of retroactivity. The initial tax bill, as I have already said, was passed on August 5, 1909. The effective date of change was January 1, 1909.

In 1917, Congress passed a bill to increase the tax rate. The date of enactment was October 3, and the effective date of change was January 1 of that same year.

On November 23, 1921, Congress enacted a bill further increasing the corporation-tax rate. That was made retroactive.

On October 8, 1940, Congress passed a tax bill, and made the effective date retroactive to January 1 of that year.

On September 20, 1941, Congress passed a bill increasing the tax rates, and made the effective date January 1 of that year.

On October 21, 1942, Congress passed a tax bill and made the effective date of change January 1 of that year.

And so it goes. There are at least 30 or 40 instances of Congress having increased the taxes and making the effective date of change January 1 of the year in which the tax measure was passed.

There being no objection, the table was ordered to be printed in the RECORD, as follows:

History of the corporation income tax in the United States

Federal tax law	Provisions	Date of enactment	Effective date of change
Act of—			
Aug. 5, 1909.....	Initial tax of 1 percent with a \$5,000 specific credit.....	Aug. 5, 1909	Jan. 1, 1909
Oct. 3, 1913.....	Eliminated \$5,000 specific credit.....	Oct. 3, 1913	Mar. 1, 1913
Revenue Act of—			
1916.....	Increased rate from 1 to 2 percent.....	Sept. 8, 1916	Jan. 1, 1916
1917.....	Increased rate from 2 to 6 percent ¹	Oct. 3, 1917	Jan. 1, 1917
1918.....	Increased rate from 6 to 12 percent for 1918 and provided \$2,000 specific exemption.....	Feb. 24, 1919	Jan. 1, 1918
	Reduced rate from 12 to 10 percent for 1919.....		Jan. 1, 1919
1921.....	Increased rate from 10 to 12½ percent ²	Nov. 23, 1921	Jan. 1, 1922
1926.....	Increased rate from 12½ to 13 percent for 1925.....	Feb. 26, 1926	Jan. 1, 1925
	Further increase to 13½ percent for 1926.....		Jan. 1, 1926
1928.....	Reduced rate from 13½ to 12 percent and increased specific exemption from \$2,000 to \$3,000.....	May 29, 1928	Jan. 1, 1928
Joint Resolution No. 133—1929.....	Reduced rate from 12 to 11 percent for 1929 only.....	Dec. 16, 1929	Jan. 1, 1929
Revenue Act of—			
1932.....	Increased rate from 12 to 13¼ percent and eliminated specific exemption.....	June 6, 1932	Jan. 1, 1932
1936.....	Increased rate and changed rate structure.....	June 22, 1936	Jan. 1, 1936
	Adopted graduated normal tax ranging from 8 percent on first \$2,000 of net income to 15 percent on income over \$40,000, ³ and surtax on undistributed profits ranging from 7 to 27 percent. ⁴		
1938.....	Increased rates.....	May 28, 1938	Jan. 1, 1938
	Retained principle of undistributed profits tax for corporations with net income of more than \$25,000.		
	Tax on such corporations was 19 percent less 16½ percent of dividends received credit and 2½ percent of dividends paid. ⁵		
	Corporations with net income of \$25,000 or less were taxed at rates graduated from 12½ percent on first \$5,000 of net income to 16 percent on amount over \$20,000. ⁶		
1940.....	Increased rates.....	June 25, 1940	Jan. 1, 1940
1940 (2d).....	do.....	Oct. 8, 1940	Do.
	In combination the 2 Revenue Acts of 1940 increased rates to the following:		
	For corporations with net income of:		Percent
	\$25,000 or less ⁷		14.85–18.7
	Over \$38,566.....		24

Footnotes at end of table.

History of the corporation income tax in the United States—Continued

Federal tax law	Provisions	Date of enactment	Effective date of change																
Revenue Act of—Continued 1941.....	Increased normal tax rates and adopted surtax. The combined rates were as follows: <table><tr><th>Income</th><th>Combined rate on income in bracket</th></tr><tr><td>Not over \$5,000.....</td><td>Percent 21</td></tr><tr><td>Over \$5,000 but not over \$20,000.....</td><td>23</td></tr><tr><td>Over \$20,000 but not over \$25,000.....</td><td>25</td></tr><tr><td>Over \$25,000 but not over \$38,461.54.....</td><td>44</td></tr><tr><td>Entire income if in excess of \$38,461.54.....</td><td>31</td></tr></table>	Income	Combined rate on income in bracket	Not over \$5,000.....	Percent 21	Over \$5,000 but not over \$20,000.....	23	Over \$20,000 but not over \$25,000.....	25	Over \$25,000 but not over \$38,461.54.....	44	Entire income if in excess of \$38,461.54.....	31	Sept. 20, 1941	Jan. 1, 1941				
Income	Combined rate on income in bracket																		
Not over \$5,000.....	Percent 21																		
Over \$5,000 but not over \$20,000.....	23																		
Over \$20,000 but not over \$25,000.....	25																		
Over \$25,000 but not over \$38,461.54.....	44																		
Entire income if in excess of \$38,461.54.....	31																		
1942.....	Increased combined normal and surtax rates as follows: <table><tr><th>Income</th><th>Combined rate on income in bracket</th></tr><tr><td>Not over \$5,000.....</td><td>Percent 25</td></tr><tr><td>Over \$5,000 but not over \$20,000.....</td><td>27</td></tr><tr><td>Over \$20,000 but not over \$25,000.....</td><td>29</td></tr><tr><td>Over \$25,000 but not over \$50,000.....</td><td>53</td></tr><tr><td>Entire income if in excess of \$50,000.....</td><td>40</td></tr></table>	Income	Combined rate on income in bracket	Not over \$5,000.....	Percent 25	Over \$5,000 but not over \$20,000.....	27	Over \$20,000 but not over \$25,000.....	29	Over \$25,000 but not over \$50,000.....	53	Entire income if in excess of \$50,000.....	40	Oct. 21, 1942	Jan. 1, 1942				
Income	Combined rate on income in bracket																		
Not over \$5,000.....	Percent 25																		
Over \$5,000 but not over \$20,000.....	27																		
Over \$20,000 but not over \$25,000.....	29																		
Over \$25,000 but not over \$50,000.....	53																		
Entire income if in excess of \$50,000.....	40																		
1945.....	Reduced rates. No change in normal tax. Surtax rates reduced. The combined rates are as follows: <table><tr><th>Income</th><th>Combined rate on income in bracket</th></tr><tr><td>Not over \$5,000.....</td><td>Percent 21</td></tr><tr><td>Over \$5,000 but not over \$20,000.....</td><td>23</td></tr><tr><td>Over \$20,000 but not over \$25,000.....</td><td>25</td></tr><tr><td>Over \$25,000 but not over \$50,000.....</td><td>53</td></tr><tr><td>Entire income if in excess of \$50,000.....</td><td>38</td></tr></table>	Income	Combined rate on income in bracket	Not over \$5,000.....	Percent 21	Over \$5,000 but not over \$20,000.....	23	Over \$20,000 but not over \$25,000.....	25	Over \$25,000 but not over \$50,000.....	53	Entire income if in excess of \$50,000.....	38	Nov. 8, 1945	Jan. 1, 1946				
Income	Combined rate on income in bracket																		
Not over \$5,000.....	Percent 21																		
Over \$5,000 but not over \$20,000.....	23																		
Over \$20,000 but not over \$25,000.....	25																		
Over \$25,000 but not over \$50,000.....	53																		
Entire income if in excess of \$50,000.....	38																		
1950 Excess Profits Tax Act of 1950.....	Increased rates and changed method of rate graduation. Increased surtax rate from 20 to 22 percent. In combination the Revenue Act of 1950 and the Excess Profits Tax Act of 1950 increased rates to the following: ¹ <table><tr><th>Income</th><th>Normal tax</th><th>Surtax</th><th>Combined rate on income in bracket</th></tr><tr><td></td><td>Percent</td><td>Percent</td><td>Percent</td></tr><tr><td>First \$25,000.....</td><td>25</td><td></td><td>25</td></tr><tr><td>Over \$25,000.....</td><td>25</td><td>22</td><td>47</td></tr></table>	Income	Normal tax	Surtax	Combined rate on income in bracket		Percent	Percent	Percent	First \$25,000.....	25		25	Over \$25,000.....	25	22	47	Sept. 23, 1950 Jan. 3, 1951	July 1, 1950 July 1, 1950 ²
Income	Normal tax	Surtax	Combined rate on income in bracket																
	Percent	Percent	Percent																
First \$25,000.....	25		25																
Over \$25,000.....	25	22	47																

¹ The Revenue Act of 1917 provided the transition in the tax treatment of intercorporate dividends from the full inclusion of corporate dividends to the exclusion of such dividends. This act imposed a tax of 1 percent on dividends from earnings of 1913, 1914, and 1915, and 2 percent on dividends from earnings of 1916 and 1917. Intercorporate dividends received from earnings of 1918 and subsequent years were exempt from tax until 1936, when 15 percent of dividends was included in the tax base.

² In addition, made specific exemption applicable only to corporations with net incomes of \$25,000 or less.

³ The brackets and normal tax rates under the Revenue Act of 1936 were: First \$2,000 of normal tax net income, 8 percent; next \$13,000 of normal tax net income, 11 percent; next \$25,000 of normal tax net income, 13 percent; over \$40,000 of normal tax net income, 15 percent.

⁴ The rates of surtax on undistributed profits under the Revenue Act of 1936 were: 7 percent on portion of undistributed net income not in excess of 10 percent of adjusted net income; 12 percent on portion of undistributed net income exceeding 10 percent but not 20 percent of adjusted net income; 17 percent on portion of undistributed net income exceeding 20 percent but not 40 percent of adjusted net income; 22 percent on portion of undistributed net income exceeding 40 percent but not 60 percent of adjusted net income; 27 percent on portion of undistributed net income exceeding 60 percent of adjusted net income.

⁵ Not to exceed 2½ percent of adjusted net income.

⁶ For the purpose of making the transition from the reduced rates for corporations with net incomes of \$25,000 and less and the flat rate applicable to those with net incomes of more than \$25,000, an alternative tax (the "notch") was provided, applicable to corporations with net incomes of slightly more than \$25,000.

⁷ Provided "notch" for corporations with net incomes between \$25,000 and \$38,566.

⁸ These rates apply in full to taxable years beginning on or after July 1, 1950. The Revenue Act of 1950 provided a transition schedule for the calendar year 1950, consisting of a normal tax of 23 percent applicable to entire profits and a surtax of 19 percent on surtax net income in excess of \$25,000. For fiscal years beginning before July 1, 1950, and ending after June 30, 1950, the rates under the old law applied to income earned prior to July 1, 1950, and the new rates to income earned after June 30, 1950.

⁹ Increased rate applies to all taxable years beginning on or after July 1, 1950.

Mr. LEHMAN. Mr. President, corporations have now been on notice since early in January that new and higher taxes would be levied. Indeed, the rates recommended by the President were considerably higher than those set forth in the pending bill. Corporations had no basis, in past practice or experience, for expecting that these new rates would not be retroactive. They have no justification for having failed to make pro-

vision for these new taxes, for having set aside funds to meet these new taxes.

And with profits running at record levels, there is no reason for the Congress to indulge in this charity, in this act of generosity toward the corporations. The Nation cannot afford any such gesture.

Mr. President, I cannot see how we can face the people of this country and say that we are going to tax their indi-

vidual incomes at higher rates, we are going to ask the individual taxpayers to help balance the budget, but we are going to excuse the corporations from paying at the higher rates until 1953, because they did not know that taxes were going to go up, or claimed they did not. They had that knowledge. They knew it from the newspapers, from their trade journals, from their organizations. Their current earnings certainly reflect

an eminent capacity to pay these taxes, without special hardship and without danger to their financial stability.

Mr. KERR. Mr. President, will the Senator yield?

Mr. LEHMAN. Mr. President, I have already stated that I prefer to complete my remarks. Later, after the opponents have spoken, if I have time, I shall be glad to yield. However, I point out that I have already yielded a great deal of my time, and that the opponents of this amendment have an hour in which to present their views.

Mr. MILLIKIN. Mr. President, will the Senator yield to me for an observation? I do not wish to ask a question.

Mr. LEHMAN. I yield.

Mr. MILLIKIN. I merely wish to say to the Senator that he was very generous with me. I was thoughtless, because I forgot for the moment that we were operating under a limitation of time. I thank the Senator.

Mr. LEHMAN. I thank the Senator from Colorado.

I know how important the corporations are to our national economy and national productivity. I do not wish to place an insupportable burden on them. Neither do I want to place this added burden on the ordinary taxpayers of this country—on the vast numbers of men and women who work with hand and brain, in shop, office, or factory, or on the farm.

We are taking money out of their pockets. We are taking the bulk of the new taxes from the bulk of the people, in the form of income taxes and excise taxes. We are biting deeper and deeper into the low-income levels of the population.

We know—it is a hard fact of life—that in those levels is the bulk of our national income. I wish it were true that the great bulk of our national income were in the wages and salaries of people making \$5,000 a year or more. I wish wages and salaries were at that level. But they are not. And the people, although better off than they were 15 and 20 years ago—with more goods, more comforts, and more conveniences—still have not reached the level where these new taxes can be borne without great sacrifice—in money available to pay for food, medical care, transportation, education, and recreation.

Hence, since the taxes must be raised, and from these people, we must also raise the taxes of corporations. Their profits must yield considerable added revenue to the Government.

I remember, Mr. President, last year when we levied excess profits taxes on corporations. What a storm of protest that aroused. We were told that the corporations would be deprived of their incentive, and would cease to expand or to operate. We were warned that new investment for plant expansion would come to a halt, and that corporate earnings would be dissipated in waste and extravagance.

Well, that has not happened. New investment has reached a new high figure. Corporations are making bigger and better profits. They will continue to do so. Whatever protests are made on their

behalf, the managers and directors of those corporations are patriotic and high-minded citizens, who have the national interest at heart. They are not motivated solely by the profit motive, as the NAM would have us believe.

So let us get on with this legislation. Let us get on with our job—our distasteful job—of raising more revenues to pay for the defense effort. Let us approve the amendment, making the date of corporate taxation effective as of January 1 of this year.

Mr. President, I ask unanimous consent to have printed in the RECORD at this point as a part of my remarks a telegram which I received from Mr. Louis Hollander, president, and Harold J. Garno, secretary-treasurer of the New York State CIO Council; also a telegram from Walter P. Reuther, president of the International Union of Automobile Workers. Both telegrams deal with the tax legislation under consideration, although not specifically with the pending amendment.

There being no objection, the telegrams were ordered to be printed in the RECORD, as follows:

NEW YORK, N. Y.,
September 20, 1951.

Senator HERBERT H. LEHMAN,
Senate Office Building,
Washington, D. C.:

Provisions of tax bill now under consideration threaten to impose additional back-breaking burden on lower-income groups in order to protect emergency swollen profits of industry. Coming on top of inflationary Defense Production Act, such tax measure will gravely damage public morale and further weaken economy.

On behalf of 1,000,000 CIO members in New York State, we therefore urge your support for following:

Elimination of any kind of sales or general manufacturers excise taxes.

No increase in tax on incomes under \$4,000.

Elimination of split-income provision and other loopholes which benefit wealthy.

Tighten excess-profits provisions.

Provide withholding tax on dividends and interest.

Congress must achieve pay-as-you-go tax program making major demand on profits attributable to national emergency and thereafter distributing burden justly according to ability to pay.

LOUIS HOLLANDER,
President.

HAROLD J. GARNO,
Secretary-Treasurer, New York State
CIO Council.

DETROIT, MICH.,
September 20, 1951.

Senator HERBERT H. LEHMAN,
Senate Office Building,
Washington, D. C.:

Senate Finance Committee tax bill now being debated is big step toward NAM-inspired plan to substitute general Federal sales tax for income taxes based on ability to pay. Instead of reducing the standards of luxury of the well-to-do before cutting down further the already inadequate standards of living of wage earners and most farm people, this bill would open new tax loopholes for high incomes and luxury spending while curtailing purchase of necessities by low income families by increased income taxes and increased and new excise taxes, preparatory to the imposition of a general Federal sales tax later, as forecast by Committee Chairman GEORGE. Continuation of

\$2,500,000,000 tax favors provided to well-to-do families by split-income provision is grossly unfair and unwarranted when more revenue must be obtained. We strongly oppose proposed increase and extension of excise taxes on practical necessities like automobiles, tires, replacement parts, washing machines, and vacuum cleaners, which shift the burden to families whose living standards are already below the minimum American standard. We urge you to consider favorably CIO recommendations for amendment which are being supplied to you.

WALTER P. REUTHER,
President,
International Union UAW-CIO.

Mr. LEHMAN. Mr. President, how much time have I left?

The PRESIDENT pro tempore. The Senator from New York has 19 minutes left.

Mr. LEHMAN. I yield the floor for the time being, because I wish to have some time left in the event that rebuttal becomes necessary.

Mr. GEORGE. Mr. President, I yield to the Senator from Colorado [Mr. MILLIKIN] as much time as he may desire.

Mr. MILLIKIN. Mr. President, I think the question arises naturally as to why the committee's recommendation for retroactivity goes back to April 1. I do not believe that I am making any undue disclosure of the nature of the committee's executive deliberations when I say that there was some cleavage of opinion as to whether there should be any retroactivity.

A while ago I stated that the date of April 1 was selected as an adjustment of those conflicting viewpoints. So far as I am concerned, that is the complete answer. I notice that the distinguished senior Senator from Ohio [Mr. TAFT] rationalizes the irrational by mentioning some factors which to his mind had significance in connection with fixing the date of April 1. I simply wish to repeat that so far as I am concerned it was one of those practical adjustments in a field where I would have preferred that it be July 1 instead of January 1; but not being able to get July 1, I was as content as I could be under the circumstances with April 1.

Mr. KERR. Mr. President, will the Senator yield for a question?

Mr. MILLIKIN. I yield.

Mr. KERR. I understood the distinguished Senator from New York to make a statement awhile ago indicating that the committee had dealt much more harshly with individuals in this regard than it had with corporations. Is it not a fact that the effective date for the increase in the individual rates is as of November 1?

Mr. MILLIKIN. The distinguished Senator from Oklahoma is entirely correct. There was the greatest solicitude shown for individuals, and none was shown for corporations.

Mr. KERR. The fact of the matter is, if the Senator will permit a further question along the same line, that the effective date for corporations covers 9 months of 1951, and for individuals only 2 months. In other words, under the committee bill the corporations are being taxed for four and a half times as much of 1951 as are individuals.

Mr. MILLIKIN. The distinguished Senator is correct.

Mr. LEHMAN. Mr. President, will the Senator yield?

Mr. MILLIKIN. I yield to any Senator who wishes me to yield.

Mr. LEHMAN. In connection with the corporation tax, if the date were made November 1, of course, the corporations would pay virtually nothing this year. With respect to the individual income tax, the procedure usually followed by the Congress has been followed in this instance. For the present fiscal year the individual income taxpayer will pay on 8 months; but only 2 months will fall in the present calendar year.

Mr. DOUGLAS. Mr. President, will the Senator yield for a question?

Mr. MILLIKIN. I yield.

Mr. DOUGLAS. Would I be disturbing the flow of argument and of wit of the Senator from Colorado if I ventured to ask a few questions?

Mr. MILLIKIN. I am sure the distinguished Senator would add nothing but warming and illuminating light to the discussion.

Mr. DOUGLAS. Is it not true that in the case of the average individuals who pay individual income taxes—and they run into the tens of millions—their means of information concerning the probable taxes which may be levied is much less than is true of large corporations, which watch the situation very closely. Corporations are therefore in a much better position to withhold from their current earnings the needed sums to pay anticipated taxes?

Mr. MILLIKIN. I disagree entirely with the Senator, because he selected an unfortunate parallel. He is comparing large-income individuals with large-income corporations.

Mr. DOUGLAS. No. I am comparing the large numbers of individuals who have low or medium incomes with large-income corporations.

Mr. MILLIKIN. I thought the Senator said large-income individuals.

Mr. DOUGLAS. No; large numbers of individuals.

Mr. MILLIKIN. Let us take the large-income taxpayers. They represent the source of many arguments. The large-income individual, of course, has auditors and tax lawyers who are constantly giving him the benefit of their wisdom. A large corporation has the same advantage.

Mr. DOUGLAS. Does John Q. Public have a coterie of tax lawyers and accountants helping him?

Mr. MILLIKIN. When we go down the scale of prosperity of a corporation and the prosperity of an individual, perhaps the sources of information are less well informed or not as readily available.

Mr. DOUGLAS. But the able Senator from Colorado is well aware of the fact that three or four hundred large industrial corporations do the major portion of the business of the country, whereas two or three hundred of the wealthiest individuals do not receive, fortunately, the major portion of the total income.

What is more generally true is that individuals of relatively low income,

from \$1,500 to \$7,500 a year, do not have the tax-predicting facilities of a huge corporation. I believe it is that fact which accounts for the difference in retroactivity between corporation taxes and personal income taxes.

Mr. MILLIKIN. I would say to the distinguished senior Senator from Illinois that I would not regard it as a difference of any substantiality whatever.

Mr. DOUGLAS. I am surprised that so able a man would come to so fallacious a conclusion.

Mr. MILLIKIN. The rich corporation and the rich individual have available to them the services of so-called tax experts. As the scale of income decreases, these services become less available. The poor man obviously does not have such facilities available any more than a poor corporation—and there are many poor corporations; and the Lord watches the fall of the sparrow.

Mr. DOUGLAS. The Senator from Colorado is sufficiently able and subtle to appreciate the fact that the large corporations do the major portion of the total corporation business, whereas the medium and low-income persons receive the major portion of the individual incomes. The comparisons should be made between these groups.

Mr. MILLIKIN. Of course, a large corporation does more business than a small corporation. That is obvious. I am willing to agree on that with the Senator from Illinois. I gave the Senator from Illinois a grand welcome by saying he was going to throw warming light on the discussion. However, when he asks me whether a large corporation does more business than a small corporation, even I can comprehend that to be the fact.

Mr. DOUGLAS. I said a larger proportion of the total amount of corporation business. Lamenting the lack of perspicuity of the distinguished Senator from Colorado, may I ask him whether it is not a fact that while the administration's definite request for new taxes did not come to Congress until February, the scale of the tax which it then proposed was appreciably in excess of the scale which the House committee recommended?

Therefore, because of the recommendations of the Treasury Department, which were made on February 5 the corporations should have been prepared, during the first quarter of the year, and probably were prepared, for a somewhat higher level than emerged from the House, and still higher than the Senate committee proposed, and this higher scale would compensate for the fact that the administration's proposal was not advanced in January.

Mr. MILLIKIN. On the contrary, I suggest that in view of the fact that we had imposed two prior taxes since Korea, there was a fair presumption that there would be no further tax imposed this year. Certainly there was a fair presumption that the tax would not reach the magnitude that is contained in the pending bill, or that is contained in the Senator's theory of what the bill should provide.

Mr. DOUGLAS. The Senator from Colorado forgets that the budget submitted by the President in early January, indicated expenditures of \$73,000,000,000 and revenues of only \$55,000,000,000, with an estimated deficit of \$18,000,000,000. Therefore, according to the estimates of January, a balanced budget would have required a tax of \$18,000,000,000. The President finally asked for only \$10,000,000,000 in new taxes.

Mr. MILLIKIN. The junior Senator from Colorado can never forget that the President always asks for an unbalanced budget and more revenue and more spending. He can never forget that, and, he pays very little attention to the President's recommendations.

Mr. DOUGLAS. I have observed that.

Mr. MILLIKIN. I am sorry that the distinguished Senator from Illinois, who usually retains an independent mind, should be citing the President as one of his authorities in fiscal and economic matters.

Mr. DOUGLAS. I am merely speaking about the facts. When the President is right as to the facts, I shall support him. When I believe he is wrong about the facts, I shall oppose him. In this case he did point to a big budgetary deficit, and indicated that taxes had to be increased very markedly if we were to balance the budget. It seems to me that the Senator from Colorado, as an exponent of sound financing, should be in favor of a balanced budget in a period of prosperity.

Mr. MILLIKIN. The distinguished Senator from Illinois, in that bunker of protection to which he has fled by saying that if the President is right he will support him and that when he is wrong he will not support him, himself leaves many loopholes. I am delighted to note that the Senator from Illinois does not support the President very often. It is another tribute to his wisdom, which we all acknowledge.

Mr. DOUGLAS. Without going into that question, the immediate issue with which we are now dealing is whether we should raise more revenue; and if so, how? It is certainly true that the pending measure will not raise more than \$2,750,000,000 during the current fiscal year, which, when added to the \$60,900,000,000 provided by the existing tax law, will represent a total of slightly less than \$64,000,000,000. It is well known that expenditures will aggregate at least \$73,000,000,000. In my judgment they will run to a minimum of \$75,000,000,000. We therefore face a deficit of from \$9,000,000,000 to \$11,000,000,000.

If the deficit is not met by increased taxes, the Government will have to borrow money. The borrowing will have to be in the form of borrowing from banks. We will thus create additional credit, and we will have inflation. If we do not balance the budget through taxes, we will pay through inflation and cut down the incomes of the salaried class and of old people living on annuities, who are the most helpless and defenseless group in the community.

Mr. MILLIKIN. Mr. President, will the Senator yield?

Mr. DOUGLAS. I realize that I am making a speech in the Senator's time, but he has been very generous.

Mr. MILLIKIN. I wish to match the Senator's own generosity. The Senator from Illinois has mentioned two or three things that intrigue me.

One is with reference to people who live on a fixed income. Those people are in distress right now.

Mr. DOUGLAS. The Senator from Colorado would put them in greater distress.

Mr. MILLIKIN. I would not put them in greater distress. So far as I am concerned, I would take no more tax from them than is provided for in this bill and that only with great reluctance. That is one way. There is another and better way, good sir. The distinguished senior Senator from Illinois is a chief exponent of that way and in that I heartily agree with him. If there is to be a deficit, let us have cooperation between the executive and congressional branches of our system of government. Let the President, by economy and by getting rid of useless functions, which he has the power to do, meet that very deficit, and thus give the people of the country the greatest heartening they have had since the President has occupied the White House.

Mr. DOUGLAS. I may say that in my opinion both the executive and legislative branches have been negligent in not making economies which should have been made. I lament a good many appropriations which have been made. However, probably at the most we would have saved 2 or 3 billion dollars more than we did save. I am sorry that we did not save the additional money. I tried my humble best to save it. At most, however, it would have brought expenditures down from \$75,000,000,000 to \$73,000,000,000, or perhaps from \$73,000,000,000 to \$71,000,000,000. We still would have had a big deficit. If we are to pay for national defense, it is just as necessary to balance the budget through increased taxes after we have cut expenses to the bone, as it is to reduce waste and reduce expenditures.

Mr. MILLIKIN. Mr. President, let me ask the distinguished Senator from Illinois whether he will yield to me.

Mr. DOUGLAS. It is the Senator from Colorado who is being generous to me. Any time that he wants to shut me off I shall stop talking, because he has already been far more generous to me than I deserve.

Mr. MILLIKIN. I will never shut off the Senator from Illinois.

Mr. DOUGLAS. I do not wish to trespass on the Senator's time.

Mr. MILLIKIN. The distinguished Senator from Illinois was discussing deficits. I have suggested a way to stop deficits. My suggestion runs right along with the methods proposed by the distinguished senior Senator from Illinois. Now the Senator bumps his head against the wailing wall and laments that we might have saved \$2,000,000,000. We could have saved a great deal more than \$2,000,000,000. A part of the fault lies with Congress. I cannot accept the theory of the distinguished junior Senator from Minnesota that Congress is pre-

cluded by honor not to ask the President to reduce expenditures which it has authorized.

I am criticizing the Congress in this respect. In 1946, we provided for a scheme of congressional budgetary control of the finances of this Government, but it is never mentioned any more. We adopted that control plan in regard to the very problem to which the Senator refers. Early in the year we were to get together and to estimate the expenditures and to estimate the revenues and to estimate the surplus; and if there was evidence that there would be a deficit, we were to order the covering of the deficit in the appropriate way. That is the law of the land today; not one dot over an "i" or not one crossing of a "t" has been changed. The only thing that has changed has been the viewpoint of many Members of the Congress, and the result is that that law has become a dead letter. It has been abandoned, although at the time it was proclaimed as a great measure of salvation in connection with the very problems the distinguished senior Senator from Illinois is always arguing about.

The responsibility for dropping that law, which I think would have been salutary, had it been abided by—I want to put the matter as gently as possible—is not on this side of the aisle.

So, Mr. President, let us be selective about this matter. What specifically is the Senator from Illinois worried about?

Mr. DOUGLAS. I am worried primarily about two things: First, the bill the Senate Finance Committee has reported to the Senate will not yield sufficient revenue to cover the expenditures in the coming year, and we shall have a deficit of from \$9,000,000,000 to \$11,000,000,000, which will inevitably bring inflation.

Mr. MILLIKIN. Very well; let me deal with that.

Mr. DOUGLAS. And let me also say—

Mr. MILLIKIN. No, Mr. President; I ask the Senator from Illinois to give me only one of his worries at a time.

I suggest to the Senator from Illinois that the worry he has just stated may not mature. When we are pumping so much of the taxpayers' money into the economy, through the Federal Government, there is an enormous increase in the national income, from which taxes are obtained; and in a rising economy we always underestimate taxes. So perhaps the Senator's worry may not mature; perhaps the rate of spending will not continue to rise as it is rising at the present time and as it promises to do. The rate of spending may slow down, as happened last year.

Mr. DOUGLAS. All the signs point to an increase in the rate of spending.

Mr. MILLIKIN. At the moment they do, and I am glad to see it.

Mr. DOUGLAS. In other words, the Senator from Colorado is like Mr. Micawber; he always hopes something will turn up, without making any definite plans.

Mr. MILLIKIN. There are some things that I know always will turn up. I know the President always will ask

Congress for more money, greater spending, longer deficits. That—whether it is like Micawber or otherwise—I know always will happen.

I am trying to answer in good faith the question the Senator from Illinois has asked. If a slowing up of expenditures, should that come about, and an increase in expenditures, should that come about, fails to balance the budget, the President can balance the budget himself, if he wants to, by following the economy programs of the distinguished senior Senator from Illinois.

Now let me have the Senator's other worry, good sir.

Mr. DOUGLAS. Let me say that my first worry is not abated by the Senator's implicit trust in the fiscal policies of Mr. Wilkins Micawber, who was a very unsound man in respect to the handling of his personal finances, and whom I certainly would not want to have placed in a position of importance on the Finance Committee.

Mr. MILLIKIN. Mr. Micawber is not in the chair of the junior Senator from Colorado. I might suggest where Micawber is, but I wish to keep this discussion on a pleasant plane. [Laughter.]

The Senator from Illinois must be a chronic worrier if he is not satisfied with the explanation I have given him.

Now let me have his worry No. 2.

Mr. DOUGLAS. It is not a worry, but it is an affirmation, unfortunately: namely, that the Finance Committee in amending the House bill provided, many and grievous loopholes for the well-to-do and made the greatest reductions in the amounts which are to be paid by those who are most able to bear the burden, and made the least reductions in the case of those who are least able to bear the burden.

I am sure the Senator from Colorado has a heart as generous as that of any living man.

Mr. MILLIKIN. I hope, if so, with my own money, but not with the people's money.

Mr. DOUGLAS. But not with the money of the well-to-do, may I say.

Mr. MILLIKIN. Neither with the money of the well-to-do nor with the money of the poor.

A while ago the distinguished Senator from Illinois talked about balancing the budget. The junior Senator from Colorado at one time led to victory in the Senate a bill which increased the exemption for the poor by \$100. No one has suggested that that be taken off, although the bill was a so-called rich man's tax bill. That bill provided tax reduction. Think of it, Mr. President, a tax reduction. What an archaic thing. Why, Mr. President, one would have to get an archaeologist to dig up anything about a tax reduction. [Laughter.] Just think of it. It started the reduction at 30 percent for those in the lower-income brackets and scaled it down as we got into the area of the big, pot-bellied plutocrats, who were given a 5-percent reduction. We did that; and, tragedy of tragedies, which the Senator from Illinois and other Senators associated with him will learn as a fact—and a happy fact, not a trag-

edy—we provided for the splitting of incomes. When we got all through, 70 percent or more of the tax reduction benefit went to those in the lower brackets, where the greater income of the country is; and we balanced the budget and we produced a surplus of \$8,000,000,000. This is the way to run this country, dear Senator, and that is the way it is going to be run again.

Mr. LEHMAN. Mr. President, will the Senator yield?

Mr. MILLIKIN. I am glad to yield. I wish to apologize to the Senator again for taking this much time.

Mr. LEHMAN. The Senator from Colorado has referred to the split-income provision as a boon to the small-income taxpayer.

Mr. MILLIKIN. I did not say that, good sir.

Mr. LEHMAN. That was certainly the impression I received.

Mr. MILLIKIN. I said we balanced things in the way I have discussed, by increasing the exemption \$100 and by reducing by 30 percent the income-tax rate applicable to those in the lower brackets; and the balance was so well achieved that, counting everything together, those in the lower brackets received more than 70 percent of the benefit, because they have the greater part of the income.

Mr. LEHMAN. Let me say to the distinguished Senator from Colorado that I can assure him from my personal experience, because I am a beneficiary of the split-income provision, being a very substantial payer of income taxes, that the provision permitting the splitting of incomes is of vastly greater advantage to men of substantial means than it is to men of small means. There can be no doubt whatever about that.

Mr. MILLIKIN. The advantage starts, as I recall, at about \$10,000. The Senator from New York says there can be no question about it. Let us get this matter straight, so it will not have to be mentioned again, unless someone wishes to deceive.

Mr. LEHMAN. Oh, it will be mentioned again frequently.

Mr. MILLIKIN. The advantages of splitting income begin at approximately \$10,000. The split-income provision is of little advantage, if any at all, to those in the lower brackets. However, I say to the Senator that we benefited those in the lower brackets by increasing their exemption and by expanding the reduction of their income taxes by imposing the smallest cut on the top-income brackets and the largest cut on the lower brackets and that result was considered so happy at the time that it received a vote of 77 to 10 in the Senate of the United States. That was B. D.; by that I mean before DOUGLAS. [Laughter.]

What I mean to say is that it not only had the virtues which I ascribe to it, but 77 wise gentlemen in the Senate said, "Yes; that is true." I may say they said, "Yes; that is true," because the split-income provision was included. Let someone try to take it out. I look forward to that, and I understand it will be attempted.

Mr. LEHMAN. Mr. President, will the Senator from Colorado yield?

Mr. MILLIKIN. Oh, certainly.

Mr. DOUGLAS. Mr. President, will the Senator yield?

Mr. MILLIKIN. I ask the Senator from Illinois to let me finish first with the distinguished Senator from New York; and then I shall be glad to yield to other Senators.

Mr. LEHMAN. I should like to ask this question of the Senator from Colorado: If he is so certain or so hopeful that some windfall or something of the sort will develop to balance the budget or at least to minimize very greatly the deficit, I should like to know why he recommends a great increase—in fact, an increase of 11 percent—in the personal income tax, and why he recommends, as a part of the committee report, the levying of additional excise taxes, which are a great burden on those of small incomes, and which will bring into the Treasury \$800,000,000. If the Senator from Colorado feels that the change in the effective date of the corporation tax is necessary, in spite of the fact that a January 1st date would be in accordance with the policies adhered to in the United States since 1909, I ask why he recommends placing the additional burden of an 11 percent increase in the income-tax rates and greatly increased excise taxes on those of small incomes.

Mr. MILLIKIN. The answer I must give in the first instance is very painful: I wish it were not being done. I wish there were no necessity, under any view of the subject, for it to be done. The distinguished gentleman is a member of a coterie of Senators which would increase the take from the lower income tax group more than would the version which the Senate Finance Committee has proposed. He would run it up to what figure? To 12?

Mr. LEHMAN. Yes.

Mr. MILLIKIN. So the Senator wants to run it up to 12. He criticizes me for wanting to hold it at 11.

Mr. LEHMAN. No; if the Senator will yield, the Senator from New York wishes to increase the income tax, as he wishes to have the Government avail itself of the additional \$500,000,000 by making the tax retroactive to January 1, 1951; and he wishes to increase the corporation taxes for one reason, and for one reason only, namely, that we are facing a deficit, which in my opinion will be somewhere between \$10,000,000,000 and \$15,000,000,000, and the bill which has been recommended by the committee will bring in at the outside \$2,750,000,000, leaving a staggering deficit, which will affect the entire fiscal structure of the country, and will lead to inflation. That is why I am urging the change, and that is why I hope the Senator from Colorado will go along with me.

Mr. MILLIKIN. The distinguished junior Senator from New York has at no time during the debate left me in any doubt that he wants to increase taxes.

Mr. LEHMAN. That is correct.

Mr. MILLIKIN. On the little fellow, and on the big fellow.

Mr. LEHMAN. Precisely so.

Mr. MILLIKIN. For example, the bill recommended by the Finance Committee provides that of the distribution of the cost, 37.32 percent is imposed on those with incomes under \$5,000, and 62.68 percent on those with incomes over that amount. Taking into consideration the fact that 70 or 80 percent of the national income comes from those receiving under \$5,000, certainly no one could say that that is an inequitable distribution of the tax burden.

Mr. LEHMAN. May I answer that?

Mr. MILLIKIN. Certainly.

Mr. LEHMAN. I do say that it is not an equitable distribution of taxes. The little man is to have his income taxes increased and is to be called upon to pay more and higher excise taxes, whereas because of the desire of the Senator from Colorado and others to leave the effective date of the corporation tax increases at April 1, \$500,000,000 of revenue is to be sacrificed. I maintain that the burden is not equitably distributed. Certainly it is a question in my mind whether, unless we distribute the burden equally, it is fair to place the additional burden on the little men, as now proposed.

Mr. MILLIKIN. Let us accept the philosophy of the Senator, but let us see what it is in action; let us see what it is. Let us see what relief the distinguished junior Senator from New York wants to give to the people who justly are entitled to his most tender consideration.

The Finance Committee bill distributes the cost in this manner: 37.32 percent of the whole burden to those with incomes of \$5,000 or less, who receive 70 or 80 percent of the national income. What would the Senator do? Let us study the beneficence of the Senator. Let us see the balm with which he would ease the pains of those people. The Finance Committee proposes 37.32 percent. The distinguished junior Senator from New York proposes 37.13 percent.

Mr. KNOWLAND rose.

Mr. LEHMAN. May the Senator from New York answer?

Mr. MILLIKIN. That will relieve the problems of the distressed. That will fix everything up for the unfortunates who are having a hard time to get along. Decrease the Senate Finance Committee distribution from 37.32 percent to 37.13 percent.

Mr. KNOWLAND. Mr. President, will the Senator from Colorado yield?

Mr. LEHMAN. I desire to answer the Senator from Colorado, if he will permit.

Mr. MILLIKIN. Certainly.

Mr. LEHMAN. I will tell the Senator what I should like to do. I should like to have the Senator support my amendment, which would bring into the Treasury \$500,000,000—\$500,000,000 to which the people of this country are entitled. There has not been a single argument made, there has not been a single explanation or excuse offered in the report which has been made by the committee, which will stand up as logical against that plea. That is one thing I would do.

The second thing I would do would be to eliminate the split-income tax, which without question helps men of substantial or large means, and does not help in the slightest degree, as the Senator from Colorado himself has stated, the man with an income of less than \$10,000.

Mr. MILLIKIN. Why, Mr. President, the distinguished Senator is at heart a sentimentalist. He has a fine emotional sentimenttl approach to many of the problems of life.

Mr. DOUGLAS. Is that a disqualification?

Mr. MILLIKIN. Think of the split-income provision. It makes a potential Cinderella out of every poor girl. The rich guy has a great incentive to marry the poor girl and split the income. The distinguished Senator would deprive the poor girls of this country of that Cinderella opportunity.

Mr. HUMPHREY. Mr. President, will the Senator yield?

Mr. KNOWLAND. Mr. President, will the Senator from Colorado yield to a Senator on the Republican side of the aisle?

The PRESIDING OFFICER. Does the Senator from Colorado yield; and if so, to whom?

Mr. MILLIKIN. I yield to the distinguished Senator from California.

Mr. KNOWLAND. I wish to thank the distinguished Senator from Colorado. I was a little fearful he might be turning his back on Senators on the Republican side of the aisle, and that we might have to look to Senators on the Democratic side for recognition.

Mr. MILLIKIN. I accept the rebuke. I deserve it.

Mr. KNOWLAND. I commend the Senator, however. I think he has made a very valid argument in behalf of budget-balancing by putting some emphasis on the reduction of Government spending. I think it might be helpful in the discussion which is going on with the Senator from New York merely to point out that in the 152 years since George Washington took the first oath of office, down to and including the second term of President Franklin D. Roosevelt, the total cost of the Federal Government for those 152 years amounted to just under \$180,000,000,000, and in the 7 years of the Truman administration, including the budget for the current year, the total costs of the Federal Government will amount to more than \$332,000,000,000.

Mr. MILLIKIN. I thank the Senator for his outstanding contribution. I can only add that yet there are some men, who in most matters are extremely intelligent, who would want us to follow that kind of a pied-piper tune.

I yield to the distinguished Senator from Minnesota.

Mr. HUMPHREY. The first observation I want to make is to express my keen interest in the Cinderella philosophy of taxation which the Senator has enunciated. For the first time he has made the tax bill look enjoyable. But I wonder if the Senator, after we documented so well the few people there are in the upper-income brackets, realizes what he is doing. He is going to precipitate a

psychosis among the charming ladies of the Nation when they find there are not enough millionaires to go around. The Senator has got to do something about this if we are going to embody this new philosophy in the tax bill.

Mr. MILLIKIN. I shall not make a matrimonial bureau of myself.

Mr. HUMPHREY. I should like to ask the Senator a few more questions about his observations on split incomes. The Senator has said, categorically and truthfully, that the split income did not benefit substantially or to any measurable degree those earning less than \$10,000 a year.

Mr. MILLIKIN. That is correct.

Mr. HUMPHREY. The Senator has stated that from 92 to 93½ percent of the taxpayers of the country receive little or no benefit from the split-income tax, because on page 12 of the committee report it is stated that there are 42,505,000 taxpayers with incomes under \$10,000 a year, and approximately 2½ million with incomes above \$10,000 a year.

Since the Senator has made this statement, which he also qualified by saying that one would have to be a sentimentalist if he were thinking of removing it—and he further said that it would not be removed—does he mean that Congress is going to incorporate into the tax laws of the land a provision which gives little or no benefit to over 92 percent of the taxpayers of America but does give preferential treatment to 7 or 8 percent of the taxpayers?

Mr. MILLIKIN. I do not know how many times I have answered that question. I have said that the benefit was balanced by heavily weighted advantage to those in the lower brackets. The bill providing for splitting incomes was a balanced bill to achieve a balanced result, and the fairness of it was such that on both sides of the aisle 77 Senators voted "yea."

Mr. HUMPHREY. I realize that.

Mr. MILLIKIN. The favorable vote was so overwhelming that the bill could not have been vetoed with success, as was the preceding one, because it did not cover split incomes. I believe in the right of a dissident to maintain his opinion. As some great man has said, in effect, we should fight to the death to maintain that right.

Mr. HUMPHREY. That was Voltaire.

Mr. MILLIKIN. And now, HUMPHREY.

Mr. HUMPHREY. And now, MILLIKIN.

Mr. MILLIKIN. It cannot be that the 10 are always wiser than the 77; and the Senator from Minnesota will find that out in due course.

Mr. HUMPHREY. I appreciate that. When a committee reports a bill which reduces the House bill figure \$1,700,000,000, of which only \$128,000,000 goes to income brackets below \$5,000 a year, I am not living under the delusion or the hope that we are going to be able to reverse the trend that is apparent here. But if I can show the Senator in this debate, as we come to the elimination of the benefits of the split income, that we can raise more money in that kind of

an income tax proposal by \$200,000,000 than we can by the 11-percent provision, and if I can show him that we can raise it from those with incomes above \$5,000 a year, will he support it in the name of equity?

Mr. MILLIKIN. The distinguished Senator from Minnesota has asked me a question, and I am glad I can answer it without the slightest equivocation. I will not, unless the Senator—and if he did, then I would vote against him also—at the same time will remove the balancing factors which have been put into the law to equalize it.

I cannot yield any further. Time has been running, and I have been told that there are other Senators who want to take part in the debate. I wish to put a few facts into the RECORD which I shall be glad to debate at the first open opportunity.

Mr. MARTIN. Mr. President, will the Senator yield?

Mr. MILLIKIN. I yield to the Senator from Pennsylvania.

Mr. MARTIN. Is it not also true that in the bill to which the Senator referred a moment ago seven million taxpayers were removed from the tax rolls?

Mr. MILLIKIN. I am glad the Senator has mentioned that. We increased the exemption of the aged and we increased exemptions for the blind.

Mr. HUMPHREY. Mr. President, will the Senator yield for one question?

Mr. MILLIKIN. I yield, but please make it short. Give me a "quickie," not a "falsie."

Mr. HUMPHREY. If we agree that the tax bill of the Eightieth Congress was a good, noble, equitable enterprise, will the Senator go along with us on some of the amendments we have to offer because the argument up to now has been to explain how grandly we did in 1948. Of course, the American people did not think so well of it in the month of November 1948.

Mr. MILLIKIN. I am now moving to the side of the distinguished Senator from Illinois [Mr. DOUGLAS] when he discusses the President. Let me say to the distinguished Senator from Minnesota that I will support him if he presents anything that is right, and if he presents anything that is wrong, I shall go against him.

Mr. President, prior to the Revenue Act of 1950 the corporate rate was 38 percent. The Revenue Act of 1950 raised the corporate rate from 38 to 42 percent. The same revenue act raised the rate for 1951 to 47 percent. This substantial boost for 1951 has already been enacted. Few corporation have as yet even paid the increase for 1951 which was voted last year. Now we propose a second boost for the same year, and a third boost if we count the excess-profits tax.

Corporate profits in the first quarter of 1951, after taxes, were \$23,300,000,000, but expenditures for new plants and equipment, for those things which support the payrolls of the country, were \$20,700,000,000. Corporate profits were \$23,300,000,000, and plant and equipment expenditures were \$20,700,000,000. There were issued only \$1,700,000,000 of new corporate securities in that period.

The only answer, unless we approve the expansion of our payroll activities by dumping every one requiring capital into that black hole of Calcutta, the RFC, is to give the corporations a chance out of their profits to expand themselves. They have got to expand greatly to meet the war load which is being put upon them—not for the profits of the pot-bellied fellows we are always hearing about, but for the profit, the welfare, of the boys who are on top of "Heartbreak Hill" right now. This indicates that retroactive taxes would be paid out of current or future earnings, with a corresponding decrease in capital expenditures because of the difficulty in floating new stock issues.

Mr. President, that is all I care to say at this time.

Mr. LEHMAN. Mr. President, I suggest the absence of a quorum, and I ask unanimous consent that the time consumed in calling the roll be divided equally between the two sides.

The PRESIDENT pro tempore. Is there objection?

Mr. GEORGE. Mr. President, I reserve the right to object because I do not know what time I have left, and I wish to speak for a few minutes.

The PRESIDENT pro tempore. The Senator from New York has 19 minutes left and the Senator from Georgia has 14 minutes left.

Mr. GEORGE. I can not give up all my time. I want to use 10 minutes.

Mr. MILLIKIN. Very well.

Mr. GEORGE. Mr. President, I am perfectly willing for the proponents of the amendment to proceed at this time. I shall speak very briefly.

Mr. LEHMAN. Does the Senator wish to speak now?

Mr. GEORGE. Not now.

Mr. LEHMAN. I suggest the absence of a quorum.

The PRESIDENT pro tempore. The clerk will call the roll.

The legislative clerk proceeded to call the roll.

Mr. LEHMAN. Mr. President, I ask unanimous consent that the order for a quorum call be rescinded and that further proceedings under the call be suspended.

The PRESIDENT pro tempore. Is there objection? The Chair hears none, and, without objection, the order for a quorum call is vacated.

Mr. GEORGE. Mr. President, I do not care to discuss this question at any great length. The facts are very, very simple. We speak of placing taxes on corporations, or individuals, for that matter, effective as of certain dates, and in this bill we speak of making the tax rate on corporations effective as of April 1, that is at the beginning of the second quarter. As a matter of fact, Mr. President, the tax will be levied over the whole year, and it will be levied at a rate of 50.75 percent for the entire year under this bill.

The total top normal in surtax rate in effect for the calendar year 1951 is, as I have already said, 50.75 percent. That is to say a normal rate of 26.50 percent and a surtax of 24.25 percent. Thus for the calendar year the committee bill

will levy a normal and surtax rate on corporations of 50.75 percent, as compared with a top tax rate under present law of 47 percent.

The question is asked as to why we have cut the rate for the first year. It is simply because no action was taken to raise this tax until February, and the committee of the Congress which alone had the authority to consider it did not actually go into executive session until about April 1, or a few days thereafter, although some public hearings had been held. The committee of the Congress which alone had the power to recommend this tax did not order the bill reported until June 15, and it was actually reported on June 18. Very nearly half of 1951 had elapsed before the bill was actually reported by the committee or actually introduced in the House, because under the practice prevailing in the House, the committee holds its hearings, formulates a bill, introduces it, and reports it back. That is a very good reason for making these tax rates effective as of a certain date.

As a matter of fact, if the rates in this bill had been made effective July 1, after half the year had elapsed, the total rate would have leveled out to 50 percent for corporate incomes in 1951. But the House having put the normal and surtax rates up to 52 percent, the Senate committee did not feel like adopting what in my judgment would be a sound principle of taxation, namely, making the tax increase effective July 1.

There is another reason why this particular tax ought not to be made retroactive. Perhaps it will have no influence with my brethren who think it should be made retroactive solely for the purpose of getting some more revenue. Let me suggest to them that if they want to make it retroactive to the 1st of January, 1950, they can get more than \$2,000,000,000 more money, additional revenue, but they will be getting it out of the income of the corporations for 1951.

The Excess Profits Tax Act was actually approved on January 3, 1951. Every corporation, therefore, had the right to expect and assume that its tax liability for 1951 would be fixed as of that time, that is, the date of approval of the excess profits tax law. We had raised the tax in the 1950 act, and very late in 1950 we had passed the Excess Profits Tax Act, which was approved on January 3. At that time certainly the corporations might properly have assumed that their rates for 1951 would not be increased beyond that point. Since the House had actually, by the middle of the year, reported a bill which did increase the rates, we accepted the House rates. That is to say, we accepted the over-all rate, although we did not follow the House pattern. We made the tax effective, not as of January 1, but as of the end of the first quarter.

Many corporations declare dividends quarterly. Many corporations actually set aside their dividends, figured on existing taxes. There was actually no change in the tax rate until the very end of the second quarter, even by the other House. However, corporations

were on notice that the House was considering the bill. It went into executive session to consider the rate at the beginning of the first quarter. Therefore, the committee, in order to save as much current revenue as possible and to get the revenue as quickly as possible, in fairness and equity said that the rate should become effective on April 1, or that the actual rate levied on corporations would run at the over-all rate for normal and surtax of 50.75 percent for the entire year.

That is all there is in this case, except for one thing, which ought to give someone pause. I hardly hope that it will, but it should. It should give the American people pause. Let us see exactly what we are doing to corporations in this country as compared with what is being done by countries which we are aiding. Let us take a brief look at the situation.

England, for example, levies a 50 percent rate on corporate profits, for which the shareholder gets credit. He does not get credit in the United States. In addition, an undistributed profits tax of 10 percent, from which no credit is allowed to the shareholder, has recently been imposed in England. This last tax compares with our existing tax, which already is at 47 percent, and under this bill will go to 50.75 percent for the actual current year, from January 1, for which the stockholder gets no credit whatever.

Consider Canada. Canada's top corporate tax rate is 45.6 percent on that part of the income in excess of \$10,000. The first \$10,000 is taxed at a rate of only 10 percent. And yet under this bill, which it is now sought to amend so as to make the tax retroactive to January 1, we are taxing at the normal and surtax rate of 50.75 percent, as against Canada's top rate of 45.6 percent.

Mr. FULBRIGHT. Mr. President, will the Senator yield for a question?

Mr. GEORGE. I have only a very few minutes.

Mr. FULBRIGHT. All I wanted to do was to have the Senator clarify the operation of the British credit. The Senator stated that the shareholders received certain credits.

Mr. GEORGE. The corporation pays the tax and the shareholders get credit on their individual taxes, without further taxes.

Mr. President, how much time have I remaining?

The PRESIDENT pro tempore. The Senator from Georgia has 3 minutes left.

Mr. GEORGE. In France the top corporate rate is 34 percent. Yet we give France money, and are going to give her more. We are taking it out of the pockets of taxpayers in the United States and giving it to the French.

In Brazil the top corporate rate is only 15 percent. In Australia it is only 30 percent. We have the highest tax rates in the world.

Mr. President, it is proposed to make these rates effective at the rate of 50.75 percent for the whole year. That is what it amounts to. The House wishes to make the rates effective at 52 percent for the whole year. That is the question which is involved. The entire question

will be in conference. Why cannot the committee, and the distinguished gentlemen who assume to know more about taxation than the committee which is charged with studying these problems, be left to thrash this problem out in conference and arrive at a determination? It is squarely and fairly in conference. The committee can be trusted to settle the issue. There is not one amendment in this bill which is not already squarely in conference. Senators may take up time debating amendments, if they wish to do so, but I remind them that we are losing revenue from excise taxes at the rate of \$106,000,000 a month.

Mr. McFARLAND. Mr. President, will the Senator from New York yield me 3 minutes?

Mr. LEHMAN. I am glad to yield 3 minutes to the distinguished majority leader.

Mr. McFARLAND. Mr. President, I merely wish to explain my position on the pending amendment, because I shall vote for it. Strong arguments have been made on the floor for not making any taxes retroactive. Speaking generally, I believe retroactive taxation to be a bad precedent, and the principal justification for voting to make the effective date April 1 instead of July 1 is that our country is in an emergency and we need the additional sum which would be paid into the Treasury. We have cut down expenditures wherever possible, but national defense comes high, and we must raise every possible dollar by taxation to reduce deficit financing.

This same argument applies with even greater force to make the effective date January 1. The earlier date would increase the revenue by approximately a half billion dollars. That is very important. If the argument is sound for making the effective date April 1, it is even sounder and more persuasive to make it January 1.

I am persuaded to this view largely by the vote of the committee itself, when it originally wrote in the bill the date of January 1. The committee subsequently shifted its position. I do not believe anyone can be criticized now for going along with the original position of the committee, particularly at a time when the Government needs revenue as urgently as it now does. Moreover, the Senate refused yesterday to increase the excess-profits tax, which, in my opinion, is another argument for adopting the pending amendment.

Mr. LEHMAN. Mr. President, I yield 2 minutes to the Senator from South Dakota.

Mr. CASE. Mr. President, the junior Senator from South Dakota is no expert on taxation, and he lays no claim to being one. After listening to the argument on this issue it seems to me that we are warranted in making the date January 1 instead of April 1. I invite the attention of the Senate to the fact that on page 25 of the bill the committee amendment proposes to make the surtax on individual incomes retroactive to January 1, 1951. If there is any logic for making the surtax rates on individual incomes retroactive to January 1, 1951, I do not understand why the corporate

tax should not be made retroactive to January 1.

Mr. GEORGE. Mr. President, will the Senator from South Dakota yield to me?

Mr. CASE. I am glad to yield to the distinguished Senator from Georgia.

Mr. GEORGE. The rate does not go back in that way. The tax will be collected back to January 1, but not at the full annual rate. The surtax does go back for 2 months, but its collection is spread out over the year.

Mr. CASE. Whatever it is, as I read page 25, it says:

(1) Calendar year 1951: In the case of a taxable year beginning on January 1, 1951, and ending on December 31, 1951, there shall be levied, collected, and paid for such taxable year upon the surtax net income of every individual the surtax shown in the following table.

The VICE PRESIDENT. The time of the Senator from South Dakota has expired.

Mr. LEHMAN. Mr. President, I shall not keep the Senate long. I have no wish to delay a vote on the pending amendment. It is such a simple amendment. It is such a simple issue.

Are we going to follow the precedents of the past, or are we going to set a new precedent? Are we going to set a precedent which will cost the Government \$500,000,000, one-tenth the size of this whole tax bill?

Whom are we favoring here? What is the reason for the special privilege granted the corporations of this country?

Who can answer these questions? Who will answer these questions? The committee has not answered them.

Oh, Mr. President, the Senate will not dare disregard the public conscience by rejecting this amendment. I cannot believe it.

While we are proposing to exact these billions from the taxpayers, while we enact new excise taxes, new impositions on the people, are we going to excuse the corporations, the impersonal giants of our national economy, from this just payment of their share of the burden?

We are asked to put new excise taxes on fountain pens, mechanical pencils, on vacuum cleaners, and on washing machines, on automobiles and on automobile parts. We are asked to tell every school child and student, "You are going to pay these taxes. When you go to the stationery shop for your pen or pencil, you are going to pay a tax, not next year, not in 1953, but now, today." We are asked to tell the working man, when he goes to buy a car to drive to and from work, to take his family out into the country on Sunday, "You are going to pay this tax, not next year, but today." It is proposed that we tell the housewife, when she goes to buy her washing machine, "Pay this tax now, or go back to the washboard."

We are doing all this because we must have additional revenue for our defense effort—an effort which is essential for our very survival and the survival of civilization.

But the corporations—General Motors, General Electric, Standard Oil, Texas Oil, Gulf Oil—these giants with

two billions and more of assets each, with record earnings and profits—we are going to tell them, "Don't worry. We are going to give you special consideration this year. We told you that there would be higher taxes this year. You have always paid your taxes on profits beginning January 1. But this year, although we face a national emergency, although the fate of the entire world is at stake, you need pay at the higher rates only on three quarters of your profits."

We will tell those corporations that we will forgive their increase of taxes for the first 3 months of this year. That is a special bonus for corporations, a special gift from the Senate of the United States.

These corporations, according to official figures, had an inventory profit in the first quarter of this year of \$9,000,000,000—an increase in the value of their inventory due to price increases, due to inflation, of \$9,000,000,000.

Mr. President, is the Senate going to be so tender toward these earnings? I ask you again and again, why? What is the reason for this special dispensation for the corporations?

I will give the answer. There is no reason. There is no justification. In the face of the impending budget deficit, in the face of the rest of these taxes, let him who dares this outrage upon the public morality vote to reject the amendment, which is consistent with all our tax practices of the past. What it proposes is simple justice. It is simple fairness.

The Government needs the money to pay for the defense of this country.

The rate of \$50,000,000,000 a year of corporate profits stares us in the face. These figures do not lie. They cannot be explained away. Let us tax them, all of them, and get on with the job before us.

Mr. LONG. Mr. President, will the Senator yield for a question?

Mr. LEHMAN. Yes.

Mr. LONG. Are we to understand that the pending bill would tax individuals for the entire year, from January 1?

Mr. GEORGE. Oh, no, it does not tax individuals, except from November, but the taxes for that little part of the year, two-twelfths of it, are spread back over the whole year. So is the corporate rate spread back over the whole year.

Mr. MOODY. Mr. President—

Mr. LEHMAN. I yield to the Senator from Michigan.

Mr. MOODY. I wish to say to the Senator from New York that I think his amendments should be adopted on a basis of pure equity. The fact is that before the Banking and Currency Committee, when we were holding hearings on the bill to control inflation, the National Production Act, representatives of great organizations representing corporations testified that the way to control inflation was by taxation. Later some of them testified before the House Ways and Means Committee that the way to control inflation was by means of a sales tax.

In raising the revenue which we must raise in order to finance the strength

we need to protect ourselves in the world, we must share the burden equitably. It seems to me that when corporate profits, both before taxes and after taxes, have been the highest in the first quarter of 1951 that have ever been known in the corporate history of the United States, special privileges or special exemptions should not be given to corporations for that quarter.

I believe the Senate would be making a serious error and perpetrating an inequity against all other taxpayers if it were to fail to adopt the amendments of the Senator from New York.

Mr. HUMPHREY. Mr. President—

Mr. LEHMAN. Mr. President, I yield the remainder of my time to the Senator from Minnesota.

Mr. HUMPHREY. Mr. President, how much time remains?

The VICE PRESIDENT. One minute remains.

Mr. HUMPHREY. What I wish to say can be said in less than 1 minute.

Mr. President, the pending bill proposes to raise by 11 percent the taxes on earned incomes, and proposes to extract, by means of excise taxes, \$1,300,000,000 from individuals, and proposes to open up special treatment benefits for the capital-gains group. The bill also proposes to permit corporations, which have had the greatest income in all the history of our economy, to escape the payment of approximately half a billion dollars in taxes which are justly due the Government.

I submit that if these amendments are rejected, that will be but an indication that this body has determined that the incomes of the corporations of the United States, which are primarily derived from defense activities and defense production, are not to be taxed on an equitable basis.

I ask for support of the amendments of the Senator from New York, Mr. President.

The VICE PRESIDENT. All time on the amendments of the Senator from New York has expired.

The question is on agreeing en bloc to the amendments submitted by the Senator from New York, on behalf of himself and other Senators.

Mr. LEHMAN. Mr. President, on this question I ask for the yeas and nays.

The yeas and nays were ordered.

Mr. MILLIKIN. Mr. President, a parliamentary inquiry.

The VICE PRESIDENT. The Senator from Colorado will state it.

Mr. MILLIKIN. What is the pending vote?

The VICE PRESIDENT. The pending vote is on the amendments en bloc of the Senator from New York.

Mr. MILLIKIN. A vote "yea" will mean what?

The VICE PRESIDENT. A vote "yea" is a vote for, and a vote "nay" is a vote against. [Laughter.]

Mr. McFARLAND. Mr. President, my understanding is that a vote "yea" will be a vote in favor of the position of the Senator from New York, and a vote "nay" will be a vote in favor of the committee's position.

The VICE PRESIDENT. That is another way to state it.

The Chief Clerk called the roll.

Mr. JOHNSON of Texas. I announce that the Senator from New Mexico [Mr. ANDERSON] is absent by leave of the Senate.

The Senator from New Mexico [Mr. CHAVEZ], the Senator from Tennessee [Mr. KEFAUVER], the Senator from North Carolina [Mr. SMITH], and the Senator from Mississippi [Mr. STENNIS] are absent on official business.

The Senator from New Mexico [Mr. CHAVEZ] is paired on this vote with the Senator from Tennessee [Mr. KEFAUVER]. If present and voting, the Senator from New Mexico would vote "nay", and the Senator from Tennessee would vote "yea."

I announce further that if present and voting, the Senator from North Carolina [Mr. SMITH] would vote "nay."

Mr. SALTONSTALL. I announce that the Senator from Maine [Mr. BREWSTER] is absent on official business, and if present, he would vote "nay."

The Senator from Minnesota [Mr. THYE] is absent by leave of the Senate, and if present, he would vote "nay."

The Senator from New Hampshire [Mr. TOBEY] is absent because of illness.

The Senator from Nebraska [Mr. WHERRY] is necessarily absent.

The result was announced—yeas 33, nays 54, as follows:

YEAS—33

Aiken	Holland	Monroney
Benton	Humphrey	Moody
Case	Johnson, Tex.	Morse
Clements	Kilgore	Murray
Douglas	Langer	Neely
Fulbright	Lehman	O'Mahoney
Gillette	Long	Pastore
Green	Magnuson	Russell
Hayden	Maybank	Smathers
Hennings	McFarland	Sparkman
Hill	McMahon	Underwood

NAYS—54

Bennett	Flanders	McCarthy
Bricker	Frear	McClellan
Bridges	George	McKellar
Butler, Md.	Hendrickson	Millikin
Butler, Nebr.	Hickenlooper	Mundt
Byrd	Hoey	Nixon
Cain	Hunt	O'Connor
Capehart	Ives	Robertson
Carlson	Jenner	Saltonstall
Connally	Johnson, Colo.	Schoeppel
Cordon	Johnston, S. C.	Smith, Maine
Dirksen	Kem	Smith, N. J.
Duff	Kerr	Taft
Dworshak	Knowland	Watkins
Eastland	Lodge	Welker
Ecton	Malone	Wiley
Ellender	Martin	Williams
Ferguson	McCarran	Young

NOT VOTING—9

Anderson	Kefauver	Thye
Brewster	Smith, N. C.	Tobey
Chavez	Stennis	Wherry

So Mr. LEHMAN's amendments were rejected.

The VICE PRESIDENT. Inasmuch as the provisions of title V were reopened, after having been adopted with other amendments en bloc, the question now is on again agreeing to the committee amendments which were affected by the reopening to permit the Senator from New York to offer his amendment.

The amendments were agreed to.

Mr. FLANDERS obtained the floor.

Mr. McFARLAND. Mr. President, will the Senator yield to me for an announcement?

Mr. FLANDERS. I am glad to yield to the Senator from Arizona.

Mr. McFARLAND. Mr. President, the Senate has spent many days on the pending bill. We worked 4 days last week, and this is the third day this week. It is very evident from the vote which has just been taken on the Lehman amendment that very little additional change is going to be made in the bill. That would be my judgment. It would also be my judgment that the quicker we get the bill to conference, the better it will be for the Government and for all of us.

In an attempt to save time and to insure the passage of the bill, and in order that we may be able to conclude this session of Congress at some convenient time this fall, I again ask unanimous consent that there be a limitation of debate of 1 hour upon amendments, motions, and appeals.

In regard to the limitation of 1 hour, I merely wish to say that there was a 2-hour limitation of debate on the amendment which has just been voted upon by the Senate. How many Senators were present on the floor? If we could have a shorter limitation, Senators desiring to present their views would have an audience; but they are not going to have an audience if there are to be long discussions, such as have occurred this morning.

I further ask that all amendments be required to be germane, that debate on the bill be limited to 2 hours, and that the time on amendments be divided between the proponent of any amendment offered and the distinguished senior Senator from Georgia, in the event that he is opposed to the amendment, or, if he favors the amendment, that the time be controlled by the distinguished acting minority leader.

The VICE PRESIDENT. Is there objection to the request?

Mr. McCLELLAN. Reserving the right to object, I should like to state for the RECORD, on behalf of myself and a number of other Senators, that one reason why Senators are not on the floor is that they are in committee sessions and others are in conference on bills already passed both Houses and are performing duties which have to be performed. It is regrettable that some of us cannot be on the floor all the time to hear these discussions. At present the subcommittee of which I am a member is engaged in investigating charges involving Mr. William Boyle, chairman of the National Democratic Committee and the RFC.

Mr. McFARLAND. I personally feel that if we can get a limitation on debate, Senators attending committees would be willing to remain on the floor and hold their committee meetings later, but if the debate is unlimited, committees will continue to meet.

Mr. McCLELLAN. I may say to the Senator that it is not a question of willingness on the part of Senators to remain on the floor. The Senator has stated that a number of Senators are not present in the Chamber, and I do not want the RECORD to imply that there is a lack of interest or that they are willfully or unnecessarily absenting themselves from

the Chamber. But there is a multiplicity and a pressure of duties that must be attended to at this time. I am not opposing the Senator's unanimous-consent request. I think the agreement should be entered into, but I do not want to leave the RECORD with the implication that some of us are absent by choice. It is just impossible for us to meet all responsibilities at the same time.

Mr. MORSE. Mr. President, reserving the right to object, I think it is very important that we enter into a unanimous-consent agreement at an early hour for final disposition of the bill, though I do not think this is the hour in which to enter into it. I do not agree with the Senator from Arizona that the sooner we get the bill to conference the better. I think it is first very important that we get a record on the bill for the American people. We shall not get that record by sending it to conference. We must make the record on the floor of the Senate for future reference. Those Senators who do not want to hear the record made can remain off the floor of the Senate, attend committee meetings, or do what they care to do, but the American people in time to come are going to be very much interested in the record made on this bill.

In my opinion there are few amendments among those on which we will vote which will require longer than 1 hour for debate. May I suggest to the Senator from Minnesota [Mr. HUMPHREY], who is very much the able leader of the group of us who are fighting for some amendments upon which we think a record should be made, that he call us together in the next few minutes for a discussion of which ones of the amendments we need more than an hour to discuss, and then go along with the unanimous-consent agreement for an hour on the other amendments. We have not been able to get together and hold such a conference. Until there is such a conference, I object.

Mr. McFARLAND. Mr. President, will the Senator withhold his objection for a moment?

Mr. MORSE. Yes.

Mr. McFARLAND. The Senator from Minnesota came to me and said he was willing to go along with a limitation of 1 hour on amendments. It is agreeable to me to limit the time on some of the amendments to more than 1 hour if that seems necessary. Yesterday we allowed 2 hours on four amendments, and it is agreeable to do that again. I also understand the distinguished Senator from Nevada [Mr. McCARRAN] wants some additional time.

Mr. McCARRAN. Mr. President, that is not all. Some of us would like to be on the floor, but there is a conference committee in session in connection with the State, Justice, and Commerce appropriation bill. We have been in session for 2 days, and we must go into session again this afternoon and cannot be on the floor to hear the debate. The bill referred to should be out of the way before the first of the month. We must attend to such matters, otherwise we never will be able to adjourn.

Mr. McFARLAND. I may say to the Senator from Nevada that I agree that we will never get a final adjournment

unless we can expedite consideration of legislation on the floor. I want every Senator to have all the time he desires to submit his views, but I feel that the time has come when we should make some progress on the tax bill if we are ever going to have a recess this fall. We can go along another week on the bill and have conference committee meetings and drag along, but what would we accomplish by that? Perhaps it would be better to lay the pending bill aside for a while. The only solution of the problem I know of is to limit debate, and at the same time give every Senator an opportunity to explain his views. That seems to me to be fair.

Mr. McCARRAN. Mr. President, will the Senator yield for an observation?

Mr. McFARLAND. I yield.

Mr. McCARRAN. I do not think there has been any bill before this body more important to the American people than is the bill now pending. The progress on the bill has been fine. The debate has proceeded rapidly, considering the involvement of it. I think progress has been excellent and I believe the Senator from Arizona is overly anxious.

Mr. McFARLAND. No, Mr. President, I am not overly anxious, but I am going to give notice of a night session tonight merely to make it possible to finish consideration of the bill within a reasonable time.

The VICE PRESIDENT. Objection has been heard.

Mr. GEORGE. Mr. President, I think the objection has been withheld for a moment.

I wish to state that I think we are making progress. The bill is a difficult one, and some new features have been brought in. The distinguished Senator from Nevada is interested in a matter which is a new tax but which is in both your committee's bill and the House bill. As a result if it is agreed to by the Senate it would not even be in conference. I am not greatly concerned when the problems are matters which can be fairly ironed out in conference. In such cases it is difficult to see the necessity of talking at great length upon them, but where they are not in conference, the situation is admittedly quite different. There have been several subjects raised in connection with the bill thus far which would not be in conference. I do not see why they need to be debated at length now.

However, under the present parliamentary situation, Senators themselves may select the time when they may bring up their amendments. In other words, if they do not wish to call an amendment up until after a certain hour, they have that right if they can get recognition.

I think that if the Senator from Arizona will not press his request at this time, but will give those in opposition a little opportunity for conference, as the Senator from Oregon [Mr. MORSE] suggested, we probably can reach an agreement. Where the matters will be in conference and must be fought out when the bill goes to conference, I believe the Senators will see that there is no need to discuss them at too great length now.

As to matters which would not be in conference, of course, they may desire a longer time. I hope, therefore, that the Senator from Arizona will permit the status to remain just as it is for the time being.

Mr. McFARLAND. Mr. President, I have no alternative. Objection has been heard.

As to the program for tomorrow, my reason for giving notice now of a night session is because we cannot finish the bill this week unless we make more rapid progress. I think every Senator would like to see consideration of the bill finished so that we would not have to have a Saturday session. Some of my friends on the other side of the aisle have told me they needed to confer, that there are certain things they wish to discuss among themselves, and they did not want me to hear what they had to say. So I have agreed that we would not have a 10 o'clock morning session tomorrow, in order that they may hold their conference. So the Senate will not convene tomorrow until 12 o'clock as an accommodation to my friends on the other side of the aisle. Moreover, I do not desire to see anyone deprived of a good dinner, especially my good Republican friends; so a week ago I promised that the Senate would not sit late tomorrow evening to permit the new Republican Members to entertain the older Republican Members at a dinner—I assume it is for the purpose of attempting to get the older Members in a little better humor and to look at things in a more democratic light. I thought Members should understand why the Senate will not meet early nor sit late tomorrow and why I am trying to expedite our progress. It is not that I am trying to overwork the Senate; but I am trying to make up a little bit of the time we are going to lose tomorrow.

Mr. SALTONSTALL. Mr. President, will the Senator yield?

Mr. McFARLAND. I yield.

Mr. SALTONSTALL. I know of no Member on this side of the aisle who wants to delay consideration of the bill, and I may say, in reply to the Senator from Arizona that somehow it has appeared to me that Senators on the other side of the aisle have at numerous times, gotten together in secret, without Senators on this side knowing what they were doing—although I do not know just how much has been accomplished by such meetings. Also it seems to me they have been fed very well.

Mr. McFARLAND. Sometime I will come around and tell the Senator from Massachusetts what has been accomplished.

Mr. SALTONSTALL. In all seriousness, will the Senator tell me about how long he intends to have the Senate remain in session tonight, so I may know what to tell other Senators on this side of the aisle?

Mr. McFARLAND. We will have a night session. I would not like to say the Senate will remain in session until 9 or 10 or 11 o'clock, because maybe it may be we will make progress more rapidly than we now anticipate.

Mr. SALTONSTALL. If we succeed in entering into a unanimous-consent agreement this afternoon, perhaps the night session tonight will be called off.

Mr. McFARLAND. That depends on the progress we may make. Let us decide that question when we come to it.

The VICE PRESIDENT. Is there objection to the unanimous-consent request made by the Senator from Arizona?

Mr. MORSE. Mr. President, reserving the right to object, I am perfectly willing to have the request presented again later this afternoon after I have conferred with the Senator from Minnesota [Mr. HUMPHREY].

Mr. FLANDERS. Mr. President—

The VICE PRESIDENT. The Senator from Vermont.

Mr. SMITH of NEW JERSEY. Mr. President, will the Senator yield so I may make a brief statement?

Mr. FLANDERS. For how many minutes does the Senator wish to have me yield?

Mr. SMITH of New Jersey. About 10 minutes.

Mr. FLANDERS. If the Senator from New Jersey will first allow me to offer an amendment, I will then ask unanimous consent that I may yield to the Senator from New Jersey without losing the floor.

Mr. SMITH of New Jersey. Very well.

Mr. FLANDERS. Mr. President, I offer an amendment which I send to the desk and ask to have stated.

The VICE PRESIDENT. The amendment will be stated.

The CHIEF CLERK. On page 221, after line 23, it is proposed to insert the following:

SEC. 344. Life insurance departments of mutual savings banks.

(a) Section 201 (b) is hereby amended by adding at the end thereof the following: "The term 'life insurance company' includes a life insurance department of a mutual savings bank established by State law and authorized to conduct the business of life insurance under State laws governing domestic legal reserve life insurance companies and such department shall be subject to tax as a life insurance company under Supplement G if the accounts of such department are maintained separately from the accounts of the other business of the bank."

(b) Effective date: The amendment made by this section shall be applicable only with respect to taxable years beginning after December 31, 1951.

Mr. FLANDERS. The purpose of the amendment is to put the life-insurance departments of mutual-savings banks under life-insurance taxation rather than under the mutual-savings bank taxation.

Mr. GEORGE. Mr. President, this amendment is in a technical form, but it carries out the declaration and purpose set forth by us during the debate on this question, and we have no objection to the amendment, but, on the contrary, favor it.

Mr. SALTONSTALL. Mr. President, will the Senator from Vermont yield for one question?

Mr. FLANDERS. I yield.

Mr. SALTONSTALL. This amendment, as the Senator from Vermont has drafted it formally, includes the words

"savings bank." It does not include any other institution. What is involved is a form of savings bank life insurance in which such banks have engaged. If, for instance, any other banks, such as trust companies or other kinds of companies, let us say, took up this form of insurance, the Senator from Georgia would not object if they were included, would he?

Mr. GEORGE. I would not, I will say to the Senator from Massachusetts. I think the Senator means to ask me if I think they should also be separated, and treated separately from the others.

Mr. SALTONSTALL. Yes.

Mr. GEORGE. I answer in the affirmative.

The VICE PRESIDENT. The question is on agreeing to the amendment offered by the Senator from Vermont [Mr. FLANDERS].

The amendment was agreed to.

Mr. FLANDERS. Mr. President, under the assumption that I still have the floor, I now ask unanimous consent that the Senator from New Jersey may present his statement without my losing the floor.

The VICE PRESIDENT. Without objection, it is so ordered.

PROPOSED REVISION OF THE ITALIAN PEACE TREATY

Mr. SMITH of New Jersey. Mr. President, I desire to call the attention of the Senate at this time to the problem of the proposed revision of the Italian peace treaty. This in my judgment is a most important problem from the point of view of the solidarity of the free world and the need to have all free nations stand as equal partners in defense of their common heritage. It is regrettable that so many other pressing matters confronting the Senate have made it impossible up to this time for us to concentrate our attention on this matter.

The visit to the United States of Premier de Gasperi, who made a notable address before a joint session of Congress on Monday, makes it particularly timely for us to consider the peace-treaty question. I hope very much that Premier de Gasperi's visit will result in hastening the day when Italy will be free of the burdens and inequalities of the present treaty.

Recently I received a copy of a resolution adopted on the 9th of September by the grand lodge of New Jersey, Order of Sons of Italy in America, urging the revision of the Italian peace treaty "so as to accord by its terms a more humane, reasonable, practicable, and just consideration of most important matters which are of importance not only to Italy but to all democratic nations." I ask unanimous consent that the full text of this resolution be printed in the RECORD at the conclusion of my remarks.

The VICE PRESIDENT. Without objection, it is so ordered.

(See exhibit A.)

Mr. SMITH of New Jersey. Mr. President, in my judgment the revision of the Italian peace treaty is a matter of importance not only to Americans of Italian origin but to all Americans and indeed to all who value the free way of life. On my recent trip to Europe as a

member of the subcommittee of the Foreign Relations Committee I had an opportunity to talk with our representatives in Italy and with the leaders of the Italian Government about this problem.

The attitude of the Italians on this matter is worth noting. They feel, as we in America do, that the military restrictions on Italy imposed by the peace treaty in 1947 prevent Italy from playing the part she is ready and willing to play in helping to defend the North Atlantic area as a member of the North Atlantic Treaty Organization. But they also feel, and in this I think they are entirely right, that the terms of the treaty are humiliating for the new Italian democracy which has emerged since the end of World War II. They do not like the words of the preamble which serve as an eternal reminder to Italy of the period of Fascist aggression under Mussolini. They do not like the provisions which impose on Italy an obligation to respect the rights of man, rights to which present-day Italy is devoted of her own free will, and which in any case can never be secured by dictation. In short, the Italians feel that the treaty is obsolete not only in its military provisions but in its moral attitude. It is a treaty imposed by the victors on the vanquished, and even though it is less harsh than many other such treaties it is fundamentally based on this unequal principle.

When we consider the very different spirit of the Japanese treaty signed in San Francisco on September 8, the contrast is obvious. And I speak again from personal experience, because, as my colleagues know, I was an alternate delegate to the Japanese peace treaty conference in San Francisco. The Japanese treaty is essentially a peace of reconciliation, as Mr. Dulles has properly described it. It takes fully into account the great strides toward democracy made in Japan under the occupation. As we all know, Italy has fully restored her old democratic institutions which the Fascist era interrupted. She has done so as a completely independent nation. She is now being called on to make a heavy contribution to the Atlantic defense, and this contribution will not be easy in light of the difficulties of the Italian economy.

In this situation it becomes obvious that every reasonable step should be taken to bolster the morale and self-respect of the Italian people. No single step toward this end could be more effective than the removal not only of the military restrictions on Italy but also of those provisions of the treaty which view Italy as a nation conquered in war, and their replacement with provisions which bring Italy fully and equally into the community of free peoples.

I shall not discuss now the legal complexities surrounding the problem of revision, except to say that all the signatories of the treaty except the Russians and their satellites apparently favor this step. It is also noteworthy that the Soviet Union has already violated the existing treaty, in spirit if not in fact, by vetoing the admission of Italy into the United Nations in the face of a pledge in the preamble to the treaty that all the signatories would support Italy's ap-

plication. This violation by Russia gives us a strong moral sanction, if not a legal sanction, for revision.

To sum up, Mr. President, I am convinced that we are called upon not alone by military expediency but even more by moral considerations, by our allegiance to the ideals of human freedom and national independence, to work for a speedy revision of the peace treaty with Italy. The basic instrument of our relations with Italy should be a document which treats Italy not as a vanquished enemy but as a dignified and equal partner in the defense of freedom. It should not be a document which stands for the Italian people as an eternal reminder of the tragedy and shame of the Fascist era, but rather one which inspires them with the glorious memory of Mazzini and Garibaldi. It should remind them of the splendor of early Rome—not the physical splendor of the imperial tyrants and Caesars but the greater spiritual splendor of the ancient Republic, the Rome which produced almost the first representative government in the history of mankind.

Let us turn our backs on the tragedies of the past and receive the people of Italy wholeheartedly into the family of free nations.

I thank the Senator from Vermont for yielding me time.

EXHIBIT A

Whereas the Italian Peace Treaty is a gross miscarriage of justice and contrary to every principle of fair play for which the United States stands; and

Whereas the material and moral assistance of Italy is necessary to combat the evil of communism; and

Whereas Italy cannot give such assistance if she is to remain chained and shackled by said peace treaty: Now, therefore, be it

Resolved, That on the 9th day of September 1951, at the forty-seventh annual convention of the Grand Lodge of the State of New Jersey, Order of Sons of Italy in America, held at Atlantic City, N. J., that the Grand Lodge of New Jersey (with a membership of 6,600 persons) respectfully urge the President of the United States and the Members of the Senate of the United States to bring about the revision of said peace treaty so as to accord by its terms a more humane, reasonable, practicable, and just consideration of most important matters which are of importance not only to Italy but to all democratic nations; be it further

Resolved, That copies of this resolution be forwarded to the President of the United States, the Vice President of the United States, to the President pro tempore of the United States Senate, the Secretary of State of the United States, and to members of the Foreign Relations Committee of the United States Senate.

GRAND LODGE OF NEW JERSEY, ORDER OF SONS OF ITALY IN AMERICA.

Mr. HENDRICKSON. Mr. President, the junior Senator from New Jersey rises to commend and congratulate his distinguished and able colleague upon the stand he has taken in respect to the Italian peace treaty. I feel precisely as does my colleague on the subject. I know that as a member of the Foreign Relations Committee he has made a very thorough study of the whole question. With his consent I should like to associate myself with his remarks before the Senate today, as well as his high purposes.

As one who spent many long and difficult months in Italy, both before and after the surrender of the Italian people, under Nazi domination, helping the Italian people to reconstruct their government, I think I know something of the spirit of the Italian people and their problems. The junior Senator from New Jersey, during the long months he spent in Italy, learned to love the Italian people and to appraise their courage very highly.

I am very glad that this question has been raised on the floor of the Senate today, at a most appropriate time, when we have in our midst a great Italian Premier and Foreign Minister. I recall distinctly his very able speech before the joint meeting of the two Houses of Congress yesterday, and I shall always remember it with a great deal of inspiration.

I hope the Senate will join in the spirit exemplified today by my distinguished colleague in respect to the Italian treaty.

Mr. SMITH of New Jersey. I thank my colleague.

REVENUE ACT OF 1951

The Senate resumed the consideration of the bill (H. R. 4473) to provide revenue, and for other purposes.

Mr. LANGER. Mr. President, on Monday at the time the amendment dealing with cooperatives was being considered on the floor of the Senate, unfortunately I was absent. However, as stated by the majority leader yesterday, I relied upon his promise that the question of cooperatives would not be considered until Tuesday morning, upon my return.

In reading the RECORD I found a statement by the Senator from Delaware [Mr. WILLIAMS] which I believed to be inaccurate, on the subject of cooperatives. I therefore took the matter up with Mr. Roy F. Hendrickson, executive secretary of the National Federation of Grain Cooperatives. This morning I received a letter from him which I wish to read into the RECORD. It is dated yesterday and reads as follows:

NATIONAL FEDERATION OF GRAIN COOPERATIVES,

Washington, D. C., September 25, 1951.
The Honorable WILLIAM LANGER,
The United States Senate,

Washington, D. C.

DEAR SENATOR LANGER: In the debate on the Williams amendment to H. R. 4473, the CONGRESSIONAL RECORD for September 24, page 12217, quotes Senator WILLIAMS as having said in debate with Senator KERR:

"Was the Senator from Oklahoma present in the Senate Chamber a little earlier this afternoon when I pointed out how one of the cooperatives in the Midwest, namely the Farmers Union Grain Terminal, was making allocations to the farmers in preferred stock, with the specific language written on it that the preferred stock is not to be voted. They have a capitalization of \$25,000,000, of which \$50,000 is voting common stock, and the remainder of the \$25,000,000 is not voting stock. Therefore, as they make these allocations over a period of years, the farmers do not have, in effect, the control of the corporation. The control remains in the hands of the \$50,000 voting stock. Furthermore this preferred stock is not transferable except upon the approval of the directors. They even have the authority to expel a member at any time and sell his stock without his

consent if he sees fit to object. These allocations in nearly every instance are not negotiable."

Because this statement and others made during the course of the debate indicate a complete lack of understanding regarding the structure and methods of a great cooperative, the Farmers Union Grain Terminal Association of St. Paul, serving farmers of the Central Northwest, the facts in the case are here provided as follows:

For a farmer or an association of farmers to become a member of GTA, he or they must make an application for membership. The association must consist entirely of producer-members—it must be a true farmers' cooperative.

If accepted as a member, the applicant is required to buy one share of common stock for \$1. This gives the member the right to vote at annual meetings of the stockholders and to participate democratically in determining policies of the GTA. It also makes the member eligible to market grain through GTA, because GTA refuses to do business for anyone except its members. In short, this common stock is in reality membership qualifying stock.

No farmer receives or is allocated any of the preferred stock of GTA unless he has qualified for membership by having obtained a share of common stock with a right to vote in the affairs of GTA.

The preferred stock is the form in which patronage is distributed to members. GTA has no voteless members, but the members all have the same voting rights—one man, one vote—whether the member sells 1,000 bushels or 100,000 bushels of grain through GTA. That is true cooperation.

Senator WILLIAMS is very wrong when he states that GTA has outstanding \$50,000 in common or voting stock.

As of May 31, 1950, it had outstanding \$6,012 in common stock. That really meant that at \$1 par value per share GTA had 6,012 members. Some of these members are individual farmers; other members are associations of farmers, local co-ops in reality.

Each year GTA has more members, but no one except these members who have a share of common stock and, therefore, a vote can obtain patronage which is distributed in the form of preferred stock.

The idea is that the members who are using GTA own it and its 22,000,000-plus bushels of grain storage facilities at Great Falls, Spokane, Minneapolis, St. Paul, Superior (Wis.), and elsewhere. When a member dies or retires from farming, his holdings of preferred stock are redeemed by GTA at the full par value of \$25 a share and his share of common or voting stock is redeemed at \$1 par value. And all of the early issues of GTA preferred stock issued starting in 1938 and through 1942 have been redeemed—it runs into several millions of dollars.

The Minnesota cooperative law requires GTA to place in a permanent reserve 10 percent of its annual savings until the reserve equals 50 percent of its outstanding stock.

That reserve, all of which is allocated to the patrons who contributed it, was \$2,147,347.08 as of May 31, 1950. The total members' and patrons' equity on that date was \$20,008,173.17.

As of May 31, 1950, in addition to \$6,012 in common stock shares, GTA had outstanding: \$17,512,566.28 in preferred stock shares, actually owned by the same people who held the common voting stock, and there was \$342,247.26 in partial credits on preferred stock. These credits consisted of amounts due individuals and associations of less than \$25 each. When the credits due a patron reach a total of \$25, a share of preferred stock is issued.

I may say, Mr. President, that under the rulings of the Internal Revenue

Bureau a farmer obtaining the credit must pay income tax on it whether it is paid in cash or issued in scrip.

I continue reading from the letter:

It is hoped that this information will clear up misunderstanding which could easily arise in the wake of the statement by Senator WILLIAMS.

It should be borne in mind that GTA, a true cooperative that has been an outstanding success, makes a profit, not for itself, but for its member-patrons whose agent it is in all its operations as the Supreme Court of Minnesota ruled in 1947.

Sincerely,

ROY F. HENDRICKSON,
Executive Secretary.

I have read the letter because I know the inherent fairness of the Senator from Delaware [Mr. WILLIAMS], for whom I have very great respect. I am sorry that he is not present. I am sure that if he were here he would be delighted to have me read the letter, because it clears up a misunderstanding which he had about the National Federation of Grain Cooperatives.

Mr. CARLSON. Mr. President, I call up my amendment identified as 9-20-51-A.

The PRESIDING OFFICER (Mr. HOLLAND in the chair). The clerk will state the amendment.

The LEGISLATIVE CLERK. At the proper place in the bill it is proposed to insert the following new section.

SEC. —. Nonbusiness casualty losses.

(a) Removal of limitation: Section 122 (d) (5) (relating to net operating loss deduction) is amended by inserting after "Deductions" in the first sentence thereof a comma and the following: "other than deductions allowable under section 23 (e) (2) and (3)."

(b) Effective date: The amendment made by this section shall be applicable with respect to taxable years beginning after December 31, 1950.

Mr. CARLSON. Mr. President, this amendment treats casualty loss by individuals the same as capital loss with respect to the carry-over privilege for tax purposes.

Thousands of our citizens in the recent flooded areas of Kansas, Missouri, and Oklahoma have suffered casualty losses that reach as high as 100 percent. In my opinion, it is only fair that they should be given an opportunity to make adjustments in their tax returns on a carry-forward or carry-backward basis, the same as losses attributed to the operation of a trade or business.

The amendment does not restrict the privilege of a casualty loss carry-over to any designated disaster area, or to any particular disaster. It would make the privilege available to anyone, anywhere, in connection with any casualty loss.

In view of the extreme need for this amendment, I would urge that the Chairman of the Finance Committee, the Senator from Georgia [Mr. GEORGE], take it to conference.

Mr. GEORGE. Mr. President, I have given consideration to the amendment. It only gives to the people who have been unfortunate enough to sustain loss in the recent floods, after a certain date fixed in the amendment, loss carry-for-

ward and carry-back provisions. I cannot see that there is any injustice in the amendment. I shall be very glad to take it to conference. Of course, if there should appear in conference to be any substantial reason against the amendment on the ground of fairness, justice, or equity, I want to be free to vote against it. When ever I say that I shall take an amendment to conference, I always mean that I shall consider it as a bona fide approved amendment, unless something is developed in conference which had not been brought to my attention. I see no objection to the amendment, and I shall be glad to take it to conference.

Mr. CARLSON. I appreciate the fine statement of the distinguished chairman of the committee. I am confident, knowing him as I do, and being familiar with his splendid work on the committee and in the Senate, that he will give serious consideration to the amendment, and I am hopeful that the outcome will be satisfactory.

The PRESIDING OFFICER. Without objection, the amendment of the Senator from Kansas [Mr. CARLSON] is agreed to.

Mr. HENDRICKSON. Mr. President, I call up my amendment 9-20-51-E.

The PRESIDING OFFICER. The clerk will state the amendment.

The LEGISLATIVE CLERK. At the proper place in the bill, it is proposed to insert the following new section:

SEC. —. Exclusion from gross income of retired pay.

(a) Section 22 (b) (2) of the Internal Revenue Code (relating to exclusion from gross income of amounts received as annuities, etc.) is amended by adding at the end thereof of a new subparagraph as follows:

"(C) Exclusions: In the case of amounts received as a pension, retired or retirement pay, or a retirement annuity, so much of such pension, pay, or annuity received during the taxable year as does not exceed \$1,440 shall be excluded from gross income. For the purposes of the second sentence of subparagraph (A) and the first sentence of subparagraph (B) of this paragraph, the amounts received as an annuity which are excluded from gross income under this subparagraph shall not be considered in computing the amount 'received as an annuity,' or the 'amount received in the taxable year,' or the 'aggregate amount excluded from gross income under this chapter' or the 'amounts received under such contract.' Nothing in this subparagraph shall be deemed to require the inclusion in gross income of any amounts received during the taxable year which are excludable from gross income under other provisions of law."

(b) The amendment made by this section shall be applicable only with respect to taxable years beginning after December 31, 1950.

Mr. HENDRICKSON. Mr. President, I offer the amendment to the pending tax bill to correct an inequity and to afford relief to some of our aged retired. The amendment would exempt from income tax the first \$1,440 of all pensions paid. It is not designed to result in the payment of funds from the Treasury. Rather, it is designed to give a measure of tax relief to retired pensioners, and to give all of them the same benefits that are already being enjoyed by a large percentage of their number.

Mr. President, I think the American people are eminently fair and like to see all their fellow citizens treated alike. In my judgment this amendment will help much toward reaching that goal.

At the present time there are some thousands of retired school teachers, retired policemen, retired firemen, and other retired persons, who formerly were Federal, State, or local government employees, as well as participants in private retirement systems, who are living on pensions which usually are quite small. Frankly, Mr. President, in most instances they are so small that I do not know how such persons eke out an existence. They are having a very difficult time to make ends meet. In these days of inflation, when every necessity of life costs so much more than it did when their pension systems were drawn up, their problem is much more difficult.

In very many cases, the pensions now being paid are providing a great deal less than what we currently conceive to be a fair standard of living. This unfair condition exists because these pensioners have no powerfully organized voice in our legislative halls, as have those who are engaged in industry. For instance, labor is efficiently organized and is well able to protect the interests of its vast army of workers and to help secure for them a return which will keep pace with the rise in the cost of living. However, this same power is not available to the retired under pension programs.

The chances are, of course, very small that needed corrections can be made to all the various systems under which retirement annuities are being paid. Indeed, it could hardly be the function of Congress to add sufficiently to all annuities to restore to them the same purchasing power they once had. However, Congress can and should allow to them the same tax benefits which it allows to others who draw pensions from the Federal Treasury. For example, pensions paid under the Railroad Retirement Act are exempt from all Federal income taxes. Social-security pensions are exempt from all Federal income taxes. Pensions paid to war veterans or their families are exempt from all Federal income taxes. Why, then, should not retired school teachers, retired policemen, and retired firemen, and other Federal, State, and local employees, as well as participants in private pension systems, be entitled to the same consideration?

As an example of how this discrimination works, I call attention to the fact that, while a retired railway worker enjoys this tax relief for his pension, the retired railway postal employee, who may have worked right along with him, enjoys no such relief.

The purpose of my amendment is to do equity in a place where equity is badly needed. Is it too much to ask that the first \$1,440 of all pensions should be exempt? I think not, Mr. President.

Under this amendment, the loss to the Federal Treasury, in terms of the way the Federal Government now spends money, will be relatively minor, whereas

the relief granted in individual cases will be extremely helpful.

Let us not by the additional taxes currently under consideration impose new burdens which will further shrink the dwindling amount of the necessities of life which our workers of the past will be able to have. Let us help them, instead of hindering them.

I sincerely hope that my colleagues will give this very fair and very humane amendment the favorable consideration it deserves, and will vote for its adoption.

But, Mr. President, before the vote is taken, I ask the very distinguished and able chairman of the Finance Committee whether he will consider taking the amendment to conference.

Mr. GEORGE. Mr. President, I would not be able to take this amendment to conference. It has been voted on both in the Senate and recently in the House of Representatives; and it was voted down.

Although, of course, the amendment makes a considerable appeal, yet in view of the fact that both bodies of Congress have acted upon the amendment, and in view of other legislation which has been enacted, I would not be able to take the amendment to conference.

I shall have to suggest the absence of a quorum if the Senator from New Jersey desires to have a vote taken on the amendment at this time.

The PRESIDING OFFICER. Does the Senator from Georgia suggest the absence of a quorum?

Mr. GEORGE. Yes, if a vote is desired at this time. Otherwise I would wait a little while, in order to give Senators an opportunity to return from lunch.

Mr. MORSE. Mr. President, will the Senator from New Jersey permit me to ask a few questions for purposes of information?

Mr. HENDRICKSON. Yes, indeed.

Mr. MORSE. Do I correctly understand that the Senator's amendment seeks to exempt the first \$1,400—

Mr. HENDRICKSON. The first \$1,440.

Mr. MORSE. It seeks to exempt the first \$1,440 of pensions from the gross income of any person, when figured for income-tax purposes, does it?

Mr. HENDRICKSON. That is correct.

Mr. MORSE. Suppose Mr. X has a gross income of \$10,000. Would the Senator's amendment simply deduct from that \$10,000 the \$1,440 Mr. X receives from a pension, and make it nontaxable?

Mr. HENDRICKSON. That is as I understand the situation under the amendment.

Mr. MORSE. Does the Senator from New Jersey think that such an individual with a gross income of \$10,000 should have \$1,440 deducted for tax purposes?

Mr. HENDRICKSON. I believe so; yes.

Mr. MORSE. Is not the basis of the argument of the Senator from New Jersey, which he presented on the floor, and with which I am in a great deal of sympathy, his desire to protect the poor annuitant and the poor pensioner who finds it necessary to live on a very scanty pension? However, if his income

is \$10,000, of which \$1,440 is pension money, I do not see what justification there is for exempting his pension money from tax.

Mr. HENDRICKSON. Of course, the Senator realizes that all pensioners would have to be treated alike.

Mr. MORSE. That is the point I wish to discuss with the Senator from New Jersey.

Mr. HENDRICKSON. I tried to make clear that I do not think we can discriminate as between pensioners. I think the distinguished Senator from Oregon would find, if he made a survey of the situation, that the great majority of these pensioners have no such income as \$10,000 a year. A great many of them are living on a bare pittance.

Mr. MORSE. Mr. President, I make these very brief remarks on the principle involved in the Senator's amendment. I would say that I do not think our major concern should be with pensioners as such, but I believe our major concern should be with citizens who have such small incomes.

Mr. HENDRICKSON. I am perfectly willing to use the term "people of small incomes" for these fine citizens, who in many cases served their Government so well. I have no argument as to the term to be used.

Mr. MORSE. However, I wish to point out that the Senator's amendment does not draw that distinction, but is drawn up in terms of gross income. I am not willing to accept the generalization of the Senator from New Jersey that there are not a considerable number of persons in the United States who receive pensions and annuities and also have very substantial incomes. In view of the job in insurance work in the United States which I think some of the great insurance companies have done—and I believe it is a remarkable job—namely, the job of carrying the principle of private enterprise to the extent of getting people to plan for old age when they come of a certain age, so as to have an annuity accrue to them then, I do not think there should go along with it a Government program which offers exemptions in the case of annuities as an inducement to the sale of the policies. I do not think that would be a sound public policy.

What should concern us are our fellow citizens who are in such a low-income class that the application of a Federal tax would work a hardship upon them, regardless of whether they are pensioners or are not pensioners. What I am interested in is in knowing the total income of A, B, C, D, and the millions of other people who fall within the low-income bracket? But I think, Mr. President, and I say it most respectfully, that the distinction between annuitants and pensioners in the small-income group, on the one hand, and other people in the low-income group, is a rather artificial distinction.

I believe the sound principle for us to follow is to determine whether we have a fair tax structure applicable to people in the low-income groups, and as to them I would find myself very sympathetic toward giving consideration to the ques-

tion of whether the existing taxes on them ought to be reduced.

But I have serious doubt whether it is consistent with good public policy to be setting up what I consider to be a rather artificial class distinction, such as that set forth in the Senator's amendment. I do not see why annuitants and pensioners should be set aside in a class by themselves, unless the same class benefits which accrue to them are given generally to other Americans in the low-income bracket.

In my opinion we also need much more information than the Senator from New Jersey has given us in his presentation of his amendment, as to how many people who have gross incomes far in excess of \$1,440 would be benefited under the gross-income provision of his amendment. I do not see why they should receive the benefit of an exemption on \$1,440.

Mr. HENDRICKSON. Mr. President, will the Senator yield?

Mr. MORSE. I yield to the Senator from New Jersey.

Mr. HENDRICKSON. I gather from the remarks of the distinguished Senator from Oregon that in principle he is in favor of this amendment.

Mr. MORSE. In principle, I am in favor of seeing that we do justice to the people in the low-income brackets, including annuitants and pensioners.

Mr. HENDRICKSON. And, therefore, the Senator endorses the principle, does he not?

Mr. MORSE. I endorse the principle of providing tax relief for people whose income is so low that for the Federal Government to collect a tax from them would be very much a case of Shylock collecting his pound of flesh.

Mr. HENDRICKSON. If I were to modify this amendment so that it would apply only to net income, I wonder whether the Senator would then support it.

Mr. MORSE. I think the Senator from New Jersey would thereby greatly strengthen his amendment, and make me much more inclined to support it. But I do not happen to be one of those who, when a proposal for a substantial change in an amendment is made on the floor, would immediately commit themselves to saying that, if the change were adopted, they would support the amendment. I only say to the Senator from New Jersey that if he would talk to me in terms of net income, I should be much more inclined to go along with his amendment than I am at the present time.

Mr. HENDRICKSON. Then, Mr. President, I hope that the Senator will go along with the amendment. I now modify my amendment so that it will affect only the net income from pensions in the \$1,440 class.

The PRESIDING OFFICER. The amendment will be modified accordingly.

Mr. GEORGE. Mr. President, the Senator has a right to modify his amendment, but I may say I would still have to oppose it and suggest the absence of a quorum. I would say to the Senator, in view of the vote on this particular provision, which was taken this year in

the House Committee, on Ways and Means and in view of previous votes, on this provision, I have not the slightest idea that this amendment could ever be accepted.

I want to make this statement to the Senator. We have given to all people 65 years of age a double exemption, which applies to a person who has retired as well as one who is still working, so that a married man who is 65 years old, and has a wife who is 65 years old, receives exemptions of \$2,400. They have also the standard deduction of 10 percent of their entire gross. These allowances when taken together can amount to a considerable sum. So there is very little need for the relief in the lower brackets because there is little pension income in these brackets subject to tax.

The proposed amendment, of course, would give great relief to all people receiving pensions or retired pay or retirement benefits of \$10,000, \$15,000, \$20,000 a year. But it would cut into the revenue, and it does not seem to me that this is an adequate reason for urging this amendment at this time. I would hope that the Senator would not do so because we could not take it, and I would have to suggest the absence of a quorum.

Mr. HENDRICKSON. Mr. President, I ask for the yeas and nays.

The yeas and nays were not ordered.

Mr. IVES. Mr. President, before the yeas and nays are ordered and before the absence of a quorum is suggested, may I make a statement on this amendment.

The PRESIDING OFFICER. Does the Senator from New Jersey yield the floor?

Mr. HENDRICKSON. I yield the floor to the Senator from New York.

The PRESIDING OFFICER. The Senator from Georgia did not have the floor in his own right, did he, or did he?

Mr. GEORGE. I merely rose to suggest the absence of a quorum, if a vote is desired at this time.

The PRESIDING OFFICER. Does the Senator from Georgia yield, so that the Senator from New York may make a statement regarding the proposed amendment?

Mr. GEORGE. Oh, yes.

The PRESIDING OFFICER. The Senator from New York.

Mr. IVES. Mr. President, I would rather not trouble so many Senators by having them return to the floor before we get around to a vote. I, therefore, suggest that a quorum call be delayed. I merely want to concur in the proposal made by my distinguished colleague from New Jersey. I have made proposals of similar nature in the past two Congresses, and I wish to tell him that they were to no avail. That does not alter the fact that the principle involved is sound, and it does not alter the fact that we still have exceptions, some of which have been indicated, under the Railway Retirement Act, where the pensions or annuities up to a certain amount received by the pensioners or annuitants are exempt from taxation. It occurs to me, Mr. President, that sooner or later we must resolve this question one way or another. It is my understanding that the Joint Committee on Internal Revenue Taxation is studying this whole pen-

sion question. I would ask my distinguished colleague from Georgia whether I am wrong in that understanding.

Mr. GEORGE. It has been under study by the joint staff.

Mr. IVES. And it is likely to be under study in the future, as well as having been studied in the past, is it not?

Mr. GEORGE. It will be, yes. It has been studied, and one report has been made; but it will be studied further by the joint staff.

Mr. IVES. Has any report been made on a proposal such as the one made by the Senator from New Jersey?

Mr. GEORGE. Yes. According to my recollection, an adverse report was made by the staff of the joint committee, in which it was pointed out that since pension income was not unlike any other income, it would be better to allow an extra exemption for those over 65 from which everyone over that age might receive a benefit. As a result, we have given double exemptions to people over age 65.

Also, under another provision of this bill we are giving to every taxpayer—and it is done primarily to assist the people in the lower brackets—the benefit of a deduction for all medical, dental, and hospital expenses, without taking into consideration the 5 percent limitation on gross income which exists generally. As a result we have dealt liberally with persons who have reached the age of 65, and while some people do retire before that age, generally speaking a person who retires is around 65. When we consider the double exemption, and the benefit that he has been given to take care of his medical expenses without the 5 percent limitation, I believe that the pensioner who has a relative small pension is taken care of very well.

It is true that social-security payments, under interpretation by the Social Security Administrator, are not subject to tax. Also, there is a special provision in the Railroad Retirement Act that such retirement benefits are not subject to tax. But these are limited areas in which little or no tax would be due even without these exclusions. The provisions in this amendment would apply to all who receive retirement benefits, and we get into classes of persons with pretty large retirement benefits. To take off \$1,440 in addition to all the other deductions, exemptions, and exclusions virtually reduces the income of pensioners to where there will be very little tax collected. The amendment is estimated, very conservatively, to cost at least \$15,000,000 a year. Therefore, I would not be able to accept it.

Mr. IVES. Mr. President, I appreciate very much what the Senator from Georgia has just stated. However, I do want to point out, and I am sure the Senator from Georgia will agree with me, that it seems to be scarcely fair to have a condition in this country wherein certain pensions are exempt from taxation and other pensions are not.

Mr. GEORGE. I do agree.

Mr. IVES. The Senator from Georgia has cited two instances where such a condition pertains, and I think there are others.

Mr. GEORGE. I do agree, and that is why the staff has been giving study to it. It is hoped that we may have a uniform rule to apply to all pensioners. I fully agree with the Senator.

Mr. IVES. I thank the Senator from Georgia.

May I suggest at this point, in line with what the distinguished Senator from Georgia has stated, that the age of retirement under the various pension plans has been gradually dropping for one reason or another? For instance, in my own State a person in State service may retire at age 55 by paying a higher rate of contribution. It seems to me, in view of that circumstance—and I assume that it is only typical of what we may expect in the future throughout the country, because if the time ever comes again when there is serious unemployment, as may some time occur, we shall need to find new ways to take care of such a situation—in view of that circumstance, I repeat, it seems to me that it would be well in the study which is being made and which is likely to be made and which has been referred to in this colloquy, to consider a retirement system of that type which some time may be applied generally in this country. In other words, when a tax plan is finally evolved—for we cannot have this inequitable situation forever—with reference to a kind of retirement program in which the age of retirement is 55 instead of 65 years, it should treat fairly all pensioners and annuitants.

Mr. GEORGE. We certainly should have uniform treatment of all pensions or retirement benefits received. The Senator is quite correct. The staff has been making such a study. I hope the junior Senator from New Jersey and the senior Senator from New York, who have been very much interested in this subject, may not press the matter to a vote, because, under existing conditions, and in view of the House committee's action, I must say frankly that there would be only a very remote possibility of any agreement being reached on it at this time until a study has been finally completed.

Mr. HENDRICKSON. Mr. President, I should like to follow the suggestion of the distinguished Senator from Georgia, for whose judgment I have the greatest respect, but I think this amendment involves a principle which we ought to resolve now, and I feel that there should be a vote on the amendment.

Mr. IVES. Mr. President, if the Senator from New Jersey feels that he must press it, I shall certainly support his proposal, because fundamentally it is proper in the light of conditions which exist at the present time and which have been referred to in the discussion of the question.

Mr. GEORGE. Mr. President, I suggest the absence of a quorum.

Mr. HENDRICKSON. Mr. President, I ask for the yeas and nays.

The PRESIDING OFFICER. There is not a sufficient number of Senators present at this time to support the request of the Senator.

The clerk will call the roll.

The legislative clerk called the roll, and the following Senators answered to their names:

Aiken	Hayden	McKellar
Bennett	Hendrickson	McMahon
Benton	Hennings	Millikin
Bricker	Hickenlooper	Monroney
Bridges	Hill	Moody
Butler, Md.	Hoey	Morse
Butler, Nebr.	Holland	Mundt
Byrd	Humphrey	Murray
Cain	Hunt	Neely
Capehart	Ives	O'Connor
Carlson	Jenner	O'Mahoney
Case	Johnson, Colo.	Pastore
Clements	Johnson, Tex.	Robertson
Connally	Johnston, S. C.	Russell
Cordon	Kem	Saltonstall
Dirksen	Kerr	Schoeppel
Douglas	Kilgore	Smathers
Duff	Knowland	Smith, Maine
Dworshak	Lehman	Smith, N. J.
Eastland	Lodge	Sparkman
Eaton	Long	Stennis
Ellender	Magnuson	Taft
Ferguson	Malone	Underwood
Flanders	Martin	Watkins
Frear	Maybank	Welker
Fulbright	McCarran	Wiley
George	McCarthy	Williams
Gillette	McClellan	Young
Green	McFarland	

Mr. JOHNSON of Texas. I announce that the Senator from New Mexico [Mr. ANDERSON] is absent by leave of the Senate.

The Senator from New Mexico [Mr. CHAVEZ], the Senator from Tennessee [Mr. KEFAUVER], and the Senator from North Carolina [Mr. SMITH] are absent on official business.

Mr. SALTONSTALL. I announce that the Senator from Maine [Mr. BREWSTER] is absent on official business.

The Senator from Minnesota [Mr. THYE] is absent by leave of the Senate.

The Senator from New Hampshire [Mr. TOBEY] is absent because of illness.

The Senator from Nebraska [Mr. WHERRY] is necessarily absent.

The Senator from North Dakota [Mr. LANGER] and the Senator from California [Mr. NIXON] are detained on official business.

The PRESIDING OFFICER (Mr. MONRONEY in the chair). A quorum is present.

The question is on agreeing to the amendment offered by the Senator from New Jersey [Mr. HENDRICKSON].

Mr. HENDRICKSON. I ask for the yeas and nays.

The yeas and nays were ordered.

Mr. KERR. Mr. President, it is the hope of the committee that this amendment will not be agreed to. At the present time an additional exemption of \$600 a year for each taxpayer is made in the case of taxpayers 65 years of age and older. That means that in the case of a married couple 65 years of age or older \$2,400 of their income is already exempt from taxation.

In addition, 10 percent of whatever their income may be is exempt, up to 10 percent of the first \$10,000, as a standard deduction. That means that a couple with an income of \$5,000 a year, if they were 65 years of age or over, would have an exemption of \$2,900 at the present time. If the amendment of the Senator from New Jersey were agreed to, it would mean that there would be an additional exemption of \$1,440 a year, or a total of \$4,340 a year of the income of a man and his wife with an income of \$5,000.

The Forty-eighth Congress, in the Revenue Act, made provision for just such a situation as this. If the amendment of the Senator from New Jersey were adopted the Congress would now be giving a double exemption with reference to that part of the income of the taxpayer which is contemplated by the amendment of the Senator from New Jersey.

Mr. KNOWLAND. Mr. President, will the Senator yield for a question?

Mr. KERR. I yield.

Mr. KNOWLAND. I wish to obtain some light on this particular amendment, if possible.

Do I correctly understand that under the existing law those who come under the Railroad Retirement Act get such an exemption.

Mr. KERR. That is correct.

Mr. KNOWLAND. Is it correct to say that those who come under the social-security legislation nationally now get this exemption?

Mr. KERR. That is correct, but I know of no one who gets \$1,440 a year under it.

Mr. KNOWLAND. But that statement would not apply to those who come under the Railroad Retirement Act.

Mr. KERR. I cannot answer that question, but I think it would.

Mr. KNOWLAND. I came in a little late from a committee meeting, and did not hear all the argument of the Senator from New Jersey. Apparently what he is trying to do is to place those who are municipal, county, and school employees, and who come under the local retirement system, on a basis comparable with those coming under the Railroad Retirement Act and the Social Security Act. Is that a fair statement?

Mr. KERR. Under the amendment of the Senator from New Jersey the exclusion would apply to any pension or retirement pay, or retirement annuity. It is not limited to what the Senator has referred to at all.

Mr. HENDRICKSON. Mr. President, will the Senator yield for a question?

Mr. KERR. I yield for a question.

Mr. HENDRICKSON. It is true, is it not, that the majority of those who would be affected by this amendment are either retired teachers, policemen, firemen, or other Federal, State, or local government employees?

Mr. KERR. I do not think so at all. I do not believe that even percentage-wise they would represent anywhere near a third of those who would benefit by this amendment as it is written.

Mr. HENDRICKSON. The Senator from New Jersey disagrees with the Senator from Oklahoma on that score.

The PRESIDING OFFICER. The question is on agreeing to the amendment offered by the junior Senator from New Jersey. On this question, the yeas and nays have been ordered, and the clerk will call the roll.

The legislative clerk called the roll.

Mr. JOHNSON of Texas. I announce that the Senator from New Mexico [Mr. ANDERSON] is absent by leave of the Senate.

The Senator from New Mexico [Mr. CHAVEZ], the Senator from Tennessee [Mr. KEFAUVER], and the Senator from

North Carolina [Mr. SMITH] are absent on official business.

I announce further that if present and voting, the Senator from New Mexico [Mr. CHAVEZ], and the Senator from North Carolina [Mr. SMITH] would vote "nay."

Mr. SALTONSTALL. I announce that the Senator from Maine [Mr. BREWSTER] is absent on official business, and if present, he would vote "nay."

The Senator from Minnesota [Mr. THYE] is absent by leave of the Senate, and, if present, he would vote "nay."

The Senator from New Hampshire [Mr. TOBEY] is absent because of illness.

The Senator from Nebraska [Mr. WHERRY] is necessarily absent.

The Senator from North Dakota [Mr. LANGER] and the Senator from California [Mr. NIXON] are detained on official business.

The result was announced—yeas 36, nays 50, as follows:

YEAS—36

Bridges	Ives	McCarthy
Cain	Jenner	Moody
Douglas	Johnston, S. C.	Murray
Duff	Kem	Neely
Eaton	Kilgore	O'Connor
Ferguson	Knowland	O'Mahoney
Gillette	Lehman	Pastore
Green	Lodge	Saltonstall
Hendrickson	Long	Schoeppel
Hennings	Magnuson	Smith, Maine
Humphrey	Malone	Smith, N. J.
Hunt	McCarran	Welker

NAYS—50

Aiken	Flanders	McMahon
Bennett	Frear	Millikin
Benton	Fulbright	Monroney
Bricker	George	Morse
Butler, Md.	Hayden	Mundt
Butler, Nebr.	Hickenlooper	Robertson
Byrd	Hill	Russell
Capehart	Hoey	Smathers
Carlson	Holland	Sparkman
Case	Johnson, Colo.	Stennis
Clements	Johnson, Tex.	Taft
Connally	Kerr	Underwood
Cordon	Martin	Watkins
Dirksen	Maybank	Wiley
Dworshak	McClellan	Williams
Eastland	McFarland	Young
Ellender	McKellar	

NOT VOTING—10

Anderson	Langer	Tobey
Brewster	Nixon	Wherry
Chavez	Smith, N. C.	
Kefauver	Thye	

So Mr. HENDRICKSON's amendment was rejected.

MESSAGE FROM THE HOUSE—ENROLLED BILL SIGNED

A message from the House of Representatives, by Mr. Snader, its assistant reading clerk, announced that the Speaker had affixed his signature to the enrolled bill (S. 1786) for the relief of certain officers and employees of the Foreign Service of the United States who, while in the course of their respective duties, suffered losses of personal property by reason of war conditions and catastrophes of nature, and it was signed by the Vice President.

ENROLLED BILLS PRESENTED

The Secretary of the Senate reported that on today, September 26, 1951, he presented to the President of the United States the following enrolled bills:

S. 1349. An act to establish a Department of Food Services in the public schools of the District of Columbia, and for other purposes; and

S. 1786. An act for the relief of certain officers and employees of the Foreign Service of the United States who, while in the course of their respective duties, suffered losses of personal property by reason of war conditions and catastrophes of nature.

S. 2006. An act to increase the lending authority of Export-Import Bank of Washington and to extend the period within which the Bank may make loans.

REVENUE ACT OF 1951

The Senate resumed the consideration of the bill (H. R. 4473) to provide revenue, and for other purposes.

Mr. IVES. Mr. President, I call up my amendment 7-25-51-I. I ask unanimous consent that the reading of the amendment be dispensed with, and that it be incorporated in the RECORD at this point in my remarks.

The PRESIDING OFFICER. Without objection, it is so ordered.

The amendment offered by Mr. IVES is as follows:

At the proper place in the bill insert the following:

"SEC. —. Restricted retirement funds.

"(a) Exclusion of portion of income paid to a restricted retirement fund: Section 22 (relating to the definition of gross income) is amended by adding at the end thereof the following new subsection:

"(p) Contributions to a restricted retirement fund:

"(1) General rule: In the case of an individual, there shall be excluded from gross income the portion of income for any taxable year paid within such year to a restricted retirement fund. Such portion of income shall be taxable at the time and in the manner provided in section 173.

"(2) Limitation: The total amount excludible under paragraph (1) for any taxable year shall not exceed 10 percent of the taxpayer's earned net income, or \$7,500, whichever is the lesser, minus any amounts contributed during such taxable year by an employer of the taxpayer—

"(A) to or under a plan meeting the requirements of section 165, or

"(B) toward the purchase of an employees annuity contract described in the first sentence of subsection (b) (2) (B) of this section.

"(3) Definition of restricted retirement fund: For definition of "restricted retirement fund" see section 173 (b).

"(4) Definition of earned income, etc.: For the purposes of this subsection—

"(A) "earned income" means wages, salaries, and professional fees, other amounts received as compensation for personal services actually rendered, income from any literary, musical, or artistic composition created by the taxpayer, and income from a copyright on such a literary, musical, or artistic composition, but does not include any amount not included in gross income (computed without reference to this subsection), nor that part of the compensation derived by the taxpayer for personal services rendered by him to a corporation which represents a distribution of earnings or profits rather than a reasonable allowance as compensation for the personal services actually rendered;

"(B) "earned income deductions" means such deductions as are allowable by section 23 for the purpose of computing net income and are properly allocable to or chargeable against earned income;

"(C) "earned net income" means the excess of the amount of earned income over the sum of the earned income deductions; and

"(D) in the case of an individual proprietor or member of a partnership who performs personal services in the business of

such proprietorship or partnership, the portion of the profits attributable to his personal services shall be deemed "earned income"; and in the case of a taxpayer engaged in a trade or business in which both personal services and capital are material income-producing factors, the determination of the portion of the profits, attributable to personal services shall be made under regulations prescribed by the Secretary.

"(5) Consent by taxpayer: This subsection shall be applicable only to a taxpayer who files with the Commissioner, in such manner, in such form, and within such time as the Secretary may by regulations prescribe, a consent to have taxed in the manner provided in section 173 the portion of income excluded from gross income under paragraph (1).

"(b) Inclusion in gross income on annuity payments received from a restricted retirement fund: Section 22 (b) (2) (relating to annuities) is amended by adding at the end thereof the following new subparagraph:

"(C) Restricted retirement annuities: If an annuity contract is purchased by a trustee for an individual under a plan with respect to which section 173 is applicable, such individual shall include in his income the amounts received under such contract for the year received; and for the purposes of this chapter such annuity contract shall be deemed to have a basis of zero."

"(c) Restricted retirement funds: Supplement E of chapter 1 (relating to the taxation of estates and trusts) is amended by adding at the end thereof the following new section:

"SEC. 173. Restricted retirement funds.

"(a) Exemption from tax: A restricted retirement fund shall not be taxable under this supplement and no other provision of this supplement shall apply with respect to such fund.

"(b) Definition of restricted retirement fund: For the purposes of this chapter a "restricted retirement fund" means a trust forming part of a retirement plan set up by a bona fide agricultural, labor, business, industrial, or professional association or similar organization, for the exclusive benefit of its participating members for the purpose of distributing to such members or their beneficiaries the corpus, profits, and earnings of the trust accumulated by the trust in accordance with the plan if under the plan and the trust instrument—

"(1) the interest of any participating member is nonassignable, except as to his right—

"(A) to designate one or more beneficiaries to receive any interest in the trust to which he may be entitled at his death; and

"(B) to elect a survivorship option under any annuity contract through which his interest in the trust may be distributed;

"(2) the designation of a trustee or successor trustee is restricted to a bank (as defined in section 104), and the trustee is authorized and directed to invest the assets of the trust in securities which are legal for the investment of trust funds by such bank;

"(3) except in case of his total and permanent disability (which shall be certified to the trustee by affidavit of a licensed physician), the distribution of the interest of any participating member in the trust may not be made to him during his lifetime at a date commencing earlier than his age 60 and under one or more of the following optional methods of distribution to be elected by him—

"(A) in a lump sum;

"(B) in annual installments of a designated amount over a period of years; or

"(C) by the purchase by the trustee, in the name of the participating member, of

one or more single premium noncommutable life annuity contracts (with or without a guaranteed minimum payment and with or without a survivorship option).

"(c) Taxability of beneficiary: The amount actually distributed or made available to any distributee under a restricted retirement fund under the option described in subsection (b) (3) (C) shall be taxable to him under the provisions of section 22 (b) (2) (C), and the amount actually distributed or made available to any such distributee under one of the options described in subsections (b) (3) (A) or (B) shall be taxable to him, in the year in which so distributed or made available, under the provisions of section 22 (b) (2) (C) as if it were an annuity under an annuity contract taxable under such section, except that if the entire interest is distributed in a lump sum under the option described in subsection (b) (3) (A) it shall be considered a gain from the sale or exchange of a capital asset held for more than 6 months."

"(d) Effective date: The amendments made by this section shall be applicable with respect to taxable years beginning after December 31, 1950."

Mr. IVES. Mr. President, on July 25 I submitted this amendment to House bill 4473, and the amendment was printed and ordered to lie on the table. Its purpose is to encourage savings for retirement through restricted retirement funds, particularly for groups, principally self-employed, not presently covered by retirement plans. However, any member of a bona fide professional, business, agricultural, or labor organization, even if covered by an existing plan, could participate. The amendment would permit any participant to contribute annually, tax free, to an approved retirement fund 10 percent of income or \$7,500, whichever is less. A tax would be levied when benefits were received, rather than when contributions were made. Thus, savings for retirement would be encouraged.

I submitted the amendment primarily to obtain committee consideration of the basic principle involved.

It is now my understanding that the Senate Finance Committee has considered the amendment, but has deferred action without prejudice. I further understand that a study was found to be necessary, principally because no estimate of revenue loss is available.

I hope very much that further study of this matter will be made by the Joint Committee on Internal Revenue Taxation, in connection with the over-all study on existing pension plans, which I understand it is making.

To fit this amendment into existing pension plans, some fair ceiling on annual tax-free contributions must be determined. I was keenly aware of this problem when I submitted the amendment and arbitrarily chose the \$7,500 figure, which I believe is too high. At that time I directed my staff to survey existing pension system, to determine at what peak tax-free contributions have been permitted under both private industrial pension systems and various State and Federal plans.

Mr. President, I ask unanimous consent that the results of these studies be incorporated in the body of the RECORD at this point as part of my remarks.

There being no objection, the matter referred to was ordered to be printed in the RECORD, as follows:

EXHIBIT I

Survey included some 500 plans; this is random cross section of privately financed industrial pension plans, top salaries.

Compensation and payment to pension plan (by companies and individuals), 1950¹

Name of company, officer, etc.	Compensation	Payment to pension plan	
		By individual	By company (tax-free)
Standard Oil Co. of New Jersey:			
Eugene Holman, president and director.	\$186,013	(?)	\$23,905
18 officers and directors.	1,738,777	(?)	239,833
Goodyear Tire & Rubber Co.:			
P. W. Litchfield, chairman of board.	125,000	(?)	11,982
All officers and directors (no number given).	1,011,310	(?)	106,016
United States Steel Corp.:			
B. F. Fairless, president.	213,960	\$6,035	8,931
All officers and directors (no number given).	983,430	19,510	28,874
General Motors:			
Charles E. Wilson, president.	\$363,795	10,190	25,850
62 officers and directors.	\$6,572,345	170,815	362,893

¹ Compensation is comprised of salaries, fees, commissions, bonuses, shares in profits, thrift-account payments, payments in stock or in kind, etc., but does not include indeterminate benefits such as option in stock or pension payments by the company for the benefit of its officers and directors.

² Makes payment but amount not available.

³ Plus 1,358 shares of General Motors stock valued at \$45.07 per share which equals \$60,205.

⁴ Plus 33,995 shares of General Motors stock valued at \$45.07 per share which equals \$1,532,155.

Source: Securities and Exchange Commission.

General Motors Corp., notice of special meeting of stockholders to be held September 27, 1950:

ESTIMATED PENSION BENEFITS OF CERTAIN DIRECTORS AND OFFICERS

With respect to such of those persons who were directors of the corporation at any time during 1949 and who will be entitled to participate in the revised salaried program, including the three highest paid officers of the corporation during such year, and whose aggregate remuneration for 1949 was in excess of \$25,000, the table below shows the portion of the total contribution by the corporation in 1949 for future service benefits under the present retirement plan, such portion being the same as the amount which would have been contributed by the corporation under the contributory part of the revised salaried program if it had been in effect during that year. There are also shown the contributions made by the participating directors during 1949. As pointed out on page 17, under the noncontributory part of the pension program the corporation's contributions are not susceptible of meaningful determination in respect of individual persons. With respect to the individuals named in the table, Ormond E. Hunt and Bayard D. Kunkle had accrued benefits under the present retirement plan and service pension plan at the time of their retirement from active service in 1949 equivalent to \$8,044 per year and \$9,330 per year, respectively, and these benefits will not be changed under the revised salaried program; in the cases of the other individuals named, it is not possible to determine who will eventually receive benefits under the revised salaried program or, with respect to those who will receive retirement benefits, what the amount of the retirement benefits will be. However, there are shown in the table the annual benefits estimated to be payable under the revised salaried program based on the assumptions that (a) the employee will survive and continue in the employ of the corporation until automatic retirement age and will be otherwise qualified under the terms and conditions of the program at that time, (b) his salary will

continue at the current rate, and (c) he will continue to contribute under the terms and conditions of the revised salaried program as long as he is eligible to do so.

Name ¹	Contributory part of salaried program		Estimated annual retirement benefit under revised salaried program
	Contribution by director in 1949	Attributable portion of total contribution by corporation in 1949 for future service retirement benefits, tax-free annual contribution under sec. 165 IRC	
Albert Bradley	\$7,850	\$18,609	\$40,000
Francis L. Burke	4,350	8,928	35,808
Marvin E. Coyle ²	27,350	21,348	12,094
Harlow H. Cur-tice	7,350	15,825	40,000
Frederic G. Donner	5,850	8,383	40,000
Ronald K. Evans	5,850	15,315	25,882
Louis C. Goad	5,850	8,760	40,000
Edward R. Godfrey	4,350	10,834	30,520
Ormond E. Hunt	5,513	14,733	8,044
Bayard D. Kunkle	600	1,748	9,330
John J. Schumann, Jr.	3,663	9,593	21,112
Charles E. Wilson	9,850	24,531	40,000

¹ The positions occupied by the directors are listed in the table commencing on p. 5 of this proxy statement.

² Marvin E. Coyle did not participate in the present retirement plan, when eligible. Under the revised salaried program, Mr. Coyle will be eligible to commence contributing on Oct. 1, 1950. The 1949 contribution figures shown, and the estimated annual retirement benefits to which he would be entitled, are based on the assumption that Mr. Coyle will participate in the contributory part of the revised salaried program commencing Oct. 1, 1950. In the event that Mr. Coyle should elect not to contribute under the revised salaried program he will be entitled upon retirement at age 65 to the minimum benefit under the program described in par. 2 (a) on p. 11.

EXHIBIT II.—The Library of Congress Legislative Reference Service

TYPICAL MAXIMUM CONTRIBUTIONS AND BENEFITS OF REPRESENTATIVE RETIREMENT PLANS, RAILROAD, BANK, STATE, CIVIL SERVICE, CONGRESSIONAL

Plan	Employer's maximum annual tax-free contribution per person	Employee's maximum contribution	Contribution rates	Benefit formula
Railroad retirement	\$216	\$216	6 percent each by employer and employee (total 12 percent) on income up to \$3,600 a year (to increase to 6½ percent each in 1952).	Years of service times the sum of 2.4 percent of the first \$50 of the average monthly wage, 1.8 percent of the next \$100, and 1.2 percent of the next \$150. Maximum benefit, \$1,728.
Typical independent plan for a large bank. ¹	\$2,500 on \$50,000 salary; \$3,750 on \$75,000 salary.	\$2,440 on \$50,000 salary; \$3,690 on \$75,000 salary.	Employee contributes 3 percent of first \$3,000, 5 percent of excess salary. Employer adds entire cost of past service plus 5 percent of salary for future service.	Whatever fund will provide. Maximum pension, \$6,000.
New York State plan ²	\$2,523 on \$30,000 salary paid to judges of the intermediate appellate court at rate of 8.411 percent per year.	\$5,040 on \$30,000 salary	Employee rate depends upon age, sex and occupation—varies.	Approximately 1.70 of average salary per years of service at age 60, or 1/60 of average salary per years of service at age 55, depending upon plan selected by employee and amount accumulated.
Louisiana State Employees' Retirement System.	State supplies balance to guarantee benefits.	\$840 compulsory, \$560 voluntary; \$1,400 total on salary of \$14,000 paid to judges in the State's highest court.	6 percent of salary. Employees may make voluntary contributions up to 10 percent of gross compensation to purchase larger annuity. ³	Approximately 1½ percent of average salary per years of service (salary base being average for highest 5-year consecutive period). ⁴
Civil Service retirement	\$6,563.62 supplied as part of the annual appropriation of the Federal Government to cover guaranteed benefits. Presupposes a hypothetical cabinet officer, who receives a retirement annuity for 15 years. ⁵	\$1,350 compulsory, \$2,250 voluntary; \$3,600 total on \$22,500 salary of cabinet officers.	6 percent of total wages by employees; an additional voluntary contribution up to 10 percent of salary.	Years of service times the greater of 1 percent of salary plus \$25 on salaries up to \$5,000 (or 1½ percent of salaries above \$5,000) of employee's highest 5-year average basic salary, but not to exceed 80 percent of the average for those years.

¹ Mountjoy, Edgar E. Principal features of retirement pension plans sponsored by State bankers associations. In Banking, vol. 42, December 1949:80-81.

² The Book of the States, 1950-51. Chicago, 1950, vol. VIII, p. 217.

³ Ibid., p. 217.

⁴ Department of Research, Association of Casualty and Surety Companies. Government insurance in the United States (New York) 1950:89.

⁵ Since the Government's share of the contribution is made through annual appropriation in an amount to guarantee benefits, rather than in the form of a joint-contribution established to set up a special trust fund, it follows that the Government's contribution is geared to the number of years of retirement payments, rather than to the employee's contribution during his working years. In the above figure, the following assumptions are made: The retired man had 20 years of Government service on July 31, 1951, of which 15 were at a salary of \$10,000, and 5 years were in the cabinet at a salary of \$22,500. When he retired at age 65 he had made a total contribution of \$38,431.25 of which \$26,250 was in the form of voluntary contributions. He is thus entitled to an annual annuity of \$9,112.50 which he receives for a total of 15 years—or until his death at age 80. The total cost to the Government of meeting this guaranteed benefit amount would be \$98,456.25 after the amount of his contribution had been deducted. Prorated for 15 years, this cost would come to \$6,563.62 annually for this period.

EXHIBIT II.—The Library of Congress Legislative Reference Service—Continued

Plan	Employer's maximum annual tax-free contribution per person	Employee's maximum contribution	Contribution rates	Benefit formula
Retirement plan for Members of Congress.	\$6,439.28 supplied as part of the annual appropriation made by the Federal Government to cover guaranteed benefits. Presupposes a hypothetical Vice President or Speaker who receives a retirement annuity for 15 years. ⁶	\$1,800 compulsory, \$2,000 voluntary; \$4,800 total on \$30,000 salary of Vice President and Speaker of House.	Same as above.....	Years of service times 2½ percent of average salary as a Member, but may not exceed 75 percent of last salary.

⁶ Method of meeting benefit guaranties same as those described for civil service retirement in the preceding footnote. This hypothetical contribution by the Government presupposes a Vice President of Speaker of the House who has met all of his retirement obligations for 15 years of service in this office prior to retirement at age 65 on July 31, 1951. His total contribution was \$40,879.45 of which \$27,319.45 were in the form of voluntary contributions. He is thus entitled to an annual annuity of \$8,164.58, which he receives for a total of 15 years—or until his death at age 80. The total cost of the Government of meeting the guaranteed benefit amount would be \$96,589.25 after the amount of his contribution had been deducted. Prorated for the 15 years of retirement, this cost was come to \$6,439.28 annually for this period.

Mr. IVES. Mr. President, in this connection, I refer to four exhibits which appear in the insertion.

Exhibit 1 presents a survey based on a study of some 500 industrial plans. It contains an outline of four typical industrial retirement plans, while one executive pension plan—for the General Motors Corporation—is detailed.

Exhibit 2 sets forth maximum tax-free contributions under the railroad retirement plan, the retirement plan of a

typical bank, and the New York and Louisiana State retirement plans, as well as the Federal Civil Service and Congressional pension systems.

I trust that the tables presented may be of assistance to the committee and its staff in the consideration of this problem.

In determining a fair ceiling on annual tax-free contributions under this amendment, the committee will probably also consider the present pattern

of income and savings distribution. These factors are important because the fairness of this amendment can be judged by the number of persons able to make the maximum annual contribution it allows.

Mr. President, in this regard I request to have printed at this point some further data gathered by my staff.

There being no objection, the matter referred to was ordered to be printed in the RECORD, as follows:

EXHIBIT III.—1950 Survey of Consumer Finances, Federal Reserve Board

DISTRIBUTION BY 1948 INCOMES OF SPENDING UNITS WITHIN 1949 INCOME GROUPS¹

1948 annual money income before taxes	Percentage distribution of spending units within 1949 income groups							
	All spending units	Under \$1,000	\$1,000 to \$1,999	\$2,000 to \$2,999	\$3,000 to \$3,999	\$4,000 to \$4,999	\$5,000 to \$7,499	\$7,500 and over
Under \$1,000.....	14	67	18	5	1	1	(2)	-----
\$1,000 to \$1,999.....	15	12	50	16	3	1	2	-----
\$2,000 to \$2,999.....	20	5	13	54	23	7	2	-----
\$3,000 to \$3,999.....	18	2	4	13	53	29	8	1
\$4,000 to \$4,999.....	10	(2)	1	2	10	39	22	4
\$5,000 to \$7,499.....	8	1	1	1	2	11	50	19
\$7,500 and over.....	4	(2)	(2)	-----	(2)	1	5	65
Not ascertained.....	11	13	13	9	8	11	11	11
All income groups.....	100	100	100	100	100	100	100	100
Number of cases.....	3,512	479	604	672	615	397	437	269

¹ Based on reports of spending units interviewed early in 1950 (fifth survey) concerning annual incomes in both 1948 and 1949. As shown in the table, the 1948 income of ¼ of all spending units could not be determined at the beginning of 1950.

² Less than ½ of 1 percent.

PROPORTION OF TOTAL MONEY INCOME RECEIVED BY EACH TENTH OF THE NATION'S SPENDING UNITS WHEN RANKED BY SIZE OF INCOME, 1949, 1948, 1947, AND 1946¹

Spending units ranked according to size of income	Percentage of total money income before taxes								Lowest income within group			
	By each tenth				Cumulative							
	1949	1948	1947	1946	1949	1948	1947	1946	1949	1948	1947	1946
Highest tenth.....	30	23	33	32	30	23	33	32	\$5,800	\$6,000	\$5,700	\$4,850
Second.....	15	15	15	15	45	46	48	46	4,500	4,500	4,200	3,750
Third.....	12	12	12	12	58	58	60	58	3,760	3,750	3,500	3,100
Fourth.....	11	10	10	10	68	68	70	69	3,200	3,200	3,000	2,700
Fifth.....	9	9	9	9	78	76	78	77	2,700	2,840	2,530	2,300
Sixth.....	8	8	7	7	85	84	86	85	2,290	2,400	2,100	2,000
Seventh.....	6	6	6	6	91	90	91	91	1,810	2,000	1,700	1,500
Eighth.....	5	5	4	5	96	95	96	95	1,280	1,500	1,200	1,150
Ninth.....	3	3	3	3	99	99	99	99	710	860	750	700
Lowest tenth.....	1	1	1	1	100	100	100	100	(3)	(2)	(2)	(2)

¹ Income data for each year are based on interviews during January, February, and early March of the following year. It is possible that the proportion of income received by the highest tenth of income receivers is underestimated by several percentage points in all years. Samples of approximately 3,500 spending units having been used in these 3 surveys, it cannot be expected that a completely representative sample of the highest dollar incomes was obtained.

² Revised.

³ Not available from survey data.

NOTE.—Detailed figures may not add to cumulative figures because of rounding.

EXHIBIT IV.—1950 Survey of Consumer Finances, Federal Reserve Board

PROPORTION OF TOTAL MONEY INCOME, POSITIVE SAVING, NEGATIVE SAVING, AND NET SAVING ACCOUNTED FOR BY EACH TENTH OF THE NATION'S SPENDING UNITS WHEN RANKED BY SIZE OF INCOME¹

Spending units ranked according to income	Percentage of total accounted for by each tenth															
	Money income ²				Positive saving ³				Negative saving ⁴				Net saving ⁵			
	1949	1948	1947	1946	1949	1948	1947	1946	1949	1948	1947	1946	1949	1948	1947	1946
Highest tenth.....	30	31	33	32	47	45	52	44	9	14	19	6	105	78	77	63
Second.....	15	15	15	15	15	15	14	15	9	11	11	12	26	19	16	16
Third.....	12	12	12	12	10	11	8	12	8	9	10	7	13	15	6	14
Fourth.....	11	10	10	10	8	8	7	8	8	9	10	11	8	6	6	7
Fifth.....	9	9	9	9	7	7	6	6	10	7	11	11	1	6	3	4
Sixth.....	8	8	7	7	5	5	5	5	8	9	6	13	(7)	2	4	1
Seventh.....	6	6	6	6	4	4	4	4	9	8	5	8	-4	-1	2	2
Eighth.....	5	5	4	5	2	2	2	3	9	7	7	7	-8	-3	-1	1
Ninth.....	3	3	3	3	2	2	1	2	7	9	6	12	-6	-5	-2	-3
Lowest tenth.....	1	1	1	1	(7)	1	1	1	23	17	15	13	-35	-17	-11	-5
All units.....	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100

¹ Income and saving data for the postwar years are based on interviews in January-March of each succeeding year. The figures in this table cannot be used to measure precisely changes in income and saving because of the limited size of the sample. However, it is believed that the data show with reasonable accuracy the nature of certain broad changes which occurred in the pattern of income and saving during these years. The surveys for 1946 through 1949 also differ somewhat in their definitions of saving, as discussed in appendix I to this article.

² Annual money income before taxes.

³ Positive saving comprises the saving of all spending units with money incomes in excess of expenditures.

⁴ Negative saving comprises the dissaving of all spending units with expenditures in excess of money income.

⁵ Net saving (plus or minus) is positive saving less negative saving for the combination of all units in each income decile.

⁶ Revised from data presented in the Federal Reserve Bulletin, January 1950, table 10, p. 23.

⁷ Less than ½ of 1 percent.

Mr. IVES. Mr. President, exhibit No. 3 outlines the present pattern of income distribution in this country. It shows how many people earned how much.

Exhibit 4 shows which income group has saved the most and, therefore, which income groups would be most likely to utilize whatever maximum contribution the committee may decide should be allowed.

Mr. ROBERTSON. Mr. President—

Mr. IVES. Mr. President, does the Senator from Virginia desire to have me yield to him?

Mr. ROBERTSON. No, Mr. President; I do not wish to interrupt my distinguished colleague from New York. I am seeking recognition in my own right.

Mr. IVES. Mr. President, in order that the distinguished Senator from Virginia may have recognition, I now withdraw the amendment.

The PRESIDING OFFICER. The amendment submitted by the Senator from New York is withdrawn.

Mr. ROBERTSON. Mr. President, I submit an amendment to the committee amendment on page 233, in line 11, which I send to the desk and ask to have stated.

The PRESIDING OFFICER. The amendment to the committee amendment will be stated.

The LEGISLATIVE CLERK. In the committee amendment on page 233, in line 11, it is proposed to strike out "a tax of 18 cents per pound" and insert in lieu thereof "a tax of 10 cents per pound."

Mr. ROBERTSON. Mr. President, the purpose of this amendment is to put smoking tobacco which is made out of burley tobacco back into the same category in which it has been ever since 1919, when it was included by the Treasury Department in the same category with snuff, plug tobacco, twist, loose cut, and scrap-chewing, at 18 cents a pound.

In the current bill all others in this category have been reduced to 10 cents a

pound. This amendment is merely for the purpose of keeping the ancient classification and putting pipe tobacco in the same category with the other types, at 10 cents a pound.

In the past 10 years the consumption of pipe tobacco has decreased 47 percent. If that rate of decline continues for another 5 years, the manufacturers of pipe tobacco will be out of business.

However, the concern of the Senators from Virginia and of our distinguished colleagues from Kentucky is primarily for the farmers who raise the Burley tobacco.

Mr. MAYBANK. Mr. President, will the Senator yield?

Mr. ROBERTSON. I yield.

Mr. MAYBANK. Would the amendment in any way have an effect upon bright-leaf tobacco?

Mr. ROBERTSON. The amendment would have no effect at all on that type of tobacco.

Mr. MAYBANK. I thank the Senator.

Mr. ROBERTSON. Mr. President, it might be said, "Just let the farmers who now are raising burley tobacco raise the type of tobacco which is flue-cured." However, Mr. President, that type of tobacco can be raised only in light, sandy, porous soil. Or it might be said, "Let those farmers raise dark-fired tobacco." However, that type of tobacco can be raised only on the heavy, red-clay soil.

Mr. President, Burley tobacco is raised chiefly in the bluegrass regions, the limestone regions.

I have been happy to hear from the chairman of the committee that he is willing to take the amendment to conference.

The PRESIDING OFFICER. The question is on agreeing to the amendment of the Senator from Virginia [Mr. ROBERTSON] to the committee amendment on page 233, in line 11.

Mr. MILLIKIN. Mr. President, I am glad to hear that the distinguished chairman of the committee is willing to

take the amendment to conference. I join heartily in that decision.

Mr. GEORGE. Mr. President, I am willing to take the amendment to conference. It opens up the matter in conference; and since we have reduced the duties upon chewing tobacco, twist, plug, and on snuff, I believe, perhaps this type of tobacco should be kept in the same category; and I am entirely willing to take the amendment to conference.

Mr. DOUGLAS. Mr. President, a parliamentary inquiry.

The PRESIDING OFFICER. The Senator will state it.

Mr. DOUGLAS. Let me ask what loss of revenue the amendment would involve.

Mr. ROBERTSON. The immediate loss is \$11,500,000; but if the business of the manufacturers of pipe tobacco continues to decline as it has been declining, that industry will be wiped out and will be out of business, and then the farmers who raise that type of tobacco will be gone at the same time.

The PRESIDING OFFICER. The question is on agreeing to the amendment of the Senator from Virginia [Mr. ROBERTSON].

The amendment was agreed to.

Mr. DOUGLAS. Mr. President, I should like to call up my amendment 9-22-51-3, and I send it to the desk. I ask that the reading of the amendment be dispensed with, but I call attention to the fact that minor changes have been made on pages 3, 5, 12, and 21, which do not however alter the purpose or content of the amendment, but which are merely designed to avoid certain technical difficulties.

The PRESIDING OFFICER. Without objection, the amendment will be printed in the RECORD at this point without without reading.

The amendment offered by Mr. DOUGLAS (for himself, Mr. MORSE, Mr. LEHMAN, Mr. KEFAUVER, Mr. BENTON, Mr. HUMPHREY, Mr. LANGER, Mr. NEELY. Mr.

GREEN, Mr. KILGORE, and Mr. MAGNUSON) is as follows:

On page 349, immediately after line 9, insert the following new title:

"WITHHOLDING ON DIVIDENDS AND CORPORATE BOND INTEREST

"TITLE VII—COLLECTION OF INCOME TAX AT SOURCE ON DIVIDENDS AND CORPORATE BOND INTEREST

"SEC. 701. Collection of income tax at source on dividends and interest.

"Subtitle B of the Internal Revenue Code is hereby amended by inserting before chapter 7 the following new chapter:

"CHAPTER 6—COLLECTION OF INCOME TAX AT SOURCE ON DIVIDENDS AND INTEREST

"SEC. 1200. Definitions.

"As used in this chapter—

"(a) Dividend: The term "dividend" means—

"(1) any distribution by a corporation which is a dividend as defined in section 115 (a); and

"(2) a payment made by a stockbroker to any person as a substitute for a dividend (as defined in sec. 115 (a)) upon which a tax is required to be deducted and withheld under this chapter.

"(b) Interest: The term "interest" means interest on all bonds, debentures, notes, certificates, or other evidences of indebtedness, issued by any corporation, with interest coupons or in registered form;

"(c) Taxable year: The term "taxable year" shall have the same meaning as when used in chapter 1.

"(d) Person: The term "person" includes any government or political subdivision, or agency or instrumentality thereof.

"(e) Nonresident alien: The term "nonresident alien individual" includes an alien resident in Puerto Rico.

"SEC. 1201. Income tax collected at source.

"(a) Requirement of withholding: Every person making payment after December 31, 1951, of a dividend or interest shall deduct and withhold upon such dividend or interest a tax equal to 20 percent of the amount thereof. If the withholding agent is unable to determine the person to whom the dividend or interest is payable, such tax shall be deducted and withheld at the time payment thereof would be made if such person were known. For certain exemptions from withholding, see section 1202.

"(b) Withholding where amount of dividend is unknown: If the withholding agent is unable to determine the portion of a distribution which is a dividend, the tax required to be deducted and withheld under this chapter shall be computed on the entire amount of the distribution.

"(c) Indemnification of withholding agent: A withholding agent shall not be liable, except as provided in section 1203, to any person for the amount of any tax required to be deducted and withheld under this subchapter.

"(d) Credit for tax withheld: For credit, against the income tax of the recipient of the income, of amounts required to be deducted and withheld under this subchapter, see section 35.

"SEC. 1202. Exemptions from withholding.

"The provisions of this chapter shall not apply to—

"(a) A dividend paid in the stock or rights to acquire the stock of the distributing corporation, whether or not the recipient of such stock or rights had an option to be paid in money, or other property, in lieu of such stock or rights.

"(b) Distributions (other than capital gain dividends described in section 362 (b) (7)), to shareholders which are treated under chapter 1 as amounts received upon the sale

or exchange of property, or distributions with respect to which gain or loss is not recognized under chapter 1 to the shareholders.

"(c) Any amount which is includible in gross income as a taxable dividend under the provisions of section 112 (c) (2) (relating to certain distributions made in pursuance of a plan of reorganization), section 115 (g) (relating to redemptions of stock), or section 371 (e) (2) (relating to certain distributions pursuant to the order of the Securities and Exchange Commission).

"(d) A dividend paid by a Federal Reserve bank, Federal land bank, Federal home loan bank, Central Bank for Cooperatives, or bank for cooperatives.

"(e) Any interest which, irrespective of the person to whom payable, is wholly exempt from the tax imposed by chapter 1.

"(f) Dividends or interest paid by a corporation to another corporation if both corporations are members of the same affiliated group which filed a consolidated return under chapter 1 for the preceding taxable year of the payor corporation.

"(g) Dividends or interest paid by a corporation to one or more (1) governments, (2) political subdivisions thereof, (3) international organizations, or (4) wholly owned instrumentalities or agencies of the foregoing, if the entire class of stock in respect of which such dividend is paid, or the entire class of obligations in respect of which such interest is paid, is owned by one or more of such governments, subdivisions, organizations, instrumentalities, or agencies.

"(h) Interest on equipment trust certificates.

"(i) Dividends or interest paid by a foreign corporation, a nonresident alien individual, any partnership not engaged in trade or business within the United States and composed in whole or in part of nonresident aliens, or by an international organization.

"(j) (1) Any payment of a dividend or interest (except coupon bond interest) to (A) a foreign corporation not engaged in trade or business within the United States, (B) a nonresident alien individual, (C) any partnership not engaged in trade or business within the United States and composed in whole or in part of nonresident aliens, or (D) any foreign government or international organization.

"(2) Any payment of coupon bond interest to a person described in paragraph (1) of this subsection, but only if a certificate filed (in such form and manner, and at such time, as the Secretary may by regulations prescribe) with the withholding agent discloses that the recipient of such payment is a person described in paragraph (1).

"(k) Any payment upon which the withholding agent is required to deduct and withhold a tax under section 143 (a) (relating to tax-free covenant bonds, etc.) determined without regard to the provisions of paragraph (2) of such section.

"(l) Interest on an obligation of a corporation, issued on or after January 1, 1934, and before January 1, 1951, containing a contract or provision by which the obligor agrees to pay the interest without deduction for any tax which the obligor may be required to pay thereon or to retain therefrom under any law of the United States.

"(m) Dividends paid pursuant to the terms of a lease of property entered into prior to January 1, 1951, if under such lease the shareholders of the lessor corporation are entitled to such dividends without deduction for any tax which any law of the United States might require to be deducted and withheld upon the payment of dividends.

"(n) Amounts (whether or not designated as dividends) paid by a mutual savings bank, savings and loan association, building and loan association, cooperative

bank, homestead association, credit union, or any similar organization, in respect of withdrawable or repurchasable shares, investment certificates, or deposits.

"SEC. 1203. Returns and payment.

"(a) In general: Every person required under this subchapter to deduct and withhold any tax shall make a return of such tax and shall pay such tax, at such time, for such period, and in such manner as the Secretary may by regulations prescribe, by making a return of the total amount of dividends and interest with respect to which tax is required to be deducted and withheld by such person under this subchapter for such period and paying a tax, for which such person shall be liable, in an amount equal to 20 percent of such total.

"(b) Adjustment of tax: If more or less than the correct amount of tax due for any period under subsection (a) is paid with respect to such period, proper adjustments with respect to the tax shall be made, without interest, in such manner and at such times as may be prescribed by regulations made under this subchapter.

"SEC. 1204. Return and payment by governmental payor.

"If the person referred to in section 1203 (a) is the United States, or a State, Territory, or political subdivision thereof, or the District of Columbia, or any agency or instrumentality of any one or more of the foregoing, the return and payment required by such sections shall be made by any officer or employee of the United States, or of such State, Territory, or political subdivision, or of the District of Columbia, or of such agency or instrumentality, as the case may be, having control of the payment of the dividend or interest, or appropriately designated for that purpose.

"SEC. 1205. Nondeductibility of tax in computing net income.

"Any tax deducted and withheld under this chapter shall not be allowed as a deduction in computing net income for the purpose of any tax on income imposed by act of Congress.

"SEC. 1206. Tax-exempt organizations—Refund.

"In the case of a person which is exempt from the tax imposed by chapter 1, if the amount required to be deducted and withheld as tax under this chapter with respect to dividends and interest received by it during any calendar quarter exceeds the credit claimed by and allowed to such person under section 1637 for such quarter, the excess shall be immediately refunded or credited to such person as an overpayment of the tax imposed by this chapter, but only if claim therefor is filed (or, if no claim is filed, if credit or refund is made) after the close of such calendar quarter and on or before March 15 of the fourth calendar year beginning after the close of such calendar quarter. No interest shall be allowed or paid with respect to any such refund or credit for any period prior to the date on which claim for such refund or credit is filed or prior to March 16 of the calendar year succeeding the close of the calendar quarter in respect of which such refund or credit is claimed, whichever date is the later.

"SEC. 1207. Credit for regulated investment companies and personal holding companies.

"In the case of any withholding agent which is a regulated investment company as defined in section 361 or a personal holding company as defined in section 501, the amount required to be deducted and withheld as tax under this chapter with respect to dividends and interest received by it during a taxable year shall be allowed, under regulations prescribed by the Secretary, as

a credit against (but not in excess of) the tax for which such withholding agent is liable under section 1203 (a) in respect of dividends and interest paid by it during such year. For the purposes of this section a dividend shall be considered as having been paid within a taxable year (1) in the case of a regulated investment company, if treated as paid during such taxable year under section 362 (b) (8), or (2) in the case of a personal holding company, if claimed under section 504 (c), in computing undistributed subchapter A net income, in the return for such year.

"SEC. 1208. Failure to file returns.

"In case of a failure to make and file any return required under this chapter within the time prescribed by law or prescribed by the Secretary in pursuance of law, unless it is shown that such failure is due to reasonable cause and not to willful neglect, the addition to the tax or taxes required to be shown on such return shall not be less than \$5.

"SEC. 1209. Other laws applicable.

"All provisions of law, including penalties, applicable with respect to any tax imposed by section 2700, and the provisions of section 3661, shall, insofar as applicable and not inconsistent with the provisions of this chapter, be applicable with respect to the tax under this chapter."

"SEC. 702. Credit for tax withheld.

"Section 35 (relating to credit against income tax) is hereby amended as follows:

"(1) by striking from the heading thereof the words 'On wages.'

"(2) by inserting at the beginning of the first paragraph thereof the following heading: '(a) Credit for tax withheld on wages'; and

"(3) by inserting at the end thereof the following new subsection:

"(b) Credit for tax withheld on dividends and interest: Under regulations prescribed by the Secretary—

"(1) In general: The amount required to be deducted and withheld as tax under chapter 6 upon any payment of a dividend or interest shall be allowed as a credit, to the recipient of the income, against the tax imposed by this chapter for the taxable year in which the dividend or interest is received.

"(2) Partnerships, trusts, and estates: If the recipient of the dividend or interest is a partnership or a common trust fund, then the credit shall not be allowed to such recipient, but the members of the partnership, or the participants in the common trust fund as the case may be, shall be allowed their proportionate share of such credit. If the recipient is an estate or trust, and if any legatee, heir, or beneficiary subject to the tax imposed by this chapter is required to include a portion of such dividend or interest in computing his net income, such legatee, heir, or beneficiary shall be allowed such portion of the credit as is properly allocable to him on the basis of the income allocable to him under section 162 for the taxable year of the estate or trust, and such portion of the credit shall not be allowed to the estate or trust.

"(3) Regulated investment companies and personal holding companies: In the case of a regulated investment company or a personal holding company, the credit provided in paragraph (1) shall be reduced by the amount of credit allowed such company under section 1207.

"(4) Tax-exempt organizations: The credit provided by this subsection shall not be allowed to any recipient which is exempt from income tax. For credit against the liability of such a recipient in respect of the employment taxes imposed by subchapter A and subchapter D of chapter 9, see section 1637. For refund under chapter 6 in the case of such a recipient, see section 1206."

"SEC. 703. Credits in case of organizations exempt from tax.

"Subchapter E of chapter 9 (relating to employment taxes) is hereby amended by adding after section 1636 the following new section:

"SEC. 1637. Special credit in case of organizations exempt from income tax.

"In the case of any person (including any Government or political subdivision, agency, or instrumentality thereof) which is exempt from the tax imposed by chapter 1, the amount required to be deducted and withheld as tax under chapter 6 with respect to dividends and interest received by it during any calendar quarter shall be allowed, under regulations prescribed by the Secretary, as a credit against (but not in excess of) the amount shown on the return of such person as its liability (after the adjustments, if any, provided for in secs. 1401 (c) and 1411) for such quarter in respect of the taxes imposed by subchapter A and subchapter D of this chapter. Such credit shall be allowed only if claim therefor is made, in accordance with such regulations, at the time of the filing of the return under subchapter A and subchapter D for such quarter. For refund under chapter 6, see section 1206."

"SEC. 704. Technical amendments.

"(a) Tax computed by collector: Section 51 (f) (relating to tax computed by collector) is hereby amended to read as follows:

"(f) Tax computed by collector.

"(1) Return requirements: An individual entitled to elect to pay the tax imposed by supplement T whose gross income is less than \$5,000 and is entirely from one or more of the following sources: wages as defined in section 1621 (a), or dividends (other than a capital gain dividend as defined in section 362 (b) (7)) or interest on which tax is required to be deducted and withheld under chapter 6, shall at his election be relieved, by using the form prescribed as the form for the return for the purposes of this subsection, from showing on the return the tax imposed by this chapter. In such case the tax shall be computed by the collector.

"(2) Result of computation: After the collector has computed the tax, he shall mail to the taxpayer a notice stating the amount determined by the collector as payable and making demand therefor.

"(3) Regulations: The Secretary shall prescribe regulations for carrying out this subsection, and such regulations may provide for the application of the rules of this subsection to cases where the gross income includes items other than those enumerated in paragraph (1) if the gross income from such other sources is not more than \$200, and to cases where the gross income is \$5,000 or more but not more than \$5,200. Such regulations shall provide for the application of this subsection in the case of husband and wife, including provisions determining when a joint return under this subsection may be permitted or required and what constitutes a joint return, whether the liability shall be joint and several, and whether one spouse may make return under this subsection and the other without regard to this subsection.

"(4) Method of election: The election to have the benefits of this subsection shall be made by making return on the form prescribed as the form for the return for the purposes of this subsection. An election so made shall constitute an election to pay the tax imposed by supplement T."

"(b) Requirement of declaration of estimated tax: Section 58 (a) (relating to declaration of estimated tax) is hereby amended to read as follows:

"(a) Requirement of declaration: Every individual (other than an estate or trust and other than a nonresident alien with respect

to whose wages, as defined in section 1621 (a), withholding under subchapter D of chapter 9 is not made applicable, but including every alien individual who is a resident of Puerto Rico during the entire taxable year) shall, at the time prescribed in subsection (d), make a declaration of his estimated tax for the taxable year if—

"(1) his gross income from wages (as defined in sec. 1621) and from dividends and interest, as defined in chapter 6, upon which a tax is required to be deducted and withheld under such chapter, can reasonably be expected to exceed the sum of \$4,500 plus \$600 with respect to each exemption provided in section 25 (b); or

"(2) his gross income from sources other than wages (as defined in sec. 1621) and other than dividends and interest, as defined in chapter 6, upon which a tax is required to be deducted and withheld under such chapter, can reasonably be expected to exceed \$100 for the taxable year and his gross income to be \$600 or more."

"(c) Credit under section 143: Section 143 (relating to withholding of tax at source) is hereby amended by adding at the end thereof the following new subsection:

"(1) Credit for tax withheld at source: Where any person is required to deduct and withhold a tax under subsection (b) on an amount on which a tax was required to be deducted and withheld under chapter 6, such person shall deduct and withhold only the excess of—

"(1) the amount which would be required to be deducted and withheld under subsection (b) but for the application of chapter 6, over

"(2) the amount required to be deducted and withheld under chapter 6."

"(d) Credit under section 144: Section 144 (relating to payment of corporation income tax at source) is hereby amended by striking out the period at the end thereof and adding in lieu thereof the following: 'Provided further, That, where any person is required under this section to deduct and withhold a tax on an amount on which a tax was required to be deducted and withheld under chapter 6, such person shall deduct and withhold only the excess of—

"(1) the amount which would be required to be deducted and withheld under this section but for the application of chapter 6, over

"(2) the amount required to be deducted and withheld under chapter 6."

"(e) Information at source: Subsections (a) and (b) of section 147 (relating to information at source) are hereby amended to read as follows:

"(a) Payments of rent, salaries, interest, and so forth: All persons, in whatever capacity acting, including lessees or mortgagors of real or personal property, fiduciaries, and employers, making payment to another person, or—

"(1) rent, salaries, wages, premiums, annuities, compensations, remunerations, emoluments, or other fixed or determinable gains, profits, and income (other than payments described in section 148 (a) or 149), of \$600 or more in any taxable year, or

"(2) interest, upon which tax is required to be deducted and withheld under chapter 6, of \$300 or more in any taxable year, or

"(3) interest, upon which tax is not required to be deducted and withheld under chapter 6, of \$100 or more in any taxable year, or, in the case of such payments made by the United States, the officers or employees of the United States having information as to such payments and required to make returns in regard thereto by the regulations hereinafter provided for, shall render a true and accurate return to the Secretary, under such regulations and in such form and manner and to such extent as may be prescribed

by him, setting forth the amount of such gains, profits, and income, and the name and address of the recipient of such payment.

"(b) Returns regardless of amount of payment: Such returns may be required, regardless of amounts, (1) in the case of payments of interest, and (2) in the case of collection of items (not payable in the United States) of interest upon the bonds of foreign countries and interest upon the bonds of and dividends from foreign corporations by persons undertaking as a matter of business or for profit the collection of foreign payments of such interest or dividends by means of coupons, checks, or bills of exchange. This subsection shall not apply to payments of interest (other than coupon bond interest) upon which tax is required to be deducted and withheld under chapter 6."

"(f) Information by corporations: Section 148 (a) (relating to information by corporations in the case of dividend payments) is hereby amended by inserting a comma in lieu of the period at the end thereof and adding the following: 'except that if the amount of dividends paid to any shareholder during a calendar year is less than \$300 and tax is required to be deducted and withheld under chapter 6 upon the entire amount of such dividends, no such return shall be required with respect to such shareholder for such calendar year.'

"(g) Clerical amendment: Section 169 (b) (relating to taxation of common trust funds) is hereby amended by striking out 'or chapter 6' and by striking out 'chapters' and inserting in lieu thereof 'chapter.'

"(h) Amount of credit considered as payment: Section 322 (a) (2) (relating to refunds and credits) is hereby amended to read as follows:

"(2) Treatment of credits: The amount of the credit provided in section 35 against the tax for any taxable year shall, to the extent thereof, be considered as payment of the tax for such year, whether or not the withholding agent has paid to the collector the amount of the tax deducted and withheld at the source under subchapter D of chapter 9 or the amount of tax required to be deducted and withheld at source under chapter 6."

"(1) Special period of limitations for small refunds on tax withheld at source: Section 322 (b) (relating to statute of limitations on filing claim for credit or refund) is hereby amended by adding at the end thereof the following new paragraph:

"(7) Special period of limitations with respect to certain overpayments resulting from tax withheld on dividends or interest: In the case of an individual filing a claim for credit or refund of an overpayment for a taxable year for which he was not required under section 51 (a) to make a return, if the overpayment is attributable to the credit allowed under section 35 for tax required to be deducted and withheld under chapter 6 (relating to tax withheld at source on dividends and interest), in lieu of the period of limitation prescribed in paragraph (1), the period shall be 7 years from the date prescribed by law for filing a return for the taxable year with respect to which the claim is made. In such a case, the amount of credit or refund may exceed the portion of the tax paid within the period prescribed in paragraph (2), to the extent of the amount of the overpayment attributable to such credit allowed under section 35, or to the extent of \$2, whichever is the lesser."

"(j) Presumptions as to date of payment: Section 322 (e) (relating to presumption as to date of payment) is hereby amended to read as follows:

"(e) Presumptions as to date of payment: For the purpose of this section—

"(1) any amount allowable as a credit under section 32 (relating to credit for tax withheld at source on tax-free covenant

bonds and on payments to nonresident alien and foreign corporations) or under section 35 (relating to credit for tax withheld at source of wages, dividends, and interest) shall, in respect of the person entitled to such credit, be deemed to have been paid by him on the last day prescribed by law (determined without regard to any extension of time granted the taxpayer) for the filing of the return for his taxable year with respect to which such amount is allowable as a credit; and

"(2) any amount paid as estimated tax for any taxable year shall be deemed to have been paid on the last day prescribed by law (determined without regard to any extension of time granted the taxpayer) for the filing of the return for such taxable year."

"(k) Interest on overpayments: Section 3771 (f) is hereby amended to read as follows:

"(f) Tax withheld at source and estimated tax.

"(1) Claims filed under special period of limitations provided in section 322 (b) (7): If credit or refund of the overpayment would be barred under section 322 (b) except for paragraph (7) thereof, no interest shall be allowed or paid with respect to the overpayment for any period ending prior to the expiration of 6 months after the date on which the claim was filed.

"(2) Cross reference: For date of payment in respect of estimated tax and tax withheld at source, see section 322 (e)."

"(1) Definition of withholding agent: Section 3797 (a) (16) is hereby amended by striking out '143 or 144', and by inserting in lieu thereof '143, 144, or 1201.'

"(m) Effective date: The amendments made by subsections (a) and (b) shall be applicable to taxable years beginning after December 31, 1951."

Mr. GEORGE. Mr. President, would the Senator be good enough to identify the amendment? I mean by substance.

Mr. DOUGLAS. Yes. It is the amendment to provide for the collection of the income tax on dividends and corporate-bond interest at the source. It is the so-called withholding amendment.

Mr. GEORGE. Withholding at the source?

Mr. DOUGLAS. Yes.

Mr. GEORGE. I thank the Senator.

Mr. McFARLAND. Mr. President, will the Senator yield?

Mr. DOUGLAS. I shall be glad to yield for a question.

Mr. McFARLAND. May I inquire of the Senator about how long he thinks it will take to dispose of this amendment?

Mr. DOUGLAS. I should be perfectly willing to agree to a reasonable limitation of debate on the amendment.

Mr. McFARLAND. Would 1 hour be agreeable?

Mr. DOUGLAS. One hour to each side?

Mr. McFARLAND. Thirty minutes to each side.

Mr. DOUGLAS. I would suggest 45 minutes to each side.

Mr. McFARLAND. Mr. President, I ask unanimous consent that the debate on the pending amendment be limited to 1 hour and a half, 45 minutes to a side, the time to be controlled by the Senator from Illinois [Mr. DOUGLAS] and by the distinguished Senator from Georgia [Mr. GEORGE], that any amendment which may be proposed to the amendment must be germane, and that debate on the amendments to the amendment be limited to 30 minutes, 15 min-

utes to each side, the time to be controlled by the proponent of such amendment and the Senator from Georgia.

Mr. DOUGLAS. That is perfectly acceptable.

The PRESIDING OFFICER. Is there objection to the request? The Chair hears none, and it is so ordered.

The Senator from Illinois.

Mr. DOUGLAS. Mr. President, this is a proposal to apply collection at the source for corporate dividends and corporate interest, similar to the provision now in the law for the collection of the income tax on wages and salaries at the source. When the income tax was first adopted, in the administration of Woodrow Wilson, we copied the British system of withholding at the source a portion of the income from rent, salaries, and wages, pensions and annuities, interest, and other fixed amounts of income, all in excess of \$3,000. In the 1920's, this was omitted, and all income taxes, whether on wages and salaries or on corporate dividends and interest, were paid by the recipient, with no collection at the source and no withholding.

It was, I believe, in 1943 that the Congress passed an act which provided for the withholding of the basic income tax on wages and salaries at the source, but it did not provide for withholding the taxes on interest and dividends.

The amendment now presented is a proposal to apply a 20-percent withholding tax or collection at the source on corporate dividends and corporate bond interest.

It is virtually identical with the measure adopted by the House but rejected by the Senate committee, except that we have omitted royalties, which were included in the House measure, and certain interest payments by insurance companies and the interest on refunds from overpayment of the internal revenue tax. It is my understanding that the House intended that all interest other than corporate bond interest be excluded from its bill, but left in the two items I have just mentioned more or less by inadvertence.

My amendment does not apply to interest on Government bonds, to interest on shares of cooperatives, building and loan associations, mutual savings banks, and in and of itself, it does not apply to patronage dividends, although section 314 of the bill as reported by the Finance Committee provides that if a system of withholding on corporate dividends is adopted, it shall also apply to patronage dividends and refunds. In other words, my amendment is rigidly restricted to dividends from corporations and interest on corporate, not governmental bonds.

It is aimed to bring into the Treasury, by merely providing for a better system of collecting taxes payable on corporate dividends and interest, from \$250,000,000 additional a year to \$323,000,000 additional a year.

I should emphasize that the more liberal estimate of \$323,000,000 was not furnished by the Treasury, but by the staff of the Joint Committee on Internal Revenue Taxation. The Treasury submitted the conservative estimate of

\$250,000,000. This is to be done, not by raising the rates, but by providing for a more adequate system of collection.

The facts are approximately these, as they were stated in the testimony of Secretary Snyder before the Senate Finance Committee on pages 18 and 19 of the hearings on the revenue revisions of 1950. The Treasury found that in 1947 the total dividends which were paid by corporations to individuals amounted to slightly under \$6,500,000,000, yet the dividends reported by the individuals amounted to only \$4,295,000,000, leaving a raw difference between these figures of about \$2,200,000,000.

The Treasury has made accurate estimates on the dividends which were passed on to individuals by trusts and listed on their returns as fiduciary income, dividends which were held and taxable in the hands of trusts, dividends received by tax-free institutions, and dividends received by persons not required to file and those receiving dividends through partnerships. These make a figure of \$1,268,000,000 for 1947. Deducting this from the \$2,200,000,000 of difference between the amounts reported by individuals and the dividends paid by corporations to individuals, we get a total of \$900,000,000 of dividends paid but not reported by recipients for 1947. The Treasury, working on the experience of these figures, estimates that for 1950 the total dividends not accounted for amounted to \$1,040,000,000, and the House Ways and Means Committee report on this bill estimated the amount

for 1951 at \$1,100,000,000. I ask unanimous consent to have inserted at this point in my remarks a table substantiating these figures, including an explanatory statement submitted by the Treasury Department.

There being no objection, the material was ordered to be printed in the RECORD, as follows:

Statistics compiled from corporation and individual income-tax returns indicate that there has been a serious understatement on individual income-tax returns of dividend income in recent years. The discrepancy has been very large since 1941. It is not possible to state precisely the amount of this understatement. For instance, certain dividend recipients (for example, charitable and educational organizations) do not file tax returns; some dividend income is received by nontaxable individuals whose total income falls below the income-tax filing requirement; and some undetermined part of the fiduciary income reported by individuals is actually dividend income. However, it is possible to make a reasonable approximation of the amount of dividend income of these recipients to arrive at an estimate of the amount of dividend income representing an understatement of dividend income received by taxable individuals.

The following table shows the net corporate dividends paid in cash and in property of the company's own stock, the amount of dividends reported on individual income-tax returns as dividends, and approximations of (a) the dividend income reported by individuals as fiduciary income, (b) the dividends received by tax-exempt institutions, and (c) the dividends received by individuals not required to file, for the calendar years 1946 and 1947.

data but it is believed that they represent reasonable approximations of the magnitudes involved.

The estimates for 1946 and 1947 (and for the years 1941 through 1945) have been carried through for the level of dividend payments by corporations estimated for the calendar year 1950 on a trend and proportionality basis. As shown in the table above, it is estimated that the total dividend payments not accounted for will amount to \$1,040,000,000 in the calendar year 1950.

(Source: Hearings on revenue revisions of 1950 before Senate Finance Committee, pp. 18-19, from testimony of Secretary Snyder, July 5, 1950.)

Mr. TAFT. Mr. President, will the Senator from Illinois yield for a question?

Mr. DOUGLAS. I am glad to yield to the Senator from Ohio.

Mr. TAFT. Does the Senator really think there is any substantiation of those figures?

Mr. DOUGLAS. Yes.

Mr. TAFT. Is there any evidence that these dividends do not go to people who ought not to have to pay taxes, or to funds or to people with incomes less than the exemption?

Mr. DOUGLAS. I may say that the amounts of the dividends by those who are taxed, whose incomes are less than the taxable minimum, are very, very small indeed. A survey made by the Federal Reserve Board shows that of those with incomes under \$1,000 a year, 92 percent received no interest or dividends at all, so that only 8 percent received any dividends and interest at all; and the situation is not much different in the case of those with incomes under \$2,000 a year or \$3,000 a year. Up to \$3,000 a year, the incomes of the recipients are almost exclusively composed of wages and salaries, and, to very, very small extent, of interest and dividends. I have here some tables, the first of which is from the Federal Reserve Bulletin for August 1951, which shows that 92 percent of those with incomes under \$1,000 had no interest or dividends; it shows, furthermore, that 92 percent from the income group from \$1,000 to \$2,000; 92 percent of those with incomes from \$2,000 to \$3,000; and 93 percent of those with incomes from \$3,000 to \$4,000 received no dividends or interest at all. Those figures apply to spending units which are roughly equivalent to families. Figures based on individual income tax returns show that only 2.8 percent of persons earning less than \$1,000 receive any dividends.

I ask unanimous consent that the table from the Federal Reserve Bulletin to which I have been referring be printed in the RECORD.

There being no objection, the table was ordered to be printed in the RECORD, as follows:

Dividends not accounted for on individual income-tax returns estimated for calendar year 1950 and actual for calendar years 1946 and 1947

[Amounts in millions of dollars]

	1950		1947		1946	
	Amount	Percent	Amount	Percent	Amount	Percent
Net dividends paid by corporations.....	8,300	100.0	16,483	100.0	15,784	100.0
Reported on individual returns:						
As dividends.....	5,650	68.1	14,295	66.3	13,684	63.7
As fiduciary income.....	830	10.0	628	9.7	485	8.4
Retained by taxable fiduciaries.....	320	3.9	301	4.6	294	5.1
Received by tax-exempt institutions.....	6,800	81.9	5,224	80.6	4,463	77.2
Received by individuals not required to file, filing Form W-2, receiving dividends through partnerships, etc.....	290	3.5	227	3.5	202	3.5
	170	2.0	130	2.0	116	2.0
Total dividends accounted for.....	7,260	87.5	5,581	86.1	4,781	82.7
Total dividends not accounted for.....	1,040	12.5	902	13.9	1,003	17.3

¹ Actual.

The estimated amount of dividend income reported as fiduciary income is based on statistics pertaining to the fiduciaries included in individual income-tax returns. No tabulation of the various components of income reported by nontaxable fiduciaries is available. In the table above it is assumed that the dividend component of nontaxable fiduci-

aries is relatively the same as that reported by taxable fiduciaries for which data are available.

The amounts of dividends estimated to be received by tax-exempt institutions, by individuals not required to file, and by individuals receiving dividends through partnerships are based on admittedly sketchy

Income from specified sources received by spending units within income and occupational groups, 1950¹

[Percentage distribution of spending units]

Income from specified source	All spending units	1950 money income before taxes							Occupation of head of spending unit							
		Under \$1,000	\$1,000-\$1,999	\$2,000-\$2,999	\$3,000-\$3,999	\$4,000-\$4,999	\$5,000-\$7,499	\$7,500 and over	Professional and semi-professional	Self-employed	Managerial	Clerical and sales	Skilled and semi-skilled	Unskilled and service	Farm operator	Retired
Wages and salaries:																
None	23	67	26	14	9	11	15	30	14	68	3	2	1	3	71	67
\$1-\$100	2	6	3	1	(2)	(2)	(2)	1	(2)	2	(2)	(2)	(2)	1	8	4
\$101-\$500	4	13	7	3	1	(2)	1	3	1	7	1	1	(2)	3	12	9
\$501-\$1,000	4	14	12	1	1	1	(2)	(2)	4	2	2	4	3	10	5	4
\$1,001-\$2,000	13	(2)	51	17	2	2	1	2	8	8	5	17	13	34	2	4
\$2,001-\$3,000	17	(2)	(2)	64	22	4	3	(2)	14	6	13	30	22	25	1	7
\$3,001-\$5,000	26	(2)	(2)	(2)	65	82	25	6	31	3	32	30	49	20	1	3
\$5,001 and over	10	(2)	(2)	(2)	(2)	(2)	55	58	26	3	44	16	12	3	(2)	1
Undetermined amount	1	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	1
Not ascertained	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	2	1	(2)	(2)	(2)	(2)	(2)	(2)
All cases	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
Pensions and allowances, etc.: ²																
None	75	55	66	76	79	83	84	81	82	91	91	84	79	82	81	28
\$1-\$99	2	2	1	2	3	2	2	1	1	(2)	1	1	3	1	3	1
\$100-\$499	9	16	11	10	10	8	7	4	9	6	4	9	11	8	5	15
\$500-\$999	9	27	11	6	6	4	4	1	4	2	3	4	5	8	4	33
\$1,000-\$1,999	4	(2)	11	4	2	2	2	1	1	1	1	1	2	1	6	17
\$2,000-\$2,999	1	(2)	(2)	2	(2)	1	1	(2)	1	(2)	(2)	(2)	(2)	(2)	1	2
\$3,000-\$4,999	(2)	(2)	(2)	(2)	(2)	(2)	(2)	1	(2)	(2)	(2)	(2)	(2)	(2)	(2)	2
\$5,000 and over	(2)	(2)	(2)	(2)	(2)	(2)	(2)	1	(2)	(2)	(2)	(2)	(2)	(2)	(2)	1
Undetermined amount	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	1	(2)	(2)	1	(2)	(2)	(2)	(2)
Not ascertained	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	1	(2)	(2)	(2)	(2)	(2)	(2)	1
All cases	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
Interest, dividends, etc.: ³																
None	85	92	92	92	93	88	83	56	76	84	75	88	94	96	88	78
\$1-\$99	5	3	3	4	4	6	7	6	7	3	7	5	5	3	6	11
\$100-\$499	4	4	2	2	2	4	7	17	8	10	11	5	1	(2)	4	7
\$500-\$999	1	1	2	1	1	2	1	5	8	1	3	(2)	(2)	(2)	1	4
\$1,000-\$1,999	1	(2)	1	1	(2)	(2)	1	4	2	1	(2)	1	(2)	(2)	1	2
\$2,000-\$2,999	1	(2)	(2)	(2)	(2)	(2)	(2)	4	1	1	1	1	(2)	(2)	(2)	1
\$3,000-\$4,999	(2)	(2)	(2)	(2)	(2)	(2)	(2)	3	1	(2)	1	(2)	(2)	(2)	(2)	(2)
\$5,000 and over	(2)	(2)	(2)	(2)	(2)	(2)	1	5	1	(2)	2	(2)	(2)	(2)	(2)	1
Undetermined amount	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)
Not ascertained	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	1	(2)	(2)	(2)	(2)	1	(2)	1
All cases	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
Rent other than from roomers and boarders: ⁴																
None	87	90	89	90	91	85	84	73	86	78	86	90	91	93	89	78
\$1-\$99	1	2	1	2	(2)	(2)	1	1	1	1	1	1	1	1	4	(2)
\$100-\$499	6	5	6	5	5	10	6	11	7	9	7	5	5	5	6	7
\$500-\$999	3	3	2	1	3	3	4	5	3	3	4	2	2	1	1	5
\$1,000-\$1,999	2	(2)	3	1	(2)	1	4	3	2	6	1	1	1	(2)	(2)	5
\$2,000-\$2,999	(2)	(2)	(2)	1	(2)	(2)	1	1	(2)	1	(2)	1	(2)	(2)	(2)	1
\$3,000-\$4,999	1	(2)	(2)	(2)	1	(2)	1	3	(2)	1	1	(2)	(2)	(2)	(2)	1
\$5,000 and over	(2)	(2)	(2)	(2)	(2)	(2)	(2)	3	(2)	1	(2)	(2)	(2)	(2)	(2)	1
Undetermined amount	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	1	(2)	(2)	(2)	(2)	(2)	(2)	1
Not ascertained	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)
All cases	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
Number of cases	3,415	418	514	567	601	441	538	294	269	250	235	477	902	289	388	219

¹ Data are subject to considerable reporting error, especially where small amounts are involved.² No cases reported or less than 1/2 of 1 percent.³ Includes income from old-age pensions, retirement pay, annuities, unemployment compensation, welfare payments, alimony, regular contributions, veterans' pensions, school allotments, State bonuses, and allotments to families of servicemen.⁴ Includes interest, dividends, income from trust funds, and royalties.⁵ The first question asked was: "Did you receive income from roomers and boarders?" Respondents were then asked "Did you receive money from other rent?" If yes, "How much was it after allowing for expenses?"

NOTE.—Details may not add to totals because of rounding.

Source: 1951 Survey of Consumer Finances, pt. III, Distribution of Consumer Income in 1950, appearing in the Federal Reserve Bulletin, August 1951, pp. 920-937.

Mr. DOUGLAS. I also ask unanimous consent to have printed at this point in my remarks a table computed on the basis of figures contained in Statistics of Income for 1947 published by the Bureau of Internal Revenue, United States Treasury Department. These figures are not estimates; they are actual figures obtained from income tax returns for the year 1947 actually filed with the Bureau of Internal Revenue.

There being no objection, the table was ordered to be printed in the RECORD, as follows:

Adjusted gross income class	Dividends		Wages and salaries	
	Percent of all tax returns of each level receiving dividends	Percent of dividends going to each income level	Percent of all tax returns at each level receiving wages and salaries	Percent of wages and salaries going to each income level
Under \$1,000	2.8	2.2	82.8	3.8
\$1,000 to \$2,000	3.5	4.4	86.2	15.3
\$2,000 to \$3,000	3.9	4.9	90.9	27.7
\$3,000 to \$4,000	5.8	4.8	91.3	24.3
\$4,000 to \$5,000	9.5	4.1	88.0	12.6
\$5,000 to \$10,000	25.1	14.3	71.8	10.0
\$10,000 to \$20,000	47.5	16.6	54.8	3.3
\$20,000 and over	67.3	48.7	55.9	3.0
Total		100.0		100.0

Based on actual 1947 income tax returns—both taxable and nontaxable.

Source: Computations made by National Income Division, Department of Commerce (based on data contained in Statistics of Income, 1947; U. S. Treasury Department, Bureau of Internal Revenue).

Mr. TAFT. Mr. President, will the Senator yield?

Mr. DOUGLAS. I yield.

Mr. TAFT. I question all those statistics. I have never seen the basis on which any of those statistics were collected. It is simply a spot-check idea, with some agent going around and asking the people with those incomes certain questions. So far as I know, there are no figures from the Treasury, and so far as employment is concerned, there are no figures from the Bureau of the Census. I simply do not think that the claims which have been made by the Treasury as to the income lost from dividends are in any way supportable by evidence which anyone would even consider in a court proceeding.

Mr. DOUGLAS. I may say to my good friend from Ohio that in the first place we can get, and I believe the Treasury obtained, perfectly accurate figures on total dividends distributed by corporations. That is a perfectly simple thing. All that is necessary is to run the computation sheets through the computing machines, in order to get the totals.

The dividends paid by corporations in the year 1947 totaled \$6,483,000,000. Similarly, one can run through the computing machines the sheets for an individual covering the dividend items. That was done, and the total was \$4,295,000,000 reported by individuals. This left a difference of \$2,188,000,000. These are the basic figures, and they are not estimates; they are actual totals tabulated from income-tax returns.

Now certain corrections have to be made, it is true. It is not difficult to obtain the figures with respect to the dividends which are held by trusts and are taxable. These may be obtained accurately from the statistics of income based on actual income-tax returns. They came to \$301,000,000. An estimate of the dividends which were passed on by trusts to individuals is \$682,000,000. This estimate is based upon the experience regarding the proportion of personal income in general attributable to dividends.

Mr. TAFT. Mr. President, will the Senator yield?

Mr. DOUGLAS. I yield.

Mr. TAFT. Who prepared these figures?

Mr. DOUGLAS. The United States Treasury.

Mr. TAFT. I do not think the Treasury has any basis for them. Even small trusts do not have to make returns.

Mr. DOUGLAS. I was referring to the figure of \$1,100,000,000 of dividends and interest payments. All dividends and interest payments received by individuals are not reported. I would say that such figures by income classes are collected by sampling by the Federal Reserve Board, and the statistics from the 1947 report of the Treasury entitled "statistics on income," pages 16 and 17, show that the interest and dividend payments were extremely small for persons with incomes under \$2,000.

Mr. TAFT. The estimates are made entirely from income-tax returns, and entirely neglect the persons who do not make returns.

Mr. DOUGLAS. That is true for a portion of the statistics but as a check against that—

Mr. TAFT. Is it not also true that the Federal Reserve Board figures are very sketchy? In other words, they are merely surveys in which people are asked whether they made any returns?

Mr. DOUGLAS. The Federal Reserve Board's survey was a sampling made on the basis of about 3,400 interviews taken in 66 sampling areas throughout the Nation. The note accompanying this survey states that this sample is "representative of the entire population of the United States living in households." The note admits, and I admit, that there are limitations to any such study.

But the Senator from Ohio is well aware of the fact that the mathematical theory of probability permits one to take a relatively small proportion in different sections of the country, and it presumably gives an accurate reflection of the whole.

Mr. TAFT. May I ask the Senator whether that was the method pursued by the Gallup poll?

Mr. DOUGLAS. Yes. There was not the same bias, however, in the Treasury figures as there was in the Gallup poll; nor was there the large proportion of "don't knows" or "undecided's" that subjects the Gallup poll to abnormally large errors.

Mr. GEORGE. Mr. President, will the Senator from Illinois yield?

Mr. DOUGLAS. I yield.

Mr. GEORGE. The basic figures were assembled by the Department of Commerce, not the Treasury, in determining personal income. The Treasury did subsequently conduct some tests; but I think it is important to keep in mind that the basic figures really were submitted by the Department of Commerce rather than the Treasury.

Mr. DOUGLAS. I may say that the figures which I have quoted from pages 16 and 17 of the Statistics of Income for 1947 are based on a large sample of something like a million tax returns collected by the Treasury, which is a pretty good sample. I understand that the staff of the Joint Committee on Internal Revenue Taxation relies on these figures and that experience has shown there is less than a 5-percent error in them.

Mr. GEORGE. That is true.

Mr. WILLIAMS. Mr. President, will the Senator yield?

Mr. DOUGLAS. The Senator from Colorado [Mr. MILLIKIN], in his characteristically generous way, yielded to us this morning quite frequently, and I would not deny him the opportunity of indulging in the remarkable flow of eloquence and wit which proceeds from him today; so, before I yield to the Senator from Delaware, I should like to yield to the Senator from Colorado.

Mr. MILLIKIN. Mr. President, I appreciate the Senator's yielding. I simply desire to state that the Treasury's figures are also based on sampling.

Mr. DOUGLAS. Of about one million returns for the lower-income groups.

Mr. MILLIKIN. I got the impression that the distinguished Senator from Illinois, in the earlier part of his remarks,

gave a figure resting upon a totaling of every dividend paid by corporations. I think that is a rather easy figure to get. But the estimate of those in the higher brackets who did not pay on dividends received rests upon a sampling.

Mr. DOUGLAS. It is my understanding, subject to correction, that the figures on dividends paid by corporations to individuals refer to the totality of corporation reports, that the individual reports are quite complete in the higher brackets relying more on sampling toward the lower brackets, and that the distribution as between income brackets is a sampling.

Mr. MILLIKIN. We are now talking about two figures: One, the total amount of taxable dividends, which I understood the Senator to say was simply a matter of totaling—it could be done that way; I am not prepared to say whether it was or was not—but when it comes to the question of what reports were made on taxable incomes in the upper-income-tax brackets, he is proceeding on a sampling.

Mr. DOUGLAS. Yes.

Mr. MILLIKIN. Having made a sampling, and drawing the conclusions that were drawn from that sampling, then a subtraction process took the rest into the lower-income brackets. On that point I shall speak in my own time.

Mr. DOUGLAS. As I understand, the sampling conducted by the Treasury was on the basis of a million returns, which would be a very large sample and is generally considered a very adequate one.

Mr. MILLIKIN. I am not now challenging whether it was large, and at the moment I am not challenging the statement that it was adequate. I am trying to make clear how it was done.

Mr. DOUGLAS. I think the total of dividends paid as compared with the total of dividends reported by individuals was not a sample, but consisted instead of total figures.

Mr. MILLIKIN. That would not surprise me, because they should be easy to get. Once we have them, we have a solid figure.

Mr. BUTLER of Maryland. Mr. President, will the Senator yield?

Mr. DOUGLAS. I yield.

Mr. BUTLER of Maryland. The Senator's amendment does not exempt charitable corporations, does it?

Mr. DOUGLAS. There would be withholding for them; yes.

Mr. BUTLER of Maryland. If the Senator will yield further, I should like to state an actual case. I refer to the case of the Walters Galleries, a very famous art gallery in Baltimore. The employees are under the city pension system and, therefore, pay no social-security taxes. The withholding would amount, roughly, to \$35,000 a year. There would be no deduction for the withholding, which would mean that they would be making a permanent loan to the Government of the United States of \$35,000 without interest. Is not that correct?

Mr. DOUGLAS. They pay taxes now on their income, do they not?

Mr. BUTLER of Maryland. No. The institution is completely exempt.

Mr. DOUGLAS. Is it a charitable trust?

Mr. BUTLER of Maryland. Yes.

Mr. DOUGLAS. If it is a charitable trust and is exempt, there would be withholding, but provision is made in my amendment, which is the same as the House plan, to relieve most of the hardship; but in answer to the Senator's question, there would be withholding.

Mr. BUTLER of Maryland. That is the question I asked the Senator, whether his amendment provides for that. As I understand the amendment, the only relief there would be in a case of the kind I have mentioned is that they would have the right to make a claim for refund, but they would never catch up, and there would be \$35,000 of the trust's money held in perpetuity—

Mr. DOUGLAS. The same question arose when the withholding tax was originally applied to individuals receiving salaries and wages. It was then argued that they could never catch up with themselves. Why should we give preferential treatment to dividends and interest as compared with wages and salaries?

Mr. BUTLER of Maryland. If we exact a tax from persons who are not required to pay any tax, it is pure confiscation. We are not even going to pay them any interest on the money.

Mr. DOUGLAS. I might say to the Senator from Maryland that the House Committee on Ways and Means considered this aspect of the problem carefully before it recommended this withholding system to the House. In order to reduce the hardship to tax-exempt organizations to a minimum, provision was made to permit such organizations to use the amount withheld from dividend and interest payments received by them as a credit against the amount due from such an organization under the income and payroll taxes. Thus they would not have to wait for a refund for much of these credits. In addition, however, they may make quarterly applications for refunds, which are made, I believe, in a matter of weeks following the filing of the return and the application. The paragraph describing this provision appears on page 22 of the House report on H. R. 4473.

If there are additional difficulties I should think they could be taken care of in conference.

Mr. BUTLER of Maryland. In the State of Maryland we have a State income-tax law. There would be great confusion if the payor, instead of paying the taxpayer a \$100 dividend, should pay him \$80. The taxpayer in such case would probably return only what he had received which would very much complicate our State income-tax collections.

Mr. DOUGLAS. Does it apply to wages and salaries, too?

Mr. BUTLER of Maryland. Yes, but there is no withholding of wages and salaries.

Mr. DOUGLAS. There would be no greater difficulty caused to the interest recipients because wages and salaries are in the same position.

Mr. BUTLER of Maryland. The man who receives wages or salary has, under

the Federal law, a right to certain exemptions. As I understand, by the proposed amendment no one is given exemption. It simply provides for withholding a flat 20 percent whether the interest recipient pays taxes or does not pay taxes.

Mr. DOUGLAS. I might remind the Senator that very substantial refunds, amounting now to roughly \$500,000,000, are made every year, even under the law providing for the withholding or collection at the source of a tax on wages and salaries, which tries to take into consideration personal exemptions. Significant errors are made, particularly in the case of sporadic workers. The employer does not ask the income recipient or worker, "Is your annual income less than \$600, or less than \$1,000?" The employer withholds a flat amount, and then if the man is tax-exempt, because, say, he only works 3 months a year, or if his tax is less than the amount of withholding, he gets a refund. The Treasury is compelled to give him a refund. But the amount is withheld from him in the meantime.

Mr. BUTLER of Maryland. What is the average period of time within which he will receive a refund?

Mr. DOUGLAS. The refunds are made quarterly. I am not certain of the exact gap of time, but they are made quarterly.

Mr. BUTLER of Maryland. It is in excess of a year, is it not?

Mr. HUMPHREY. Mr. President, will the Senator yield?

Mr. DOUGLAS. I yield.

Mr. HUMPHREY. As a matter of information, let me say that the refunds are made on a quarterly basis. For example, in the case of withholding of wages and salaries, after the filing of the return it takes about 7 weeks for the refund to be made.

Mr. DOUGLAS. In other words, we are providing precisely the treatment with respect to dividends and interest as is now provided with respect to wages and salaries, except we make the procedure simpler, as I shall point out in a minute.

Mr. BUTLER of Maryland. I may say to the Senator from Illinois that the experience of the trust companies in Maryland is that the gap is between 15 and 18 months in the case of the ordinary refunds. If such a case is multiplied by thousands and thousands it seems to me it makes the whole scheme such that it will fall down of its own weight.

Mr. HUMPHREY. I think the Senator from Maryland is talking about refunds on regular corporate returns or individual tax returns.

Mr. BUTLER of Maryland. Yes.

Mr. HUMPHREY. What we are talking about is the withholding tax on employees' salaries. The Treasury Department has expedited the refunding process and is making refunds at an annual rate of \$500,000,000. That is done within a period of from 6 to 7 weeks.

With respect to withholdings as they relate to charitable trusts, the Treasury Department has informed us that if a withholding is made with respect to in-

terest or dividends paid to a charitable trust, that can be offset by applying it to the withholding tax on wages paid employees of a charitable trust. It can be balanced in that way. In other words, the withholdings on dividends paid to a charitable trust can be applied to the withholdings on wages and salaries of employees of the charitable trust.

Mr. BUTLER of Maryland subsequently said: Mr. President, I ask unanimous consent to have printed in the RECORD immediately following the colloquy between the Senator from Illinois, the Senator from Minnesota, and myself a brief statement which I have prepared.

There being no objection, the statement was ordered to be printed in the RECORD, as follows:

STATEMENT BY SENATOR BUTLER OF MARYLAND

Section 201 of the bill provides that, beginning with the year 1952, payors of certain interest, dividends, and royalties shall retain 20 percent thereof, and shall pay the same to the Government, to be credited against the tax liability of the respective recipients. Interest includes interest upon bonds and other obligations of corporations, but not on municipal or Government obligations, or savings-banks interest.

It is argued that the retention of the above percentage will prevent avoidance of income tax by individuals who fail to include such items in their income-tax returns. A parallel has been drawn between the proposed provision, and the existing provision of law under which employers are required to deduct and pay over to the Government amounts specified by the law, from the wages and salaries paid to employees.

A marked distinction, however, exists between the two procedures, in that the proposed retention of 20 percent is to be made without regard to or credit for any exemptions or deductions to which the recipient of such dividends and interest is entitled, while the employee files with his employer a certificate which establishes the exemptions to which he is entitled, and the amounts retained by the employer are based upon the excess of the annual wage or salary over the total exemptions. These exemptions consist of \$600 each per annum for any of the following: for himself, for his spouse, for his age over 65, for his wife's age over 65, for his blindness, for his wife's blindness, for each dependent. If the exemptions exceed the salary, no deduction is made by the employer.

Moreover, the deduction of 20 percent would apply to payments to charitable and religious corporations, which by law are exempt from tax.

It is true that the taxpayer or exempt corporation may file a claim for refund of the tax overpaid; and the exempt corporation is permitted to apply against retentions made for its account, the amount of social-security taxes payable by it to the Government. However, the law specifies that these refunds shall be made without allowance of interest, so that the taxpayer is deprived of the use of his money without compensation. Further, no one can foretell how long the taxpayer will have to wait for a refund.

In view of the huge number of returns involved, it is probable that there will be a long delay before any refund can possibly be made. Experience has shown that on ordinary overpayments, anywhere from 3 weeks to 18 months elapse before the taxpayer receives his refund.

This hardship falls upon a group of people who are least able to bear it, viz: those who are dependent, because of age, infirmity, or other reasons beyond their control, upon income derived from interest and dividends

affected by the provision, and who, in any event, would have little or no tax to pay.

The following simple illustration will show the effect of the proposed provision in contrast with the existing provision as to retention out of wages and salaries. It is based upon a supposed annual income of \$2,400 from interest and dividends, and a supposed annual wage of like amount.

According to the 1950 revised optional tax tables, the amount of tax payable by the recipient under both cases is the same, viz:

	1 ex- emp- tion	2 ex- emp- tions	3 ex- emp- tions	4 ex- emp- tions
On an income of \$2,400...	\$314.00	\$194.00	\$74.00	-----
If this is all salary in- come, tax withheld by employer will be.....	316.80	196.80	76.80	-----
Making overpay- ment of.....	2.80	2.80	2.80	-----
If income was all from interest and divi- dends—tax would be...	314.00	194.00	74.00	-----
20 percent withheld would be.....	480.00	480.00	480.00	\$480.00
Making an over- payment of.....	166.00	286.00	406.00	480.00
As compared with above overpayment.....	2.80	2.80	2.80	-----
The difference be- tween similar taxpayers being...	163.20	283.20	403.20	480.00

The person receiving the \$2,400 from interest and dividends must file a declaration of estimated tax for the current year, which, of course, would be based on the actual tax, if any. Nevertheless, and in spite of the declaration, such person would have his income reduced during the year by \$480, notwithstanding the fact that his tax could not possibly amount to that much and might be zero.

In the year 1953 he would file a return showing an overpayment of tax; and after the Bureau of Internal Revenue verifies it, he would get back the overpayment, ranging from \$166 to \$480, without interest. In the meanwhile this person would be living on \$1,920 during 1952 instead of the \$2,400 he had been receiving. In 1953 the process would be renewed, with the result that the taxpayer would never catch up with the retention made in 1952, as long as he lives.

The situation affecting charitable exempt institutions is illustrated by the case of the Walters Art Gallery. The estimated total of retentions under the provision of 20 percent, from the trust funds held for it, would amount to, annually, \$34,402. It owes no social security taxes, as its employees are members of the Baltimore City pension fund. As a result of the 20 percent retention in 1952 it will be deprived of income in that year of \$34,402. In 1953, the refund for 1952 will be offset by the withholding occurring in that year and so on for succeeding years. In effect this amounts to a permanent loan of \$34,402 in 1952 to the Government without interest.

The effect of the proposed provision on all the parties concerned should be considered.

1. The Federal Government will have millions of tax refunds to verify and to pay.

2. The State income tax authorities are concerned lest in State returns the taxpayers include 80 percent of the interest and dividends instead of the whole amount.

3. The small taxpayer would have to go through the machinery each year of filing returns and filing claims for tax refunds, not to mention reducing his mode of life until the refund comes in. Many small taxpayers find the returns too complicated as it is, without the additional burden of filing claims, and doubtless the more illiterate will do nothing and thus lose the refunds.

4 The banks and trust companies must handle the enormous detail involved in these deductions. Practically all affected interest and dividends are cashed through the local banks which carry the accounts of the recipients. These banks and the succeeding banks through which the coupons pass, must keep records until the coupons finally reach the paying agent which makes the payment of the 20 percent to the Government. Trustees and other fiduciaries must double their entries and allocate the retentions in proper proportions to the several beneficiaries of the trusts, and compute the shares of each beneficiary in their fiduciary returns.

The magnitude of the job as a whole and the expense are far out of proportion to the results to be obtained, particularly at a time when the defense preparations entail such large claims upon available manpower. Moreover, it would appear that the Government has other means already available to it for catching up with evaders, without penalizing so many small taxpayers.

Mr. DOUGLAS. Mr. President, I think there can be no doubt that approximately \$1,000,000,000 of corporate dividends received by individuals are not reported by individuals and no income taxes are collected from them.

With respect to under-reporting of interest payments received by individuals, the House Ways and Means Committee, in its report on H. R. 4473, estimated that during the calendar year 1951, \$1,900,000,000 of interest payments was not reported by individuals, although this included all interest payments, not merely corporate bond interest, which is treated by my amendment.

Much of the failure to report may even be deliberate, although a good deal of it is not deliberate. No one knows precisely the relative proportions of the two. But whether deliberate or not deliberate, the failure to withhold at the source taxes on dividends and interest, as taxes are withheld at the source on wages and salaries, deprives the Government of considerable revenue.

I do not see why we should be more tender of the recipients of dividends and interest than we are of the recipients of wages and salaries.

I know that in the past it has been complained that a system of collecting basic taxes at the source, or the withholding system, would be impossible to administer. It is administered in the case of wages and salaries, which involves many more people, much more detailed reporting and is much more difficult. The same objection was raised prior to 1943, but the withholding system has been carried out with respect to wages and salaries.

Most of the objections which were raised to the 1950 proposal of the Treasury for collection at the source of taxes in corporate dividends and interest can not be raised to the proposal which we are now putting forward. In 1950 it was required that the corporation which withheld the taxes on the dividends and interest should give a withholding receipt to each recipient, and should also make a direct report about its withholding from each individual to the Government. That is not required in the pending amendment, nor was it required in the measure as it passed the House.

All that happens is that a corporation pays the Bureau of Internal Revenue by

figuring 20 percent of the total dividend payments, that is, by turning over to the Bureau one-fifth of its total dividend and interest payments. It does not have to report how much it withheld from each individual.

Mr. WILLIAMS. Mr. President, will the Senator yield?

Mr. DOUGLAS. I should like to finish a paragraph, and then I will yield. Nor does the corporation have to give a withholding slip to the recipient of dividends and taxes. It merely turns over to the Bureau of Internal Revenue one-fifth of the total dividend payments.

I am now glad to yield to the Senator from Delaware.

Mr. WILLIAMS. Mr. President, if I understood the Senator from Illinois correctly, he said that the withholding-tax amendment which he is offering does not apply to or in no way affect the withholding of dividends at the source from cooperatives.

Mr. DOUGLAS. That is correct.

Mr. WILLIAMS. I refer the Senator from Illinois to page 147 of the tax bill, on which is found the amendment which was voted on and adopted by the Senate night before last and which relates to cooperative dividends. That amendment was supported by the Senator from Illinois. With the Senator's permission I should like to read to him this section.

Mr. DOUGLAS. I may say I think I was in error, and I am glad the Senator from Delaware has corrected me. If the amendment to which he refers does apply there will be withholding on patronage dividends, in the event my amendment is agreed to.

Mr. WILLIAMS. I refer to subsection (d), and with the permission of the Senator from Illinois I ask unanimous consent that the subsection may be printed in the RECORD at this point.

There being no objection, the subsection was ordered to be printed in the RECORD, as follows:

(d) Withholding of tax at source: If any law (other than secs. 143 and 144 of the Internal Revenue Code) enacted by Congress requires the withholding at source of tax on corporate dividends paid in cash, patronage dividends, rebates, and refunds (whether paid in cash, merchandise, capital stock, revolving fund certificates, retain certificates, or otherwise) shall be subject to the provisions of such law in the same manner and to the same extent as provided in such law with respect to corporate dividends paid in cash.

Mr. WILLIAMS. Mr. President, this subsection spells out specifically that if there is any withholding tax provision enacted by the Congress to apply to corporate dividends, the same withholding tax shall be applied to cooperatives.

Mr. HUMPHREY. Mr. President, will the Senator from Illinois yield?

Mr. DOUGLAS. I yield.

Mr. HUMPHREY. I want the RECORD to be perfectly clear, however, that the amendment provides for the withholding of tax on corporate dividends and corporate bond interest. I am fully aware of the provision the Senator from Delaware has now called to our attention. I think I am aware of the fact that one of the reasons why that provision was incorporated into the tax bill was to dampen somewhat the enthusiasm of those of us

who wanted to provide for withholding taxes on corporate dividends, by tying the provision for withholding taxes on dividends and interest with the withholding on patronage refunds.

I am willing to say now that if that has been the purpose, we are still for withholding taxes on dividends and corporate bond interest, because it is the opinion of those of us who support the amendment that the taxes ought to be paid, and we feel that taxes are being paid on patronage refunds. We feel that most of the taxes on dividends and corporate bond interest are being paid, but that where they are not being paid they should be paid. Therefore, we feel that the proposal for the withholding of taxes on dividends and corporate bond interest is very reasonable, and one that is fully supported by the figures of loss of revenue which have been furnished to us by the Department of the Treasury.

Mr. WILLIAMS. Mr. President, will the Senator from Illinois yield briefly?

Mr. DOUGLAS. Yes.

Mr. WILLIAMS. I should like to say to the Senator from Minnesota that I am not going to impugn the motives of any Senator who voted for the amendment to which I have alluded. Of course, as the Senator from Minnesota knows, I offered an alternative proposal which I think would have been a great improvement over that which was placed in the bill.

If I understand correctly, the Senator from Minnesota and the Senator from Illinois both voted for the provision now found in the bill, and against my alternative proposal. But if they want to say that that provision was written into the bill for the purpose of killing the amendment they are now offering, far be it from me to contradict what they had in mind.

Mr. DOUGLAS. I appreciate the needling by the Senator from Delaware. I say to him in reply that if he is anxious to tax the patronage dividends of co-operatives, the way to do that is apparently to vote for the amendment I am suggesting, and he will therefore be able to roast his pig in the process. [Laughter.]

Mr. President, I believe I have used 30 of my 45 minutes. I should like to reserve some time. Let me say that the figure which I drew up as an estimate, showing that this provision would add to revenues between \$250,000,000 and \$320,000,000, is not drawn out of the air. The Treasury estimated an addition of \$250,000,000. The Joint Committee on Internal Revenue Taxation estimated \$323,000,000. The Joint Committee on Internal Revenue Taxation did the statistical work for the House Ways and Means Committee in connection with this provision. If members of the Finance Committee, who ordinarily rely heavily on the Joint Committee on Internal Revenue Taxation want to befoul their own nest, that is quite possible; but I say that I have confidence in the accuracy of the figures of the joint committee. I believe that the estimate of \$320,000,000 is accurate.

This proposal would probably raise \$320,000,000, merely by providing that we adopt the same system in collecting taxes on dividends and interest that we now follow in the case of wages and salaries. What is wrong with that? It is merely reciprocal equality of treatment.

As a matter of fact, the amendment provides a much simpler method than is provided in connection with withholding the taxes on wages and salaries. The corporation does not have to report to the Bureau of Internal Revenue the names of the individuals nor the amounts withheld for each. Nor does it have to give a withholding receipt to each person who receives a dividend or interest payment. All it has to do is to take 20 percent of the dividends and interest and turn the money over to the Bureau of Internal Revenue. Then the individual makes his computation, and has credited against his tax the amount which has been withheld. It is a perfectly simple operation, much simpler than is provided for the case of wages and salaries. It would give the Treasury hundreds of millions of dollars more of revenue without increasing the rates but merely by closing one of the loopholes which is now available to the recipients of dividends and interest, but not to the low-income recipients of wages and salaries.

Mr. HUMPHREY. Mr. President, will the Senator yield?

Mr. DOUGLAS. I yield.

Mr. HUMPHREY. I am sure that somewhere in his remarks the Senator has referred to the system which he is now discussing, the system of withholding by the corporation. A year ago, in this same type of debate on the tax bill, when we were discussing the withholding of dividends and bond interest, the argument was advanced as to the burden on the corporation, particularly if we were going to take into consideration at the corporate level such things as deductions, and the over-all income of the dividend recipient. Therefore, when the Treasury Department has discussed this question with corporations, they have come to an understanding that if such provisions were incorporated in the law, it should be done on a simplified basis. The Treasury Department was perfectly willing to have these simplifications noted and taken account of. But the corporations say it means too much bookkeeping. I think they are right. It involves too much bookkeeping. So the method is simplified at the request of those who would be the dispensers of the dividends.

Mr. DOUGLAS. Yes; but they are still opposed to it, even though the plan has been simplified. Now the objection is that it is too rough on the individuals who receive the dividends and interest. Formerly it was too rough on the corporations which paid, but now it is too rough on the individuals who receive. Apparently it is more blessed to give than to receive.

Mr. HUMPHREY. The Senator is familiar with the fact that there are ap-

proximately 10,000,000 stockholders and that they average \$100 a year in dividends. That is not too little to consider. It involves a collection of \$20 from each individual. There is an aggregate of approximately 10,000,000 stock or bond holders, and the average dividend is \$100.

Mr. DOUGLAS. Mr. President, I should like to yield the floor after placing in the RECORD a set of figures from a rough chart which I have had prepared.

The people whose incomes are under \$3,000 a year receive 11½ percent of the dividends distributed, but they receive 46.8 percent of wages, or nearly one-half. In other words, the low-income group get most of their income from wages and salaries, and taxes are now withheld on these wages and salaries. However, those with incomes of \$20,000 a year and over get 48 percent, or nearly half of all the dividends distributed.

So there is a class element involved, and not merely a functional element. Under our present system we are permitting the upper income groups to evade the payment of taxes on dividends and interest which they receive, but on which, for one reason or another, they avoid making payments to the Government. This proposal would close that loophole, which is now closed—and properly so—in the case of recipients of wages and salaries, who tend to be in the low-income group.

Mr. HUMPHREY. Mr. President will the Senator further yield?

Mr. DOUGLAS. I yield.

Mr. HUMPHREY. In order that there may be an explicit demonstration of the amendment at the moment, the group with incomes below \$3,000 a year, who receive 46.8 percent of the wages paid, together with those associated with them to make up the total number of recipients of wages and salaries, overpay, on an annual basis, \$500,000,000, which is refunded.

Mr. DOUGLAS. Yes.

Mr. HUMPHREY. The \$3,000-a-year individual also suffers when there is an overpayment, but no one has bled and died over his suffering. We have been going along and allowing such taxpayers to make the overpayment of \$500,000,000 a year, which has been quickly refunded. But all at once we hear about the little dividend recipient. The widows and orphans are brought into the argument.

Mr. DOUGLAS. Along with the people with incomes of \$20,000 a year and over.

Mr. HUMPHREY. Yes.

Mr. DOUGLAS. I am reminded of what was said about Burke, "that he wept for the plumage and forgot the dying bird." Senators who object to this proposal weep for the people receiving dividends and interest whom they incorrectly call the low-income groups, but they forget the great masses of people who receive wages and salaries and who really are the low- and middle-income groups and who have the withholding system applied to them.

Mr. President, I yield the floor.

The PRESIDING OFFICER. The question is on agreeing to the amendment offered by the Senator from Illinois [Mr. DOUGLAS] for himself and other Senators.

Mr. FLANDERS. Mr. President—

The PRESIDING OFFICER. Does the Senator from Georgia yield time to the Senator from Vermont?

Mr. GEORGE. I yield 2 minutes to the Senator from Vermont.

Mr. FLANDERS. Mr. President, I should like to address myself very briefly to this question.

At no time has the junior Senator from Vermont been disturbed because of the load on the corporations. From the very first he has been disturbed by the idea that receivers of dividends should have the taxes withheld, and then be put to the burden of proof of showing whether or not they should be withheld.

Reference has been made to widows and orphans, and I too, am going to refer to them. I am going to make reference to the fact that in my section of the country—I do not know whether it is true in other sections or not—there are a great many widows and orphans whose sole income is derived from a few shares of stock.

The proposed system does not seem to me to be as definite and specific in this instance as it is in the system which is applied to the case of the workman who is on a payroll, and who has a number on the payroll. Here the Treasury Department, without a shooting license unless we give it to them, aims a shotgun into a thicket, fires the shotgun, and then listens to see who is hurt. That is a very poor way of administering a tax law.

Mr. DOUGLAS. Will the Senator from Vermont yield for a question?

Mr. FLANDERS. Yes; I yield for a question.

Mr. DOUGLAS. Is the Senator from Vermont opposed to a withholding tax on wages and salaries?

Mr. FLANDERS. No. The Senator from Illinois is shooting into a thicket with a shotgun to see who squeals. The Government knows the man who is on the payroll, and the Government gets a return from him. He is already identified.

Mr. DOUGLAS. But there is \$500,000,000 in revenue withheld, which is later refunded each year, so that the man who gets a wage or salary is in a class from which there is withheld a half billion dollars more than the people in that class owe. If the Senator from Vermont were proposing to repeal the withholding tax on wages and salaries, he would be consistent and wrong. I hope he will be consistent and right by extending the withholding provision to dividends and interest.

Mr. FLANDERS. Mr. President, I still say to the Senator from Illinois that there is a definite difference between a payroll tax applied to specific persons who are already within the cognizance of the Treasury Department and shooting a shotgun into a blind thicket.

Let me suggest that I am not saying that nothing should be done about the matter. However, we do not know how

many people are left tax free. We are only guessing. I see a diagram near the desk of the Senator from Illinois, which indicates that perhaps so much of the dividend money goes to those earning less than \$3,000, and so much of the money goes to those earning more than \$3,000. My guess is that most of the people in the upper income groups are already filing a tax return. It is important to know whether they are reporting all their dividends.

I would suggest, before shooting into the brush, that the Treasury Department do a little sampling. For example, in the most widely distributed stock in the country, which is American Telephone & Telegraph, let the Treasury take the letter G. Knowing, as is public knowledge, what the dividend payments are on American Telephone & Telegraph, let the Treasury ask that great company for the names and addresses of their stockholders under the letter G. If that would be too many, I would suggest that they ask for that information for G to Go, or something of that sort. Let them make a real analysis of what the situation is. That is what I would ask. I would ask the Treasury to make a sampling, so that we may know how bad the situation is before we authorize them to shoot into the brush with a blunderbuss.

Mr. AIKEN. Mr. President, will the Senator yield?

Mr. FLANDERS. Yes.

Mr. AIKEN. I was going to remind my colleague that a large percentage of the people to whom he refers in our State, who have an income of from \$200 to \$300 a year from stocks which they own, do not at the present time fall into any income group in which they must make out a tax return. I do not know of any estimate as to how many people would be required to make out income-tax returns in order to get from the Government the five or six dollars which had been withheld.

Perhaps the Senator from Illinois has an estimate of how many additional persons would have to make out income-tax returns in order to get the few dollars which were withheld from them, possibly at a time when they needed the money.

The PRESIDING OFFICER. The time of the Senator from Vermont [Mr. FLANDERS] has expired. Does the Senator from Georgia yield more time to him?

Mr. AIKEN. I did not know that we were operating under a limitation of time.

Mr. GEORGE. I am glad to extend the Senator's time.

Mr. AIKEN. As I understand the Senator from Illinois and the Senator from Vermont, the Senator from Illinois is shooting at a bobcat, although he cannot see it. There are a couple of hundred songbirds, rabbits, and other animals in the brush, which he does not want to hit. Nevertheless, he takes a shot at everything. I believe it would work an undue hardship on a very large number of people who have only a very limited income. Furthermore, I believe it would be administratively impossible in the case of farm cooperatives. There-

fore, I shall have to vote against the amendment of my friend from Illinois.

Mr. HUMPHREY. Mr. President, will the Senator yield?

Mr. FLANDERS. I thank my senior colleague for his contribution, with which I thoroughly agree. I should like to state one or two other things.

The PRESIDING OFFICER. The time of the Senator from Vermont [Mr. FLANDERS] has expired. Does the Senator from Georgia yield more time to him?

Mr. GEORGE. Does the Senator from Vermont desire more time? I do not mind giving him more time, but I dislike to have other Senators take his time after I have yielded it to him.

Mr. FLANDERS. I shall not take long.

Mr. GEORGE. I yield 3 minutes to the Senator from Vermont.

Mr. FLANDERS. There are other Senators who may wish to protest this amendment. As I said, the people to whom I refer are in a thicket. The wage earners are in sight, and the Treasury Department knows about them. I submit that the proposal for a sampling which I made would give a clear indication of the number of dividend holders who are below the minimum of taxable income, and those who are above and are welching on their just taxes. Before I will vote for any provision of the kind which Shakespeare called the insolence of office I would insist that there be some sort of revealing sample taken.

Mr. GEORGE. Mr. President, I yield to the Senator from Colorado [Mr. MILLIKIN] if he wishes to talk on the subject. The Senator from North Carolina desired to make some remarks, but he is not on the floor.

Mr. MILLIKIN. I shall be very brief.

Mr. CASE. Mr. President, will the Senator yield?

Mr. MILLIKIN. Yes.

Mr. CASE. Is not the point which the Senator from Vermont [Mr. FLANDERS] has made quite applicable, namely, that in the case of wages there is definite knowledge of the number of dependents, and therefore the withholding is based upon the family or individual status of the taxpayer; whereas in any proposed withholding on dividends there would be no such knowledge, and the number of dependents would not be taken into account?

Mr. MILLIKIN. The Senator from South Dakota is entirely correct. He points out the valid difference between the two systems—the system applying to wage earners and the proposed system.

There is another point to be considered. In the wage field the worker gets his take-home pay. His wages are figured in terms of take-home pay—pay after taxes. The man who does not work for wages, who gets a little check from this, that, or the other company, has no take-home pay problem focused on him as such. His take-home pay is what he gets—the full amount of the check. That is particularly true if, after allowing for what he gets, he does not owe any taxes at all.

With reference to the estimates made by the Treasury and others, I affirm that

there has not been made a competent survey to determine all the facets of the problem. The Treasury says, "We have surveyed a selected, fair sampling of returns in the upper brackets. From that we deduce that there is an evasion of revenue of \$250,000,000 a year."

If I were convinced that we are losing \$250,000,000 a year or \$350,000,000 a year, or considerably less than either, through this type of evasion in the upper brackets by people taking dividend or interest checks, sneaking into banks and getting the cash, and not reporting it on their returns—if I thought that was going on to the extent that is intimated by the figures with which we have been regaled, I certainly would be for stringent action.

Here is the way to get stringent action, and here is the way to get the evaders—

Mr. HUMPHREY. Mr. President, will the Senator yield?

Mr. MILLIKIN. I should first like to state how to do it.

What a curious proposal comes to us from the Treasury Department. Although by its own figures, evasions in the amount of \$250,000,000 occur every year, I challenge anyone to show that any person has been thrown into jail for evading taxes in that way, or I challenge anyone to state the number of fraud cases which have been commenced because of this particular process.

Of course, the answer is that when the samplings are made and it is found that there are these evaders, they should be put in jail. If a few of them were put in jail, there would be no problem. That is the way to handle that matter.

There is no sense in distorting the entire tax-collecting machinery and inconveniencing the hundreds of thousands of persons who owe no taxes, in order to get from some other persons money which the Treasury Department can get by activating its own interest and duty.

Mr. DOUGLAS. Mr. President, the Senator from Colorado is always gracious in yielding, and of course I was willing to yield to him during the course of my remarks.

Mr. MILLIKIN. Mr. President, I cannot resist that gambit, so let me have it.

Mr. DOUGLAS. Would the Senator from Colorado advocate doing away with withholding from the salaries of individual workers and wage earners?

Mr. MILLIKIN. No.

Mr. DOUGLAS. Then, why does not the Senator from Colorado advocate withholding in this case?

Mr. MILLIKIN. Because the situation which exists in the other case is not present in connection with the type of withholding proposed in this case.

Mr. CASE. Mr. President, will the Senator from Colorado yield?

Mr. MILLIKIN. I yield.

Mr. CASE. How does the Senator from Colorado know there are such evaders in connection with the payment of taxes on dividends?

Mr. MILLIKIN. Does the Senator from South Dakota mean to ask how the figures to which I have referred have been obtained?

Mr. CASE. Yes.

Mr. MILLIKIN. A certain number of returns in what are called the higher income-tax brackets, which were considered to represent a fair sampling, were examined in order to ascertain whether taxes had been or had not been paid on dividends. From that study or sampling, the figure thus obtained was ballooned up to a grand figure which we are told represents the total scope of evasion in such cases.

However, I repeat that if there has been evasion on the part of the higher-bracket-income taxpayers who make returns, and whose returns can be checked, and whose returns are being checked, and if evasions to the extent of \$250,000,000 or \$300,000,000 a year are occurring, why has not someone been put in jail for such evasion? The way to have the payments made is to put some of the evaders in jail.

Mr. CASE. I want to have that done, too.

Let me ask the Senator whether the corporations paying the dividends make a report of the dividends they pay.

Mr. MILLIKIN. I am coming to that point, and I am glad the question has been asked.

Mr. President, under this bill, the Treasury Department has a right to request complete reports on all dividends paid by corporations. If the Treasury Department will obtain such reports and will run them down to the bottom and will cross-check them against the returns which are made by the individual taxpayers, the Treasury will know what is happening and it will know whom to put in jail for evasion or whom to confront with income-tax-fraud cases.

Mr. CASE. It seems to me that is the way to proceed.

Mr. MILLIKIN. Mr. President, the present proposal is a convenient way for the Treasury to dodge its own duties and to inconvenience all dividend and interest recipients in the United States as a reward for doing so.

Mr. CASE. Apparently the Treasury does not even need a hunting license, for it already has a directory giving the name and address, if the Treasury wishes to use it.

Mr. MILLIKIN. Yes, it would be the easiest sort of thing to do.

Mr. GEORGE. Mr. President, let me remind the Senator that in this bill we are authorizing the Treasury to require a corporation paying as much as \$100 in the form of a dividend to report that payment; and if the Treasury Department is not satisfied with that, it can require all corporations paying dividends to report to the Treasury in regard to everyone who receives a dividend of even as little as \$1.

Mr. MILLIKIN. The Senator from Georgia is entirely correct, and that is the purpose.

Mr. GEORGE. In regard to the other question, the query is always presented, "If you are going to make withholdings from the wages of workers and wage earners, why not withhold in the case of dividends?" On that point, let me say that in the case of the worker, the

withholding occurs after exemptions, and is based on standard deductions.

Mr. MILLIKIN. That is correct.

Mr. GEORGE. Whereas in the case of the present proposal, the withholding will be from the gross amount received by the poor recipient.

Mr. President, I have received a letter which states what may be an extreme case, but certainly there are hundreds of thousands like it. Let me show what this proposal would mean to elderly persons.

The letter to which I now refer was sent to me by a lady who says that she is in a class of persons who may be called aged couples. I read now from her letter:

What will this mean to the aged couples, formerly self-employed, without pensions or social security, the couple living meagerly on a \$2,000 income from securities, owing not one dollar of income tax, and being 65 years of age? That couple will have to make a forced loan to the Government in the amount of \$400—

Even although not owing 1 cent to the Government.

I read further:

The same couple, if receiving \$2,500 in dividends, will be compelled to make a forced loan to the Government of \$500—

Although not owing the Government 1 cent.

I read further from the letter:

The same couple, if receiving \$2,700 in dividends, will be stripped of \$540—

To cover what, Mr. President? To cover a \$6 tax liability.

Oh, Mr. President, the proposal before us is a perfectly ridiculous one.

Mr. MILLIKIN. Mr. President, the letter the Senator from Georgia has read shows up the utter ridiculousness and unfairness of this proposal.

Mr. CASE and Mr. HUMPHREY addressed the Chair.

The PRESIDING OFFICER. Does the Senator from Colorado yield; and if so, to whom?

Mr. MILLIKIN. I yield first to the Senator from South Dakota. Thereafter I shall be glad to yield to the Senator from Minnesota.

Mr. CASE. Mr. President, the point just made by the senior Senator from Georgia brings out the fact that some adjustment or refund would have to be made in every case, under the present proposal; whereas in the case of the withholding of wages, in many instances the withholding is a correct one because exemptions and deductions are taken into consideration.

However, under the present proposal the withholding of dividends would be done without giving consideration to deductions and exemptions, and thus in every case there would have to be a refund, after refiguring the case, because the collection would be made as if there were no exemptions.

Mr. MILLIKIN. Yes. In other words, in connection with the proposal which now is made, there is a basic assumption that every person who receives dividends owes the Federal Government 20 percent of those dividends. Of course

that is an inaccurate assumption, and those who would make the withholding would have no knowledge of the exemption or of the income-tax base in the particular case.

Mr. HUMPHREY. Mr. President, will the Senator from Colorado yield to me at this time?

Mr. MILLIKIN. I yield.

Mr. HUMPHREY. I grant that the corporation making the return would not know anything about the income-tax status of the person to whom the dividend was paid, any more than an employee at the gate of the United States Steel Corp. knows anything about a man who comes to that gate. In each case, it is necessary to obtain a declaration from the person.

Mr. MILLIKIN. The exemptions would be known.

Mr. HUMPHREY. The exemptions would be known when the taxpayer stated his exemptions.

If the Senator from Colorado wishes to have the amendment modified in such a way as to provide that the individual recipient of a dividend shall declare his exemptions, we shall be glad to modify the amendment in that way; but the business firms of the United States have said, "No, a thousand times no."

Mr. MILLIKIN. Mr. President, I also say, without reference to the business firms of the United States, but speaking so far as I am concerned, "No, no, a thousand times no."

Mr. DOUGLAS. Mr. President, then that is not the real objection of the Senator from Colorado.

Mr. MILLIKIN. What is not?

Mr. DOUGLAS. The point the Senator from Colorado has just advanced, because we said we would be glad to meet it. However, the Senator from Colorado says he will be opposed to the amendment, even if we do meet that point.

Mr. MILLIKIN. Mr. President, let my flower bloom a little more so the Senator from Illinois can see it. [Laughter.]

Now, Mr. President, let us come to the category of citizens for whom I have real solicitude—although the Senator is falling into the habit of sneering at that category as being "widows and orphans." The ones for whom I have real solicitude are those—hundreds of thousands or perhaps millions in number—who receive little dribbles of dividends and interest and do not owe any tax at all.

As the Senator from Georgia has pointed out, under the present proposal, someone would withhold 20 percent of their meager incomes. That amount would be withheld, not for only 1 year, but for every year; there would be a continuous withholding of 20 percent, a continuous withholding in that amount from persons who cannot afford to have anything withheld. Nevertheless, constantly one-fifth of their small incomes would be held up by Uncle Sam, who, I assume, under competent management would also make some interest on it.

Be that as it may, I am thinking in terms of nuisance; I am thinking in terms of harassment of the citizen. I do not want our citizens to have to be flooding the mails with claims for re-

funds. Many of them will not know that they have a refund due. Tens or hundreds of thousands would go to their graves without knowing that someone was holding back 20 percent of the money to which they were entitled, because, although I think most wise corporations would explain to the stockholder, yet there is nothing in the present proposal which would require the corporations to say, "We have taken 20 percent of your money and have handed it, not to you, but to Uncle Sam, who will continue to hold it until you make a claim for refund if you are entitled to it."

The average person is the one I am discussing. Let us consider his situation. Perhaps he has a little income from rent or perhaps he has a little income from interest or perhaps he has a little income from a pension or perhaps he has a few small dividends coming to him—not an average of \$100 for each dividend as we have heard, but little amounts of \$1.50 or \$2 in dividend checks which are mailed to him. He does not make any income-tax return; he is not obligated to make an income-tax return. But the great, benevolent, solicitous Uncle Sam wants that person to get into the habit of making returns and making claims for refund. The only way he can get his money back is to make claim for a refund. That means he has to go to see Judge John Doe, whom he supported for justice of the peace, and say to him, "Judge, I want you to write a letter for me. I am not getting that full \$1.50 check out of which I buy the chewing tobacco described by the distinguished junior Senator from Virginia, and the wife will not give me an additional allowance. I want to get that full \$1.50. Now, they are holding 30 cents of that back on me, and I want you to write a letter to them."

So the judge, conscious, as some people sometimes are, of political favors, will write a letter for the gentleman in which he says to the dividend payer, "How come that my friend does not get all of his check out of the corporation?" What is our present postage rate? Has that been decided? What is it—3 cents or 4 cents?

Mr. BUTLER of Maryland. It is hovering between 3 and 4.

Mr. MILLIKIN. It is hovering between 3 and 4? Well, it will be 4. So the old justice puts a 4-cent stamp on the letter he has written. The mail carrier takes it away and it goes through the postal service. The corporation gets it. The corporation spends 15 or 20 or more cents for every letter it writes. So it writes a reply. It reaches the judge, and the judge telephones out in the country, the old boy comes in again, and the judge says, "Why, my friend, you have got to make a request of Uncle Sam for a refund." The man replies, "Well, judge, for goodness sake, write that letter for me." [Laughter.] So the judge writes another letter, affixes another 3-cent stamp or 4-cent stamp. Back comes a reply from Uncle Sam telling this bewildered and bedeviled citizen that he must make an application for a refund. This calls for a visit to the postmaster or a revenue agent to find out how to go

about making the application. So he makes out the form; and some day, by the grace of God, maybe this poor devil will get back his tobacco money.

That is the kind of thing certain Senators want to fasten on the low-income people of this country—and there are millions of them—who do not make income-tax returns, and who should not be required to make income-tax returns or to correspond with the Government to get back from the Government that which never should have been withheld.

The PRESIDING OFFICER. The time of the Senator from Colorado has expired.

Mr. GEORGE. Mr. President, the Senator may have further time, if he desires it.

Mr. MILLIKIN. I will make my remarks very short, unless I am harried by the warriors to the left of me, who stand with their tomahawks poised. But, Mr. President, they are papier mâché, and I do not fear them. [Laughter.]

I now yield to the Senator from Illinois.

Mr. DOUGLAS. Mr. President, if oratory and wit were to determine this issue—if oratory and wit were to determine this vote, the Senator from Colorado would have a very easy victory; but when he speaks of these figures having been produced by the "insolence of office," that is, of the United States Treasury—

Mr. MILLIKIN. It was the distinguished Senator from Vermont who said that.

Mr. DOUGLAS. I think it was endorsed by the Senator from Colorado. The estimates of \$323,000,000 were produced, not by the Treasury, but by the Joint Committee on Internal Revenue Taxation, which has prepared the technical details for this bill. That is not the Treasury estimate. The Treasury estimate was only \$250,000,000. The joint committee's estimate is \$320,000,000.

Mr. MILLIKIN. Why not get another estimate, and possibly it will be made \$500,000,000 or \$1,000,000,000?

Mr. DOUGLAS. The point I am trying to make is that the Treasury was extremely conservative, and probably the joint committee is much closer to the facts.

Mr. MILLIKIN. I suppose I could with equal plausibility argue that the Treasury was extremely optimistic, and that the joint committee was even more optimistic. That proves nothing.

Mr. DOUGLAS. We have spent some time on the figures, and it is obvious that the Treasury figures were not optimistic.

Mr. MILLIKIN. It is obvious, Mr. President, that if the Treasury is telling the truth, several hundred people should be in jail who are not there.

Mr. President, I must get ahead, because this morning I found myself in such an entrancing debate with the two gentlemen who have been on their feet, that I was a little hoggish of the time. I want to say something about the people in the lower brackets, about the people who are not only in the lower brackets, but who do not make any re-

turns, and who should not be required to make any returns, and who should not be harassed. Their position in life is such that we should not add unnecessary harassments to those from which they already suffer.

Mr. President, I admit that when we had the experts before the Senate Committee on Finance they had something bearing the semblance of statistics on tax evaders in the upper-income brackets. But I said, "Now, what are your statistics to show us the number of people in the lower brackets, who do not pay income taxes but who, if they reported their dividends or interest, would be in the taxpaying category?" On that score they had nothing. On the very core of this problem, they had nothing whatever. It was suggested, would it not be simple, would it not be easy, to follow a procedure such as that suggested by the distinguished junior Senator from Vermont, to take a sampling of those people, to find out how many of them, if they received dividends and reported them, would have to pay taxes? No one ever thought of it. No one ever did it. No one was thinking about keeping harassment and annoyance and pestering from the people who have enough to worry about without that. That is all I have to say, Mr. President.

Mr. GEORGE. Mr. President, have I any time left?

The PRESIDING OFFICER. The Senator has some time remaining.

Mr. GEORGE. I yield to the Senator from North Carolina. Does the Senator from Illinois wish to speak?

Mr. DOUGLAS. Mr. President, does the Senator from Illinois have a little time?

The PRESIDING OFFICER. The Senator from Illinois has 10 minutes left, the Senator from Georgia 14 minutes.

Mr. GEORGE. I yield my remaining time to the Senator from North Carolina.

The PRESIDING OFFICER. The Senator from North Carolina.

Mr. HOEY. Mr. President, this is the one amendment which, in the event it should be adopted, I think would cause more trouble to more people in the United States than any other amendment which has been proposed to the bill.

There are about 400,000 taxable corporations in the United States, and they have stockholders all over the country. The American Telephone & Telegraph Co., for instance, has 1,000,000 stockholders, and that company therefore sends out a million dividend checks. The greater number of these stockholders own anywhere from 2, 3, 4, or 10, to 15 or 25 shares, so that that stock is held by a large number of people, millions of people, throughout the United States. In my State 1 corporation has 30,000 stockholders, and there is not a single member of that corporation or stockholder who owns as much as 2 percent of its capital stock.

Dividends received from corporations are a part of the integral income of at least from 6,000,000 to 15,000,000 people in the United States. The estimate

before the Senate Finance Committee was that there are at least 6,000,000 people in the United States receiving dividends, and that, in all probability, the number reaches 15,000,000. Most of the dividends are small. The Treasury Department estimated, in the examination of its representatives before the Senate Finance Committee, that in the event the pending amendment should become a part of the law, in all probability there would have to be at least 2,000,000 refunds made to people who received dividends and whose money was withheld, although they did not owe any taxes to the Federal Government.

I cannot conceive of any amendment which would cause so much trouble to so many small people throughout the Nation as would this amendment if it should be adopted. Why should we interrupt the ordinary procedure of 2,000,000 persons in receiving dividends on the small investments they have in corporations throughout the country, and have one-fifth of their dividends withheld before they receive them, and force them to the necessity, the annoyance, and the expense of filing applications for refunds and filing tax returns, when they would not be required to do so otherwise?

To illustrate how a small amount of money affects many people, let me say that when the Congress, 2 or 3 years ago, changed the exemption from \$500 to \$600 and increased the exemption of those over 65 years of age to \$1,200, it eliminated more than 6,000,000 taxpayers from the rolls. That shows how small is the income of a great many persons, and how disastrous would be the effect of the adoption of the pending amendment upon the small people who receive dividends. Widows and orphans with small investments would be forced to go to someone to file an income tax return for them when they owed no money to the Government, and then to prepare a refund application when the Government had withheld the money.

Most dividends are paid quarterly although smaller corporations pay semi-annually or annually. A dividend would be paid in March and 20 percent would be withheld. Another dividend would be paid in July, and 20 percent of it would be withheld, and the same would occur in October, and, finally, in January.

Between January and March 15, when the time came to file an application for refund, and at the same time to file a return, those people would file their applications. They had already been without the money for a full year. How long it would take to have these refunds handled and how long it would take to have them processed and the money returned is a question I cannot decide, but already the people who needed this money for their regular existence and for their normal support would be denied the use of it. There is absolutely no justification for such a provision.

Let us see what the purpose is. We are told that the desire is to bring about a better collection of taxes on dividends. Is there anything in the world to prevent the Treasury from collecting more taxes on dividends now, if they are not getting them all? Under the present law, every

corporation is required to submit to the United States Treasury a list of all dividends paid to all stockholders in the United States if they exceed \$100, and, in addition to that, if the Treasury Department wants to do so, it is entitled to get a report of every single dollar paid in dividends. So the Treasury would have available the names and addresses of every person in the United States who has received a dividend from any corporation.

Last year the Senate Finance Committee suggested to the Treasury Department the adoption of a regulation that a taxpayer, in making his return, should not simply list dividends of so much, but be required to make a list of the dividends, the companies which paid them, and the amount paid. Under the law, the taxpayer is required to file a list of every dividend he received and the corporations of the country are required to file a list of all the dividends paid and the people to whom they are paid.

Is there any trouble about having the tax returns checked against those lists? Could not the Treasury make that check as easily as they could process refunds to the number of 2,000,000? At the same time, they could ascertain whether anyone had failed to return his dividends.

Mr. President, I have received more letters regarding this provision than I have received with respect to any other provision of the bill. I have received letters from every State of the Union, largely from women who say: "My husband is dead. He left a certain amount of money and I have invested it. I receive about a thousand dollars a year in dividends, and that is all the income I have. I have four children. If this provision goes into effect, they will hold \$200 of my money, and I cannot spare it; I need it to live on."

Mr. FREAR. Mr. President, will the Senator yield?

Mr. HOEY. I am glad to yield to the Senator from Delaware.

Mr. FREAR. Is it the opinion of the Senator that some of the persons who have small dividends coming to them would not have knowledge of the situation, should this provision withholding 20 percent of their dividends become effective, and would not take the trouble to file a form to get a refund from the Treasury?

Mr. HOEY. I think the Senator is absolutely correct.

Mr. FREAR. If that be the case, the Treasury of the United States would be taking money that did not belong to it.

Mr. HOEY. That is correct; and taking it from people who could ill afford to spare it.

Mr. SCHOEPPPEL. Mr. President, will the Senator from North Carolina yield?

Mr. HOEY. I yield to the Senator from Kansas.

Mr. SCHOEPPPEL. Regarding the situation to which the Senator from North Carolina has just referred, namely, of having heard from many people from all over the United States in protest against such an amendment as is now proposed, the same thing has been true in my case. Scores of persons writing to me have never been in the tax-reporting bracket and they are very fearful. They ask,

"What is it that I will be required to pay under this amendment when I have not sufficient earnings even to make an income tax return?" I say that the point which the Senator is making is a very valid one, and one which concerns a great many persons.

Mr. HOEY. I thank the Senator from Kansas. His experience, I think, is duplicated by that of Senators throughout the Chamber.

When a man is employed he has a right to give to his employer at the time of his employment, under social security, the names of his dependents and his own exemptions, and all that information is taken into account before any deduction is made from his salary. It would not be practicable to undertake to apply that sort of rule to dividends, for the reason that corporations would not be able to handle the multiplicity of details which would be involved. They would be endless. The corporations have indicated that they could withhold the money if the law provided for that, but if conditions were prescribed by which it would be necessary for them to make decision as to the amount of money that should be withheld, then it would be an insurmountable task and would involve the employment of additional bookkeepers and auditors to handle that phase of the situation. It is just not practicable.

Let us take another illustration. Those over 65 years of age have an exemption of \$1,200. If a man is over 65 years of age and his wife is over 65 years of age, they would have a combined exemption of \$2,400; but if this provision should go into effect and they had less income than the exemption, they would have the expense, the annoyance, and the trouble of filing a return. They may not be accustomed to doing that. It would involve considerable expense. The expense and trouble would be almost as much as the refund would be worth. They are the people who would probably most need the money, and they are the ones from whom the Government should not take the money. I do not think the Government should reach down into the citizen's pocket and tax that which the citizen is not obligated to pay, and which, under the law, he is not required to pay.

Mr. President, I do not know what would more disrupt the pleasant feeling which should prevail between the Government and its people than to say, "We are going to take this money for a year and you will be without it in the time of your great need. When you need it for the support of yourself, your children, and your family, you shall be denied it, because someone says you are not returning all that should be returned."

I hope the Senate will not adopt the amendment. Of all the amendments which have been offered, as I said a few minutes ago, this one would cause more trouble and annoyance to more people than would any other amendment which could be conceived. To me it seems that the Government would be undertaking to say to the people, "We do not know how honest you are, so we are going to take 20 percent of the dividends you are receiving. If you have been paying your tax on them, all right. If

you have not been paying it we are going to take it out. If you do not owe it, all right, we are going to take it anyway."

Mr. President, as I stated, there are other ways and methods by which we can deal with those who do not make proper and full returns of their dividends. There are two methods, either one of which can be adopted, either one of which will be efficient, either one of which will be effective, and there is no reason why we should adopt this sort of amendment and put several million people to unusual trouble, to unnecessary expense, and to delay in receiving that which justly belongs to them.

Mr. DOUGLAS. Mr. President, I yield 5 minutes to the junior Senator from Minnesota.

Mr. HUMPHREY. Mr. President, I have listened with sincere and real interest to the remarks of the Senator from North Carolina. I am frank to tell him that I am moved by his remarks, and I share the deep concern he has, which he has so well stated, about the low-income group, the recipients of small dividends, and the individuals who must live off their dividends or interest payments. But, Mr. President, I will say again and again that every argument which has been made here today about the recipients of dividends and interest payments can be used with respect to the income of the wage earner. Approximately \$500,000,000 of overpayments on withholdings from wages and salaries are refunded. The bulk of the repayments thus made go to the low-income wage earner.

Mr. President, there is no withholding system which can be devised that will cover every individual case.

Mr. FREAR. Mr. President, will the Senator yield?

Mr. HUMPHREY. Mr. President, I have only 5 minutes, and I should like to continue my statement. If the Senator from Illinois will yield me a little additional time later, I shall be glad to answer a question.

Mr. President, according to the survey of the Department of Commerce entitled "Statistics of Income," wage earners with \$3,000 a year income or less, received 11.5 percent of the dividends. If those people had not paid one dime on their dividends in terms of taxes there still would have been a substantial amount of dividends and interest payments unaccounted for, because if they never paid even as much as a plugged nickel last year on the total amount of dividends, the 11.5 percent of the total amount of dividends is still \$350,000,000 below the amount which is estimated as unreported.

Mr. President, furthermore, let me say that no kind of a tax program can be worked out which does not result in some disadvantages and some hardships. I heard this morning that we could not make the effective date for corporate income taxes January 1 because it would work some kind of hardship; so in that case we gave up \$500,000,000 to those who did not need to have it given to them, to those who could very well afford to pay that amount. Sooner or later in this debate we are going to hear about

a number of other people who ought to receive some special exemption because—well, because we do not want to be too hard on them.

Now we come to the point where we are asked not to be too hard on recipients of interest and dividend payments. But I want the fact to be revealed that the people who have their main source of income from dividends and interest payments are in the upper-income brackets, the overwhelming amount of dividends and interest goes to those in the upper-income brackets, and that everything we do in this tax bill is designed to protect that group.

Mr. President, I have heard it said that a proper survey has not been made, and that we cannot take this action until we have a survey. Let me ask the Finance Committee, What kind of survey did they have that resulted in the amendment with respect to excess-profits taxes? As a matter of fact the returns have not even been examined yet. The Bureau of Internal Revenue has not had a chance to examine the returns.

Mr. MILLIKIN. Mr. President, will the Senator yield?

Mr. HUMPHREY. Not now. I shall be glad to yield if the Senator from Illinois gives me additional time.

I should like to know what kind of a survey was made before it was decided to put an excess-profits tax on washing machines. How many washer women did the committee talk to? We do not need surveys every time it is decided to apply a new tax. But when we want to put a withholding tax on corporate dividends and bond interest, how many widows and orphans are interviewed?

Let us consider the matter of corporate bond interest. Let us omit consideration of dividends for the moment. How many widows and orphans are receiving bond interest?

Mr. President, I know we cannot legislate to perfection, but an estimated \$323,000,000 of revenue is available under the amendment. If Senators wish to reduce the estimate to \$300,000,000 or \$250,000,000, still we need revenue, and I submit that the economic facts reveal that the bulk of this revenue will come from those who can very well afford to pay it.

The PRESIDING OFFICER (Mr. MOODY in the chair). The time of the Senator from Minnesota has expired.

Mr. HUMPHREY. Mr. President, will the Senator from Illinois yield me an additional minute to conclude?

Mr. DOUGLAS. Yes.

The PRESIDING OFFICER. The Senator from Minnesota is recognized for an additional minute.

Mr. HUMPHREY. Mr. President, so far as this amendment is concerned, I, as a cosponsor, wish to say that if any member wants to propose an amendment to the amendment to have all the deductions and exemptions taken into account before the dividend and interest withholding tax applies, I will vote for it. I will join in the proposal of such an amendment.

Mr. President, let me also say that if any Member wants to see to it that the Treasury Department shall be further

staffed so as more quickly to expedite the refunding operation, I will join with him in such a move. If any Member wishes to propose an amendment providing for better enforcement of the laws by the Bureau of Internal Revenue, I will join with him. But that takes manpower, and no one knows it better than the Senator from Colorado. He knows that it takes manpower to analyze more than 45,000,000 income tax returns, which is the number of returns the Federal Government is dealing with at the present time.

The PRESIDING OFFICER. The time of the Senator from Minnesota has expired.

The question is on agreeing to the amendment offered by the Senator from Illinois [Mr. DOUGLAS] for himself and other Senators.

Mr. DOUGLAS. I ask for the yeas and nays.

The yeas and nays were ordered, and the Chief Clerk called the roll.

Mr. JOHNSON of Texas. I announce that the Senator from New Mexico [Mr. ANDERSON] is absent by leave of the Senate.

The Senator from Virginia [Mr. BYRD], the Senator from New Mexico [Mr. CHAVEZ], and the Senator from North Carolina [Mr. SMITH] are absent on official business.

I announce further that if present and voting, the Senator from New Mexico [Mr. CHAVEZ] and the Senator from North Carolina [Mr. SMITH] would vote "nay."

Mr. SALTONSTALL. I announce that the Senator from Maine [Mr. BREWSTER] is absent on official business, and, if present he would vote "nay."

The Senator from Minnesota [Mr. THYE] is absent by leave of the Senate, and, if present, he would vote "nay."

The Senator from New Hampshire [Mr. TOBEY] is absent because of illness.

The Senator from Nebraska [Mr. WHERRY] is necessarily absent.

The Senator from New Hampshire [Mr. BRIDGES] and the Senator from North Dakota [Mr. LANGER] are detained on official business.

The Senator from Wisconsin [Mr. MCCARTHY] is detained because of his testimony on a legal matter, and, if present, he would vote "nay."

The result was announced—yeas 15, nays 70, as follows:

YEAS—15

Benton	Kefauver	McMahon
Douglas	Kilgore	Moody
Green	Lehman	Morse
Hill	Long	Murray
Humphrey	Magnuson	Neely

NAYS—70

Aiken	Ellender	Johnson, Tex.
Bennett	Ferguson	Johnston, S. O.
Bricker	Flanders	Kem
Butler, Md.	Frear	Kerr
Butler, Nebr.	Fulbright	Knowland
Cain	George	Lodge
Capehart	Gillette	Malone
Carlson	Hayden	Martin
Case	Hendrickson	Maybank
Clements	Hennings	McCarran
Connally	Hickenlooper	McClellan
Cordon	Hoey	McFarland
Dirksen	Holland	McKellar
Duff	Hunt	Millikin
Dworshak	Ives	Monroney
Eastland	Jenner	Mundt
Ecton	Johnson, Colo.	Nixon

O'Connor
O'Mahoney
Pastore
Robertson
Russell
Saltonstall
Schoeppel

Smathers
Smith, Maine
Smith, N. J.
Sparkman
Stennis
Taft
Underwood

Watkins
Welker
Wiley
Williams
Young

NOT VOTING—11

Anderson
Brewster
Bridges
Byrd

Chavez
Langer
McCarthy
Smith, N. C.
Thye
Tobey
Wherry

So the amendment offered by Mr. DOUGLAS for himself and other Senators was rejected.

Mr. LONG. Mr. President, I call up my amendment 9-22-51-4. If I could have unanimous consent for a yeas-and-nays vote on the amendment I would be glad to limit the debate on it to 15 minutes to a side.

The PRESIDING OFFICER. The clerk will state the amendment.

The LEGISLATIVE CLERK. Beginning on page 172, line 22, it is proposed to strike through line 20 on page 175—being section 325, relating to tax treatment of coal royalties.

Mr. McFARLAND. Mr. President, I ask unanimous consent that debate on the amendment offered by the Senator from Louisiana [Mr. LONG] be limited to 30 minutes, 15 minutes to a side, to be controlled by the Senator from Louisiana [Mr. LONG] and the Senator from Georgia [Mr. GEORGE], and that any amendment offered to the amendment must be germane, with the same time limitation.

Mr. LONG. Will the majority leader include in the unanimous-consent request an order for the yeas and nays?

Mr. McFARLAND. And that the yeas and nays be ordered.

Mr. STENNIS. Mr. President, may we have order? I should like to have the Senator from Arizona restate his unanimous-consent request.

Mr. McFARLAND. I do not wish to waste time on a unanimous-consent request for limitation of debate on each amendment as we take it up. My request is that debate be limited on the amendment to 30 minutes, 15 minutes to a side, controlled, respectively, by the Senator from Louisiana [Mr. LONG] and the Senator from Georgia [Mr. GEORGE]; that any amendment offered to the amendment be germane and the debate on it likewise limited to 30 minutes, 15 minutes to each side, the time to be controlled, respectively, by the proponent of the amendment and the Senator from Georgia [Mr. GEORGE]. Furthermore, that the yeas and nays be ordered.

The PRESIDING OFFICER. Is there objection?

Mr. SALTONSTALL. Mr. President, reserving the right to object, I hope the Senator from Arizona will withhold his request that the yeas and nays be ordered.

Mr. McFARLAND. That was a condition of the agreement to limit debate.

Mr. LONG. Mr. President, I ask for the yeas and nays.

The yeas and nays were ordered.

Mr. LONG. I should like to speak to this amendment first.

Mr. McFARLAND. May we have a ruling on the request for a limitation of debate?

The PRESIDING OFFICER. Is there objection to the unanimous-consent request for a limitation of debate on the amendment?

Mr. SALTONSTALL. Reserving the right to object, did the Chair rule that the request for the yeas and nays was sufficiently seconded?

The PRESIDING OFFICER. The Senator from Massachusetts is correct.

Mr. SALTONSTALL. The order for the yeas and nays is not a part of the unanimous-consent agreement.

The PRESIDING OFFICER. It is not now a part of the unanimous-consent agreement.

Mr. SALTONSTALL. I have no objection.

The PRESIDING OFFICER. Is there objection to the request of the Senator from Arizona? The Chair hears none, and it is so ordered.

Mr. LONG. I believe that Senators can very easily understand the issue involved, and the amendment should not require a statement of more than a few minutes.

Mr. President, the portion of the bill which is sought to be amended by my amendment is not an amendment inserted by the Senate committee. The language was put in the bill by the House committee. In my opinion the provision in the bill which I seek to amend violates the general principle of equity in our system of taxation. The provision would mean a reduction in revenue of about 60 percent in the tax of those who receive coal royalties. It would treat coal royalties as a capital-gains transaction.

In other words, if a person owns a coal mine, or owns a coal reserve, and merely leases it, he would be able to treat the income from such a lease as a capital-gains transaction. It would mean that he would pay only on half of the income, and his total over-all tax on the amount he received would be limited to 25 percent.

I believe that a study of the situation would show that the people who receive coal royalties are for the most part corporations which are paying excess-profits taxes, so that most of the income would be in about the 70-percent bracket. The House committee put into the bill a proposal under which coal royalties would be treated as a capital-gains transaction, and therefore the income tax would be reduced to 40 percent of what it otherwise would be on coal royalties. It seems unfair to the junior Senator from Louisiana, at a time when we are raising taxes for everyone else in the Nation, that those who are receiving coal royalties should have their income tax cut by about one-half of what it otherwise would be.

Mr. ROBERTSON. Mr. President, will the Senator yield?

Mr. LONG. Yes.

Mr. ROBERTSON. Is any coal mined in Louisiana?

Mr. LONG. No; there is no coal mined in Louisiana, so far as I know.

Mr. ROBERTSON. When the Senator from Louisiana talks about the corporations who would be benefited by this provision, does he realize that most of the leases are made on the basis of 10

cents a ton? Furthermore, is the Senator from Louisiana going to ask that the proposed treatment of timber on a capital-gains basis should be abolished? Or is the Senator speaking only with reference to coal royalties?

Mr. LONG. I shall be very glad to speak to that point. The question is raised that coal is not produced in my State. Mr. President, last year I spoke against the Connally amendment, which proposed to treat as a capital-gains transaction all the revenues received from the sale of a certain number of barrels of oil or so much gas from a well. I thus opposed capital-gains treatment for the benefit of the largest industry in Louisiana.

If we are to give such special treatment to coal royalties, under which the owners would be taxed on the basis of the capital-gains rate, it seems to me that the oil industry and gas industry would be just as much entitled to have their income tax cut by 60 percent. Certainly they would be as much entitled to it as would be the coal-mine owners.

There is only a small amount of money involved. Giving the reduction to a special group would mean only about \$10,000,000. I predict that, as sure as the sun will rise tomorrow, if we give this reduction in taxes of 60 percent to coal-royalty owners, that the oil and gas industries will come to the Senate and say, "You are discriminating against us."

The Senator from Virginia has asked me, "How about timber?" He says that I am not proposing to do away with the special capital gains treatment on timber, and therefore it would be a discriminatory treatment. I am in the position of coming from a State which produces timber and not asking that coal be given the same preferential treatment. I am sure that if a Senator in the future rises to oppose this type of proposal on behalf of the oil interests, another Senator will rise to ask him, "Do you have any oil produced in your State?" The same question could be asked with reference to other resources. In other words if we are going to give the owners of coal royalties preferential treatment, we will find, by inescapable logic, that we should do the same thing for the gas and oil interests. It will follow that we will be asked to give the same treatment to other industries, such as sand, gravel, sulfur, iron ore, and many others. Before we are through we will find that the special treatment will have cost the other taxpayers of the Nation about \$100,000,000 in revenue.

Mr. ROBERTSON. Mr. President, will the Senator from Louisiana yield for a very brief question?

Mr. LONG. I shall be very glad to yield 30 seconds to the Senator from West Virginia.

Mr. ROBERTSON. We now tax the coal which a man owns and mines. If we tax him on the basis of capital gains, why not tax the lessor in the same way?

Mr. LONG. If a man owns coal reserves and he mines the coal, he is entitled to a depletion allowance. At this point I am not questioning his depletion allowance. I assume that was carefully studied and that there is a reason

for the depletion allowance in the case of coal.

However, to apply the capital-gains treatment in this case to a limited group of taxpayers, most of whom are large corporations, and thus reduce by one-half the tax they pay, at a time when we are increasing the taxes of all other persons and are subjecting their incomes to excess-profits taxes, would seem to me to be most unreasonable.

Is a group which has been paying normal income taxes year in and year out, ever since the income-tax law was first enacted, to be treated in such a way as to reduce its taxes by one-half, while at the same time we raise the taxes paid by everyone else?

Mr. President, if we give coal this special treatment, I predict we shall find that we must do the same for gas and for oil and for other minerals, and the result simply will be that we shall give all of them a 60-percent reduction in tax.

Therefore I think my amendment should be agreed to; I think we should strike from the bill the proposed exemption for those who have coal royalties.

Mr. GEORGE. Mr. President, I yield to the Senator from Oklahoma.

The PRESIDING OFFICER (Mr. SMATHERS in the chair). The Senator from Oklahoma is recognized for 15 minutes.

Mr. KERR. Mr. President, this provision was placed in the bill because of what the committee believed to be inequities in the present treatment of income from royalties from coal.

The ordinary income from royalties is based upon the current value of the product sold; but the evidence disclosed that most of the coal royalties in the United States are being sold under the terms of lease contracts which go back 10, 15, 20, 30, or 40 years, and that the going royalty rate is approximately 10 cents a ton. There can be no question but that a royalty interest is a disappearing asset, an exhaustible asset.

It matters not how much coal there may be under a given piece of land; in any case, it is limited, and as each ton is mined, the commodity remaining is that much less in quantity. There is no way to replace it; there is no way to grow another crop of it. There is a limited amount of it; and when that limited amount is mined, it is gone and that asset is completely depleted.

As I said a moment ago, in addition to that fact and that basic principle, we know that under no interpretation can the coal royalty be calculated upon anything other than a capital basis, which is what it is. Whatever amount of royalty the owner of the land has is a capital item; and as the coal is sold, the owner is receiving, not income from property which remains intact, but income from the sale of his capital.

Mr. LONG. Mr. President, will the Senator from Oklahoma yield for a question?

Mr. KERR. I yield.

Mr. LONG. Would not the same argument apply equally to oil and gas royalties?

Mr. KERR. The same argument would apply equally to gas and oil royalties. However, in the first place, those are not before us. In the second place, they were not brought before us. In the third place, the chief difference between coal royalties, on the one hand, and oil and gas royalties, on the other hand, is that the latter provide that a certain rate of interest shall be paid to the owner of the product when it is sold. On the other hand, the coal which is sold today is two or three times as valuable as it was when the lease contracts were made. However, the coal lease contracts are not made on the basis of paying a certain percentage of the value of the coal when it is mined—as my good friend, the Senator from Louisiana, knows is true in the case of oil or gas or other minerals—but the payment of coal royalties is fixed at 10 cents a ton, whereas the Senator knows that the owner of an oil royalty receives one-eighth of the value of the oil as it is produced. However, the owner of coal does not receive one-eighth or one-sixteenth of its value. I do not know what the going price of coal at the mine is; I think it is more than \$3 a ton.

Mr. ROBERTSON. Mr. President, will the Senator from Oklahoma yield?

Mr. KERR. I yield.

Mr. ROBERTSON. For most of it the price is more than \$5 a ton.

Mr. KERR. Very well; it is more than \$5 a ton. So actually the owner is receiving a 2 percent royalty, on the basis of a price fixed in his lease contract 10, 20, or 30 years ago, although the value of the product has increased a great deal since that time.

Mr. LONG. Mr. President, will the Senator from Oklahoma yield further to me?

Mr. KERR. I yield.

Mr. LONG. I know that the State of Oklahoma has fixed the price for gas; but is it not true that enormous gas reserves are tied up under old contracts under which the sale price of the gas is ridiculously low? Perhaps that is true in other States, if not in the State of Oklahoma.

Mr. KERR. There are countless amounts of gas which are tied up under contracts by which the operators are bound; but in the majority of those instances the operators have renegotiated the contracts and have new contracts with the royalty owners, for the reason that it has been demonstrated in some instances they were able at least to cast doubt upon the validity of the leases which kept their income at such a very low basis, by virtue of old contracts, and because as of today their product has a value so very much greater than it had at the time when the old contracts were made.

Those were the considerations, Mr. President, which impelled your committee to concur in the action of the House and to leave this provision in the bill.

Mr. ROBERTSON. Mr. President, will the Senator from Oklahoma yield to me for a question?

Mr. KERR. I yield.

Mr. ROBERTSON. Is it not a fact that under this section, if a coal lessor

takes the capital-gains treatment he cannot get the depletion allowance treatment; and is it not also true that the oil producers do not wish to pay on that basis, but would rather have the depletion allowance treatment, rather than the capital gains treatment?

Mr. KERR. I cannot answer the Senator as to that; but, Mr. President, I am sure that if the Senator from Virginia tells me that the arrangement with reference to coal royalties is as he has stated, he has stated correctly what the situation is.

Mr. ROBERTSON. That is my understanding, namely, that if one is taken, the other cannot be taken.

Mr. KERR. I thank the Senator.

Mr. President, I yield the remainder of my time—

Mr. CARLSON. Mr. President, will the Senator from Oklahoma yield to me?

Mr. KERR. Mr. President, how much time have I remaining?

The PRESIDING OFFICER. The Senator from Oklahoma has 8 minutes remaining.

Mr. KERR. I yield to the Senator from Kansas.

Mr. CARLSON. Is it not true that the funds received as a royalty from coal are funds received from property that is irreplaceable, and that those receiving the money are taxed on that basis?

Mr. KERR. Yes, unquestionably that is the case. So far as the principle is concerned, the principle is sound, and the application of any other principle is unsound, because the asset is a diminishing one, and what is sold is the sale of a capital item.

It is just as if a man had 100 acres of timberland. When the timber is sold, it is gone. In fact, this treatment is even more equitable in the case of coal than it is in the case of timberland, for the reason that the ground which grows the first crop of timber will eventually grow another crop, if it is permitted to do so, whereas the ground which contains one crop of coal is worthless, so far as coal is concerned, once the crop of coal is mined. When the coal is mined, it is gone; and no one short of the Omnipotent can grow another crop of coal on that piece of land.

Mr. President, I yield the remainder of my time to the distinguished Senator from West Virginia [Mr. NEELY].

The PRESIDING OFFICER. The Senator from West Virginia is recognized for 5 minutes.

Mr. NEELY. Mr. President, for all the reasons why amendment No. 9 of the 24th day of September, designed to reduce the percentage depletion for oil, gas, sulfur, and nonmetallics, introduced by the Senator from Minnesota [Mr. HUMPHREY], should be defeated, the so-called Long amendment, relating to tax treatment of coal royalties, should be rejected.

Mr. LONG. Mr. President, will the Senator yield for a question?

Mr. NEELY. I yield.

Mr. LONG. The Senator is discussing depletion allowances. I think he understands that by this amendment I am proposing to eliminate capital-gains treatment. It has nothing at all to do

with depletion. As a matter of fact, I stated I would not ask for this kind of treatment for oil and gas, and that is why I do not think we ought to ask the same thing for coal.

Mr. NEELY. I thoroughly understand the amendment. Let me remind the Senator from Louisiana that the various factors in the vital equation known as the coal industry are united as inseparably as the links in a chain are joined together. The bearing of a burden placed upon any of these factors is sooner or later shared by all. The Long amendment, if enacted into law, would injure every coal owner, every coal operator, every coal miner, and every coal-carrying railroad in the country.

Mr. President, the coal industry is now seriously depressed.

On the 14th of July 1950, it was my privilege to file a report in behalf of the Committee on Labor and Public Welfare pursuant to Senate Resolution 274, to investigate the cause of increasing unemployment in certain industries. That report shows the devastation the coal industry has suffered in recent years as a result of the competition of foreign oil. For example, the Norfolk & Western, the Virginian, and the Chesapeake & Ohio Railroads are largely dependent upon the transportation of coal for their prosperity. These roads transport coal from West Virginia, the greatest coal producing State in the Union, to their eastern terminus, Hampton Roads, Va. In 1948, 17,578,000 tons of coal passed through the Hampton Roads port to the New England, New York, and Philadelphia areas. In 1949 that coal traffic dropped to 10,398,000 tons—a decrease of more than 7,000,000 tons in a single year.

It is shown that this decrease in coal business caused approximately 2,600 railroad employees to lose their jobs. In the same year 10,000 coal miners in West Virginia were unemployed.

It is further shown by the report mentioned that largely as a result of foreign oil competition 46 mines in central Pennsylvania were closed between January 1, 1949, and May 1950.

In 1949 Pennsylvania's coal production was 43,059 tons less than it was in the previous year. As a result of this decrease 10,750 miners were unemployed.

The distress suffered by the coal industry in West Virginia and Pennsylvania has extended to every other coal-producing State in the Union. No other industry is more entitled to a fair deal; no other industry is in greater need of relief; no other industry is more deserving of a helping hand.

I entreat the Senate to defeat the Long amendment and thereby aid the beleaguered coal industry to win its struggle for existence, help to increase the employment of the miners and railroaders, and generally augment the prosperity of the people in every walk of life.

Mr. LONG. Mr. President, how much time remains to the proponents?

The PRESIDING OFFICER. Eight minutes.

Mr. LONG. Mr. President, I should like to answer one or two of the arguments which have been made on the

floor. The distinguished Senator from Oklahoma made the argument that coal is depleted, that it has been taken from the ground, and that it is gone, never to be replaced. That is true. The same thing is true of oil and gas; the argument is equally applicable. Mr. President, there is no logical distinction that can be made.

It is said that inasmuch as a natural resource becomes depleted, money accruing from it should be treated as a capital gain, taxable at the top tax rate to the extent of only 25 percent of the entire transaction. If that principle is to be applied in the case of the extraction of coal, it applies equally to the extraction of any other natural resource to be found in the entire United States or in any other place in the world. If we are to adopt that principle, we might as well recognize the fact that we have established a precedent for the wealthiest people of the United States to get a tremendous windfall which they never expected. The oil and gas interests do not expect us to exempt their royalties from taxation or even to cut the taxation on their royalties by about 60 percent; but if we do this for coal, they will expect it, they will be demanding it of us, and frankly, they will have a very good argument.

The argument was made, and made very effectively, by the distinguished Senator from West Virginia, that the oil industry should support the coal industry, and vice versa, and that those of us who happen to live in States producing a great deal of oil ought to support the coal industry. This very bill, as I understand, provides very favorable treatment for coal in the day of depletion allowance. Oil is not getting any additional depletion allowance in the bill. When we are talking about extraction, we are talking in terms of transactions which get a depletion allowance for that very reason. Why should we go further and permit a depletion allowance? I see no reason for it.

Mr. President, we may as well realize that for the most part the coal operators are not involved in this request. In fact, it is the coal operators who could be construed as benefiting, from the fact that they are paying what is asserted to be a low price for coal leases; but the operators are not being affected one way or other, so far as the junior Senator from Louisiana can determine.

However, it would be well for us to notice that there are only a few, or a limited number of royalty owners, with respect to coal. It has been pointed out to me that one company would benefit to the extent of a \$420,000 tax reduction if the House provision should remain in the bill. Another company might benefit to the extent of \$1,000,000 or more.

Mr. NEELY. Mr. President, will the Senator yield for a question?

Mr. LONG. I yield to the Senator from West Virginia.

Mr. NEELY. Mr. President, I may assure the Senator from Louisiana that I am speaking for the coal operators of West Virginia, and for more than 125,000 miners, in what I have said in op-

position to his amendment, and that I am speaking because of the fact that I have learned how my constituents and those in this industry in my State stand.

Mr. LONG. I accept the Senator's statement, and I will be glad to agree that he represents what he considers to be the best interests of all the workers of his State, as well as of the people in the industries of his State. Nevertheless, Mr. President, we have a much stronger argument for giving oil and gas royalties of this kind of preferential treatment than in the case of coal. Oil and gas royalties are broken down, and just as strong an argument could be made for them.

Therefore, Mr. President, it would seem unreasonable to think that the royalty owners should get this windfall. It has been argued that coal mining is a depressed industry, particularly so far as it pertains to those who have leased their coal mines. If that be true, why should the American taxpayer be asked to pay the expense of subsidizing the lessor of the coal? If they are in a depressed condition, possibly they ought to raise their price. Possibly the Price Stabilization organization ought to look into it. But that is not a proper reason for passing an additional tax burden on to the American taxpayer.

Therefore, Mr. President, all of these arguments merely boil down to one thing, namely, that this is a case of taking one little taxpayer who has been accustomed to paying taxes at the normal rate, and cutting his tax by 60 percent. At the same time, we are raising the tax on everyone else. It would be creating a bad precedent.

Mr. President, one of the soundest Members of this Senate is the distinguished Senator from Colorado [Mr. MILLIKIN]. He himself pointed out in the hearings, at page 677, the following:

We have got to watch what we are doing here because pretty soon we are establishing precedents in other fields.

He had in mind the oil and gas producers, the gravel producers, and the sulfur producers, meaning that they would expect the same type of treatment with regard to the natural assets they take from the soil, which would probably mean that we would be given exemptions amounting to \$100,000,000.

Mr. President, if we are going to heed the argument that the ordinary cutting of timber has been given capital gains treatment, and, therefore, the extraction of every other natural asset should be given the same treatment, I do not know how we can prevent a very major tax slash being granted to those who are well able to pay.

Mr. NEELY. Mr. President, will the Senator yield?

Mr. LONG. How much time do I have, Mr. President?

The PRESIDING OFFICER. The Senator has one minute left.

Mr. LONG. I promised I would yield 1 minute to the Senator from New York [Mr. LEHMAN].

Mr. LEHMAN. Mr. President, if we adopt this exemption, we will have to adopt a similar one for every natural resource in the country. There can be

no differentiation at all. That is my first point.

The second point is that I do not see any difference, so far as depreciation is concerned, between running an orchard and being interested in an office building. There is depreciation in both cases. In the case of coal there is already a liberal depletion allowance, and that, under the bill, is being doubled. There is no depletion allowance; except a very small one, in the case of an office building, a residence, a farm, an orchard, or any similar property. There is no merit in considering it a matter of capital gain.

The PRESIDING OFFICER. The time of the Senator has expired.

The question is on agreeing to the amendment offered by the Senator from Louisiana [Mr. LONG].

Mr. MILLIKIN. Mr. President, my name was brought into the discussion by the distinguished junior Senator from Louisiana, perhaps carrying the implication that I favor his amendment.

I gave very close attention to the matter in the committee, and I am opposed to the Senator's amendment, and I am in favor of the committee version.

The PRESIDING OFFICER. The question is on agreeing to the amendment offered by the Senator from Louisiana [Mr. LONG]. On this question the yeas and nays have been ordered, and the clerk will call the roll.

Mr. WILLIAMS. Mr. President, I suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The legislative clerk called the roll, and the following Senators answered to their names:

Aiken	Hennings	McMahon
Bennett	Hickenlooper	Millikin
Benton	Hill	Monroney
Bricker	Hoey	Moody
Bridges	Holland	Morse
Butler, Md.	Humphrey	Mundt
Butler, Nebr.	Hunt	Murray
Byrd	Ives	Neely
Cain	Jenner	Nixon
Capehart	Johnson, Colo.	O'Connor
Carlson	Johnson, Tex.	O'Mahoney
Case	Johnston, S. C.	Pastore
Clements	Kefauver	Robertson
Connally	Kem	Russell
Cordon	Kerr	Saltonstall
Dirksen	Kilgore	Schoeppel
Douglas	Knowland	Smathers
Dworshak	Langer	Smith, Maine
Eastland	Lehman	Smith, N. J.
Eaton	Lodge	Sparkman
Ellender	Long	Stennis
Ferguson	Magnuson	Taft
Flanders	Malone	Underwood
Frear	Martin	Watkins
Fulbright	Maybank	Welker
George	McCarran	Wiley
Gillette	McCarthy	Williams
Green	McClellan	Young
Hayden	McFarland	
Hendrickson	McKellar	

The PRESIDING OFFICER (Mr. Smathers in the chair). A quorum is present.

The question is on the amendment of the Senator from Louisiana [Mr. LONG]. The yeas and nays have been ordered, and the Clerk will call the roll.

The legislative clerk called the roll.

Mr. JOHNSON of Texas. I announce that the Senator from New Mexico [Mr. ANDERSON] is absent by leave of the Senate.

The Senator from New Mexico [Mr. CHAVEZ], and the Senator from North

Carolina [Mr. SMITH] are absent on official business, and if present and voting they would each vote "nay."

Mr. SALTONSTALL. I announce that the Senator from Maine [Mr. BREWSTER] is absent on official business, and, if present he would vote "nay."

The Senator from Minnesota [Mr. THYE] is absent by leave of the Senate, and if present, he would vote "nay."

The Senator from New Hampshire [Mr. TOBEY] is absent because of illness.

The Senator from Nebraska [Mr. WHERRY] is necessarily absent.

The Senator from Pennsylvania [Mr. DUFF] is detained on official business.

The result was announced—yeas 16, nays 72, as follows:

YEAS—16

Aiken	Lodge	Russell
Benton	Long	Smathers
Douglas	McMahon	Stennis
Green	Moody	Williams
Humphrey	Morse	
Lehman	Pastore	

NAYS—72

Bennett	Hayden	McCarthy
Bricker	Hendrickson	McClellan
Bridges	Hennings	McFarland
Butler, Md.	Hickenlooper	McKellar
Butler, Nebr.	Hill	Millikin
Byrd	Hoey	Monroney
Cain	Holland	Mundt
Capehart	Hunt	Murray
Carlson	Ives	Neely
Case	Jenner	Nixon
Clements	Johnson, Colo.	O'Connor
Connally	Johnson, Tex.	O'Mahoney
Cordon	Johnston, S. C.	Robertson
Dirksen	Kefauver	Saltonstall
Dworshak	Kem	Schoeppel
Eastland	Kerr	Smith, Maine
Eaton	Kilgore	Smith, N. J.
Ellender	Knowland	Sparkman
Ferguson	Langer	Taft
Flanders	Magnuson	Underwood
Frear	Malone	Watkins
Fulbright	Martin	Welker
George	Maybank	Wiley
Gillette	McCarran	Young

NOT VOTING—8

Anderson	Duff	Tobey
Brewster	Smith, N. C.	Wherry
Chavez	Thye	

So Mr. LONG's amendment was rejected.

Mr. HUMPHREY. Mr. President, I wish to call up my amendment designated "9-22-51-11." This amendment relates to the so-called family partnership provisions.

Mr. MCFARLAND. Mr. President, will the Senator yield?

Mr. HUMPHREY. I yield.

Mr. MCFARLAND. How long will the Senator need to debate this amendment?

Mr. HUMPHREY. I was about to suggest 30 minutes to a side.

Mr. MCFARLAND. Mr. President, I ask unanimous consent that debate on this amendment be limited to 30 minutes to a side, the time to be controlled by the Senator from Minnesota [Mr. HUMPHREY] and the Senator from Georgia [Mr. GEORGE]; that debate on any amendments to the amendment be limited to 30 minutes, 15 minutes to a side, the time to be controlled by the proponent of the amendment and the Senator from Georgia—

Mr. MALONE. Mr. President, will the Senator yield?

Mr. HUMPHREY. I yield.

Mr. MALONE. Do I correctly understand that this request applies only to the one amendment?

Mr. McFARLAND. It applies only to the one amendment. I also add to the request that all amendments to the amendment must be germane.

The PRESIDING OFFICER. Is there objection to the request of the Senator from Arizona? The Chair hears none, and it is so ordered.

Mr. HUMPHREY. Mr. President, I ask for the yeas and nays on this amendment.

The yeas and nays were ordered.

The PRESIDING OFFICER. The amendment offered by the Senator from Minnesota will be stated.

The amendment offered by Mr. HUMPHREY (for himself, Mr. MORSE, Mr. DOUGLAS, Mr. KEFAUVER, Mr. LEHMAN, Mr. MURRAY, Mr. NEELY, Mr. LANGER, Mr. GREEN, Mr. KILGORE, and Mr. MAGNUSON) was, beginning on page 202, line 18, to strike through line 5, on page 207, being section 339, relating to family partnerships.

Mr. HUMPHREY. Mr. President, this is like rehearsing an old play, or retelling an old story, because it was just a year ago, on September 1, 1950, that a provision similar to this amendment was discussed in the old Supreme Court Chamber, when we were meeting in that historic room on a very historic occasion, in the discussion of the tax bill of 1950. I am sure that the same characters and the same great dramatic artists who opposed this amendment at that time will rise again to give the same kind of brilliant opposition, but we shall persist.

The amendment proposes to strike out what is known as the family partnership provision in the tax bill. The House of Representatives made a special provision in its bill for family partnerships. The House provision was adopted by the Senate last year, but fell by the wayside in conference. It is back again, with an added wrinkle. This time it is made retroactive to December 31, 1938.

The House provision on family partnerships, which is not retroactive—and this is the new wrinkle added by the Senate—allows, for example, a father who operates a business to reduce his tax by making gifts to each of his children of an interest in his business. The children, of course, need not work or make any substantial contribution to the business. An infant of 6 months—yea, an infant of 6 days—yea, one of 6 hours, may be a partner.

Mr. McCLELLAN. Mr. President, will the Senator yield?

Mr. HUMPHREY. I yield for a question.

Mr. McCLELLAN. I ask the able Senator whether his amendment would have the effect of repealing the split-income provision or the community-property provision.

Mr. HUMPHREY. No. This is an entirely different amendment.

Mr. McCLELLAN. The Senator is not offering an amendment to affect those provisions?

Mr. HUMPHREY. Not at this time.

Mr. McCLELLAN. This is not such an amendment?

Mr. HUMPHREY. No. This deals with family partnerships.

Mr. McCLELLAN. I thank the Senator. I must leave to go to a committee meeting. I wish to be heard in connection with the other amendment when it is presented.

Mr. HUMPHREY. Under the family partnership provision now in the House bill, and in the Senate bill, a father may donate or contribute a share of his business to his 6-month-old son, his 6-day-old son, or his 6-hour-old son, and make the child a partner.

If the father wants to be technical and a little more careful for legal purposes, he can create a trust for his children, and he can immediately appoint himself trustee, and in that capacity become his own partner, and thereby deny the 6-day-old child the opportunity of making those mature business decisions which should go with family partnerships.

Ordinarily a man would not seriously consider making his infant children partners in his business. For the past 10 years, however, our country has lived in mortal peril. To meet that peril Congress has had to increase taxes. It has had to increase earned income taxes and corporate taxes. As I have pointed out, every time the Congress increases earned income taxes or every time it increases corporate taxes, it places greater temptation before the taxpayer to evade the payment of taxes by some tax loophole or gimmick. This is a loophole which is really used. It is one which has been tried and tested and found by experience to work.

Mr. MAGNUSON. Mr. President, will the Senator yield?

Mr. HUMPHREY. I yield.

Mr. MAGNUSON. I understand that this amendment, although it would affect family partnership returns, which are now uniform throughout the country, could not legally affect the making of returns in community property States. They would be the same.

Mr. HUMPHREY. That is correct. It does not affect the community property State situation.

I want it to be perfectly clear, lest anyone think we are trying to do away with legal family partnerships, such as a partnership in which a father and three sons are all working in the business enterprise and making a substantial contribution to the enterprise, that there is no such intention. Such a family partnership enterprise is legal. That is what we call a true partnership, in fact, and not in theory. No effort is made by those who are the proponents of this amendment to do away with legal family partnerships. What we are thinking about seriously is family partnerships which are entered into for the purpose of tax avoidance. I submit that tax avoidance becomes a paramount issue as we consider the tax bill. When we raise earned-income rates and corporate rates a premium is placed upon tax avoidance. The tax attorney finds employment, and the tax consultant or tax accountant finds a dozen new ways to open up the tax laws with reference to the distribution of income, so that lower rates will be paid.

A year ago we debated this question. On page 14103 of the CONGRESSIONAL REC-

ORD of September 1, 1950, continuing over to page 14105, there are set forth a series of cases which were documented and placed in the RECORD from the Bureau of Internal Revenue files. These are the most incredible cases a man could ever dream of, cases so blatant and open on their face as tax avoidance instrumentalities that it would take the most clever and sinister tax lawyer even to figure them out.

What does the Senate family partnership amendment do? The family partnership amendment in the Senate bill says that all cases which are now in controversy, or cases which have not been settled up to date, and in which the Bureau of Internal Revenue is attempting to claim tax revenue which it ought to get, shall be invalidated. In other words, they would be cleaned up, for the benefit of those who used family partnerships during World War II as a means to evade taxation.

I repeat that in every war period, in every period of heavy Government spending, in every period when one can make a "fast buck," in every period of American history when there has been a chance for someone to get rich quick, the family partnership technique and the family partnership tax loophole has been used again and again. Such partnerships have increased at a fabulous rate. As a matter of fact, the rate of increase is over 200 percent. In some periods of time it has run as high as 300 percent. It is a loophole which is designed for one purpose, namely, to avoid the payment of the proper amount of tax which is due from a business enterprise.

I repeat, Mr. President, that every time someone avoids paying his fair share of the tax, Mr. Taxpayer will have to pay it out of his pocket. Every time someone cheats, and every time someone gets good, legal tax advice which permits him to avoid the payment of a fair share of the tax, the man without the tax attorney, the little fellow, the wage earner, has to pick up the check, which he can ill afford to do.

Mr. DOUGLAS. Mr. President, will the Senator yield?

Mr. HUMPHREY. Yes.

Mr. DOUGLAS. Is it not true that if the retroactive features alone go into effect the Treasury Department will have to refund approximately \$200,000,000, which is now in litigation.

Mr. HUMPHREY. That is my understanding.

Mr. DOUGLAS. And the refund of \$200,000,000 will probably go to the worst set of war profiteers the war has spawned.

Mr. HUMPHREY. The Senator from Illinois has stated the case concisely, accurately, and courageously. If the retroactive feature goes into effect—and the House bill was bad enough in that regard—it will mean that every one of these persons who is trying to clip a fast dollar by avoiding his fair share of the tax burden of World War II, and who has hired smart, shifty tax attorneys, will be able to be relieved of his tax burden.

What does it mean, Mr. President? It means that some poor soul, who does not

have an attorney at his elbow, who never heard of a family partnership, will find that his earned income tax rate must go up. That is why we are talking about an 11-percent super tax on earned income. We must rig the tax laws with respect to earned income higher and higher because we are letting down the flood gates with respect to other people, which would not be the case if we did not put all these "gimmicks" into the law.

I submit that the burden of proof for the placing of this amendment in the bill rests with the Committee on Finance. Why must we have this kind of language in the bill? I repeat the question again and again. In the 30 minutes allotted to the opponents of my amendment I want them to answer certain questions.

First, why must we have an extra provision in the tax law for family partnerships? Why is it not good enough to cover the person who makes a substantial contribution to a business, or who has an actual investment in the business? Is that not enough? Why must we open the flood gates? Let me give an example.

If a man's business earned a net income of \$100,000 he would pay a tax at the rates which Congress has prescribed for \$100,000 incomes. If he wants to give some of his money to his children, or set it aside in trust for their benefit, that is fine. That is what a man should do. That is what an honorable and decent citizen would do. However, first he ought to pay his tax on the money which he earns and continues to control. That is the situation with the kind of people with whom I have had the privilege to associate. If I wanted to set up a fund for my daughter, I would set it up out of my funds and I would not claim some kind of tax exemption. That is the way the bulk of the American people do business. But a man should not be allowed to take his two children into partnership with him, and pay a reduced tax on a part of his income, as if the children or the children's capital earned a third or a half of his income.

As the law now stands, a single person earning \$100,000 net pays an income tax of \$66,798. If we repealed the income-splitting gadget, the same man would pay that same tax even if he were married. Today, if the same man has a wife who has no income of her own and two children, and the couple files a joint return, their total tax is \$51,912. By the fiction of income splitting—for this higher income group, I repeat, and not for 95 percent of the people—they save in taxes \$15,886, which is just about the same amount as a Senator's entire salary.

If we let our \$100,000 income man take advantage of the new bill and form a partnership with his two babies, we have another situation. Let us assume that he keeps one-half of the income himself, because he does all the work, and that he gives each of his children a quarter interest in his business. The taxable income of the husband and wife is artificially reduced to \$50,000. The income

of the child partners is assumed to be \$25,000. The family tax bill is reduced still further. The husband-father files a joint return with his wife, and pays a tax of \$19,592. Each baby has a tax paid for him of \$9,796. The family tax bill on exactly the same income of \$100,000 earned in exactly the same way as before is \$39,184, instead of more than \$50,000. In other words, one must be smart. All one must do is get a special degree in tax avoidance.

Mr. MAGNUSON. Mr. President, will the Senator yield?

Mr. HUMPHREY. Yes.

Mr. MAGNUSON. I do not believe that the Senator from Minnesota should be so harsh. Is that the law now?

Mr. HUMPHREY. That is not the law now. It is what we are talking about in the bill.

Mr. MAGNUSON. It would be the law if the bill should be enacted?

Mr. HUMPHREY. Yes.

Mr. MAGNUSON. If it were the law it would be incumbent upon a tax expert to advise his clients that that was the law.

Mr. HUMPHREY. Yes. He would be negligent and derelict in his duty if he did not give such advice.

Mr. MAGNUSON. In other words, the thing to do is to stop such a provision from becoming the law.

Mr. HUMPHREY. Yes.

Mr. MAGNUSON. It would not be tax avoidance if the law permitted it.

Mr. HUMPHREY. It would be tax avoidance in the sense that the law would permit it to be done in a legal manner.

Mr. MAGNUSON. Yes.

Mr. HUMPHREY. It is the difference between doing it and keeping out of jail, and doing it and going to jail. We have heard something about catching those who do not pay taxes on their dividends and putting them in jail. This would afford an opportunity not to pay taxes and still stay out of jail.

If the increased rates become law, the tax saving from split income and family partnerships will be even greater in dollars and percentagewise. I do not see how anybody operating a business as an individual could afford not to take advantage of the proposed loophole. I wish that the times were such that we could reduce everybody's taxes that much. I see no reason why a man in a position to take his children into his partnership should be singled out for any special privileged treatment.

That is what the House provision does. As I said, that is bad enough, if only for the future, because the House provision projects itself to the future. The Senate bill is a double swinging door. One can come in and go out. It goes back 13 years and then goes ahead, as well.

In earlier years, during 1939 and 1940, many people fell for the suggestion of smart lawyers and accountants, or figured it out for themselves, that they might avoid taxes by taking their wives and children into so-called partnerships. That is exactly what they did. To get the tax advantage under the law as it is now and was then, they had to claim

that wives and children were real partners in the legal sense and that they intended to work together and invest their money together as bona fide partners.

Those who formed valid partnerships in a bona fide way have been allowed by the Internal Revenue Bureau and the courts to split their incomes. Many had a little, but not enough, evidence that their wives or children contributed money of their own which did not come straight from papa, or who could prove that they did some work for the income they claimed was theirs for tax purposes. They had generally settled their cases and gotten some tax advantage, although not all they had claimed.

Obviously there are a great many cases in which nothing happened except that the husband purported to make a gift to his wife and children. These cases the Government has refused to settle. The people involved in those cases are trying to make the new loophole, which the House has opened for the future, retroactive to minor cases all the way back to 1938.

There was a time when Congress was making a studious effort to close loopholes and to make people pay taxes on their real income at the rates Congress purported to fix. An alarming tendency is developing to open loopholes for the future principally by letting people split incomes and enlarging and extending the privilege of paying the capital gain rates on half of the income they derive from certain kinds of transactions. It is bad enough to create a loophole by act of Congress. It is bad enough to create a capital-gains loophole, but now we are apparently going to make a brand-new loophole. It is a loophole which was rejected, I remind this body, last year in the conference report of the House and Senate on the tax bill of 1950. This partnership provision reaches a new high—or low. It opens a loophole of dubious merit for the future, retroactively extending that loophole 13 years into the past.

I recommend that the Senate delete the family-partnership provision. I strenuously urge that the Senate refuse to enact a measure for the private and unwarranted relief of unnamed and unencumbered individuals who in the past 13 years formed family partnerships for tax-avoidance purposes.

If the Bureau of Internal Revenue has taken tax money from some of the people—for example, in cases where soldiers were made partners, and then went to war—I see no objection to private bills for their relief. Even if some of those persons have lost their cases in court, they can be helped by a private bill, and in that way the entire issue can be decided on the merits of the individual case. I suspect that some of the most deserving cases involve persons who believed in the bona fides of their partnership, took their case to court, and lost. However, this provision of the bill would give them no relief.

The bill now before the Senate is a comprehensive revenue-raising bill, a war measure. The provision which we are discussing at this time would give no

relief to the persons I have just mentioned; would apply only to cases which still have not gotten into court, but still are being higgled and jiggled in an attempt to work out an arrangement with the Bureau of Internal Revenue. The procedures and safeguards which we have established in the case of private bills have not been followed when we have focused on the complex and difficult fiscal and legal problems involved in a revenue measure. Mr. President, let us not include private-relief measures for high-bracket taxpayers in a bill of this sort.

As I have said, a year ago we discussed this question in the fullest detail. We had a case called the Tinkoff case, another case called the Slifka case, another one called the Stanback case, another one called the Stone case, and about a dozen others which were outstanding examples of abuse of the family-partnership arrangement. Any reasonable group of men, any jury selected in the United States, would hold those cases on their face to be for only one purpose, namely, the purpose of avoiding the payment of taxes.

Mr. President, I shall not labor this issue any longer. I simply say that when we propose to enact a revenue-raising bill which strikes hard at legitimate business enterprise, as this measure does, and sharply raises the tax rate on earned individual incomes, from those in the highest bracket to those in the lowest bracket, it is unfair and does not follow any principle of equity, and certainly is unwarranted at this critical period in our history, to place in the law and on the statute books a provision permitting those who wish to take advantage of it to escape their fair share of taxation.

If this proposal were to become law, Mr. President, it would at least be a constant temptation to every businessman to try to turn his business into a family partnership, for the purpose of reducing his taxes.

In this case, if this provision remains in the bill, just as in the case to which the Senator from Louisiana referred a moment ago, when discussing the amendment preceding the pending one, we are setting a precedent. A few minutes ago the Senate decided to treat the income from coal royalties on a capital-gains basis. I say that next year there will be a similar measure for oil, and later there will be a similar one for limestone, and later there will be a similar one for iron ore. In short, we have opened a Pandora's box, and such amendments will simply fly out in our faces. They will have to be accepted on the basis of logic, in view of the direction in which we already have moved. So we are opening up one loophole after another.

If we give preferential treatment to one group, we will have to give it to another group, because the latter will say, "You did it for this group; how about helping us?"

Mr. President, if we open up the bill for the abuse of the family-partnership system, I submit that we shall never close it.

We fought this proposal before. For years we fought off this tax-avoidance

device. Last year we came close to losing. Actually the provision passed one House last year, but was dropped in conference.

At this time both the House and the Senate committee have been snared into it and have been convinced that such a proposal is a proper one. The House said, in effect, "At least we will do it only in the future, from 1951 on." But the Senate committee has said, in effect, "We will go back to 1938."

Mr. President, I wish to know why 1938 was chosen. Why should not 1937 have been chosen? Perhaps I can find someone around here who has a friend who would like to get under the tent; so why not select 1933? What is the mystery of December 31, 1938?

All I can see about that date is that it was on the 1st of January 1939, that the United States began to rearm. It was then that we began defense mobilization for World War II; and with defense mobilization, profits, including exorbitant profits, were made in many businesses and many industries.

So we have here a device, proposed to be written into the tax law, to permit the profiteers—and I do not use that term in the sense of castigating any one group—to get the benefit of tax avoidance, just as we did earlier, in permitting the holders of coal royalties to escape taxation.

What a fine business all this is, Mr. President. Everyone who can figure out a special tax loophole is asking to have the Congress embody that loophole in the tax law, and the Congress is doing so.

Mr. President, I say that the loophole in the case of family partnerships should be closed. At least, the provision should not be made retroactive. All such cases can be settled in the courts of law. Surely the provision now proposed to be included in the bill should not be projected into the future, particularly at a time when the record bears me out when I say that this is a device which is used in the defense mobilization periods in the history of our country. That is its record.

Mr. LEHMAN. Mr. President, will the Senator from Minnesota yield to me for a question?

The PRESIDING OFFICER (Mr. FREAR in the Chair). Does the Senator from Minnesota yield to the Senator from New York?

Mr. HUMPHREY. I yield.

Mr. LEHMAN. As I understand, under the provision reported by the committee, any unscrupulous person who desired to evade taxes could nominally take into partnership any member of his family, regardless of whether that member made any contribution whatsoever to the interest of the firm, and regardless of the age of the member of the family. In other words, if my interpretation is correct, any person who wished to evade taxation could give a partnership share of his business and of his profits to an infant child, and could get away with such an arrangement.

Mr. HUMPHREY. That is correct.

Mr. LEHMAN. How can anyone defend such a proposal? That seems to me to be so clearly contrary to the public

interest that I do not understand how anyone could defend a device of that sort.

Mr. HUMPHREY. Possibly some infant children would possess such great genius that they could make some mature decisions. However, under the provision presented to us by the committee, a father could put the child's interest in a trust fund, and then the father could become the trustee, with the result that thereafter the child's interest would be in cold storage, so to speak, while the father made all the decisions.

Mr. LEHMAN. That could be done in the case of a child only 1 day old, could it not?

Mr. HUMPHREY. Yes.

Mr. President, I repeat that with split-income devices and family-partnership devices in effect, business concerns which would like to avoid paying their fair share of taxes would be able legally to avoid paying them, if such devices were provided in the law as enacted.

Therefore, Mr. President, I ask that this section of the bill be amended in accordance with the proposal which I, together with my cosponsors, have submitted. That proposal would strike from the bill both the House provision and the provision reported by the Senate committee, both of which are uncalled for.

Mr. GEORGE. Mr. President—

Mr. BUTLER of Nebraska. Mr. President—

Mr. GEORGE. Mr. President, I yield 10 minutes to the Senator from Nebraska.

The PRESIDING OFFICER. The Senator from Nebraska is recognized for 10 minutes.

Mr. BUTLER of Nebraska. Mr. President, I wish to address myself to section 339 of the pending bill, relating to the tax treatment of family partnerships, which appears beginning on page 202. Subsections (a) and (b) are identical with the House version of the bill; subsection (c) provides that the amendment shall apply to all taxable years to which the Internal Revenue Code is applicable. The section is designed to eliminate the present confusion with respect to the income-tax treatment of so-called family partnerships, by clearly setting forth that the principles applicable to these cases are the same as those which have been applied to all other forms of property during the entire history of the income-tax laws.

The statute provides that, if an interest in a partnership is actually owned by any person, that person is taxable upon his share of the partnership income, whether or not that interest was acquired by gift from a member of his family. The section precludes the application of rules of thumb which have been variously applied in the past by some of the lower courts, and it makes clear that the test is whether the donee, after the purported gift, actually owns an interest in the partnership. The section gives the Commissioner and the courts complete freedom to examine all the facts of any case and to disregard sham or unreal transactions relating to partnership interests as fully as such transactions in

connection with any other forms of property are disregarded. Moreover, the section provides two specific safeguards against the deflection of a donor's income. First, partnership income must be computed after the allowance of reasonable compensation for the donor's personal services. Second, the distributive shares of partnership income must be proportionate to the respective capital accounts.

Representative CURTIS of Nebraska and I have had a protracted correspondence with the Secretary of the Treasury in an attempt to obtain a clear statement of the Bureau's present policy in these cases and what change would be effected by section 339, and what loss of revenue the change might involve. While the statement is not as clear or concise as might be desired, it is fair to conclude from this correspondence that the Commissioner is committed to principles not significantly different from those set forth in the bill. Although I specifically requested it, the Commissioner has not furnished a single example of a set of facts where a partnership would be valid under the bill which would not be valid under the statement of principles which he now states he considers applicable. It would seem apparent, therefore, that any revenue loss from the proposed section would be negligible. If, on the other hand, the Commissioner's subordinates are applying rules which have no justification in logic or law and which are contrary to his own statement of principle, then any revenue loss is simply a restitution of taxpayers' money which should never have been collected.

The section should certainly be retroactive to the effective date of the code, because there was never any intention on the part of Congress to deny income tax effect to a bona fide and valid partnership because the interest was derived by gift from another partner. The exaction of a tax upon such a principle is completely without justification in the statutes; and an illegal tax can never be justified by the fact that the amount is large.

The section substitutes a clear and simple statement of principle for the confusion and uncertainty which have been created during the past 10 years by hundred of litigated cases and by the failure of the Bureau to issue a clear statement of policy. Whatever form the Bureau's policy might otherwise ultimately take, the complexity resulting from the present confusion, and litigation makes it highly desirable for Congress at this time to erect a signpost which can be followed by the Commissioner and the taxpayer and Congress in settling pending cases and preventing further unnecessary confusion.

Mr. President, section 339 in effect is the same as the provision which the Senate has passed previously at least twice and I think three times, by attaching it as an amendment to a revenue bill which was before the Finance Committee, which was passed by the Senate, which amendment was later stricken out in conference on the insistence of the House, because the conferees on the part of the House, I think perhaps prop-

erly, felt that under the Constitution tax bills and appropriation bills should originate in the House. I was delighted that the House Members saw fit to include in this bill section 339 in the form in which it came from the House.

I am sorry that the Secretary of the Treasury did not give me a definite reply so that we could estimate the amount of money which he thinks may possibly be lost by the enactment of this provision. But it is safe to say that the facts to date, and the testimony of the Treasury itself, are to the effect that they are winning only about 25 percent of their cases in the Tax Court. I myself am not a lawyer, but I think that when they can win only about 25 percent of the cases, they perhaps do not have a very good statute to begin with. Certainly with the enactment of the provision which is now in the House bill and which was included in the Senate committee version of the bill, I doubt that they will win even 10 percent of any such cases; and no cases should be won unless there is fraud, and where there is fraud the tax should be imposed exactly the same as in any other case in court.

Mr. President, I have had considerable correspondence with the Bureau of Internal Revenue regarding the family-partnership question, extending over some time, in an endeavor to ascertain the Treasury's objection to the amendment, and also to learn the Bureau's position in allowing or disallowing such family partnerships for tax purposes. I received a letter from the Commissioner describing the Bureau's present policy, which seemed to me to be identical with the rules prescribed in the House provision. In other words, the Bureau's formal position on family partnerships, according to the description in the Commissioner's own letter, seemed to be exactly the same as the rule for which we are contending.

The Treasury, however, has continued to insist that this amendment should not be adopted, and has contended that it will open up loopholes in the law which do not exist under the Bureau's policy. To reconcile this apparent contradiction, I specifically asked the Treasury to supply me with a single hypothetical case of a family partnership which would be validated under the language of the House provision, but not allowed as such by the Bureau. I shall include at the close of my remarks a copy of the letter which I wrote to the Secretary of the Treasury under date of September 17, covering that subject. I may say that I received word from the Treasury today that the reply to my letter had been prepared, but that it would be impossible to get it to me today. I replied that I expected that the amendment might be brought up today, or almost at any time, and that I would like to have the reply. If I receive a reply tomorrow and it throws any considerable or additional light on the subject, I shall include it in the RECORD, and also the letter which I wrote to the Secretary of the Treasury.

The PRESIDING OFFICER. The time of the Senator from Nebraska has expired.

Mr. BUTLER of Nebraska. May I have one more minute?

Mr. GEORGE. I yield the Senator a minute.

Mr. BUTLER of Nebraska. Mr. President, it appears to me that the Treasury cannot give us a single possible case of a family partnership which would be inadmissible under present Bureau policy but valid under this amendment. I therefore suggest that the amendment will simply write into firm law the very principles which the Bureau contends are now followed by it. If that is the case, I cannot see the slightest reason for refusing to adopt the provision in the Senate bill.

Mr. President, I ask that the letter to the Treasury, dated September 17, to which I referred earlier, be printed in the RECORD at the conclusion of my remarks.

There being no objection, the letter was ordered to be printed in the RECORD, as follows:

SEPTEMBER 17, 1951.

HON. JOHN W. SNYDER,

Secretary of the Treasury.

MY DEAR SECRETARY SNYDER: Thank you for the letter of September 5, 1951, signed by Mr. Lynch as Acting Secretary, in which it is stated that the bureau's present position on family partnership differs from the provision of H. R. 4473.

Mr. Lynch expresses anxiety that the statute would foreclose consideration of elements tending to disprove the good faith of the partnership. The Ways and Means Committee could not have made it more clear that the statute does not sanction any sham transaction in connection with partnership interests any more than the law sanctions such transactions in connection with corporate stock or any other property. I call your attention to the following paragraph in the Ways and Means Committee report, which seems to me to dispel any fears along this line:

"The amendment leaves the Commissioner and the courts free to inquire in any case whether the donee or purchaser actually owns the interest in the partnership which the transferor purports to have given or sold him. Cases will arise where the gift or sale is a mere sham. Other cases will arise where the transferor retains so many of the incidents of ownership that he will continue to be recognized as a substantial owner of the interest which he purports to have given away, as was held by the Supreme Court in an analogous trust situation involved in the case of *Helvering v. Clifford* (309 U. S. 351). The same standards apply in determining the bona fides of alleged family partnerships as in determining the bona fides of other transactions between family members. Transactions between persons in a close family group, whether or not involving partnership interests, afford much opportunity for deception and should be subject to close scrutiny. All the facts and circumstances at the time of the purported gift and during the periods preceding and following it may be taken into consideration in determining the bona fides or lack of bona fides of a purported gift or sale."

In any event, in the light of the answers given by the Commissioner of Internal Revenue in his letter of July 26, 1951, to the specific sets of fact therein considered, I find it hard to understand how the statute could cause any donee to be recognized as a partner who would not be recognized as a partner under that letter. In my letter of August 20 to you, I suggested that you furnish me an example of any such case. Your letter of September 5 does not contain any example of a case in which a partnership would be recognized by the statute

which would not be valid under the Commissioner's letter.

I again suggest that you state for me a concrete set of facts which you consider typical of the many family-partnership cases now pending in the Bureau and the courts in which a partnership, which would be invalid under the Commissioner's letter, would be validated by the statute. This matter has been under consideration by your office for a long time, and my request was made first nearly 2 months ago. If such a set of facts exists, you should be able to furnish me with a statement of it promptly. It is most important that I have it immediately so that I may consider it in advance of the final action which we are required to take within the next few days.

Sincerely yours,

HUGH BUTLER,
United States Senator, Nebraska.

Mr. GEORGE. Mr. President, I do not know whether any other Senator wants to speak on the amendment. May I inquire how much time remains on the amendment?

The PRESIDING OFFICER. The Senator from Georgia has 19 minutes, and the Senator from Minnesota [Mr. HUMPHREY] has 4 minutes.

Mr. GEORGE. Mr. President, I desire to make a brief statement.

The Senator from Minnesota, and some other Senators have fallen into the habit of averring, if not charging that deliberate loopholes are put into tax statutes for the purpose of enabling people to avoid paying taxes. Personally, I care nothing about these assertions, but I do think that such statements as have been made are likely to be taken up by irresponsible columnists, such as Drew Pearson, and others, and published over the country, and it will be said that no one has denied them. It is embarrassing for the Congress, the Government itself, to be brought under such general blanket charges without the slightest foundation in fact.

I now specifically deny all innuendoes, all charges, all statements, that anyone has had any improper motive or has been actuated by any improper purpose in trying to write tax legislation.

The particular amendment now pending furnishes a shining example of reckless statements. I call them that because they are reckless. What is the reason why the head of a house cannot have a partnership with his wife or with his children? There is not now and never has been any law which would forbid a father entering into a bona fide partnership with his son, his daughter, or his wife. It is true that in considering transactions between the father, the wife, and the child, careful scrutiny will be applied to the transactions. We inquire into the good faith of the transactions. If the transaction is a sham, it will be disregarded. If it has been made for some ulterior purpose, particularly one against public policy, it will be disregarded. But if it is a bona fide transaction, I submit that all the columnists, all the reckless statements to the contrary notwithstanding, any man may make a bona fide, honest partnership with a wife, with a son, or with a daughter. To say otherwise is to make ridiculous all the laws of this country.

What is the situation with reference to land? A father may give land to his wife, he may give it to his children, he may give it to an infant, he may give it to a child of any age, and the transaction is good, under the law, in the forum of any State of this Nation, so far as I know, and it is good so far as taxes go. Such a right has never been questioned; it cannot be questioned. The transaction itself may be questioned as not having been made in good faith. It may be a sham; it may be a fraud; but if the head of the family is possessed of a thousand acres of land and he has five boys, he can give each one of them 100 acres of that land, and it is their land, and the income from the land is theirs. The taxing authorities do not question it. Indeed, they cannot question it.

The father can organize a corporation. He can take the business, which worries some Senators, and organize a corporation, put the whole thing in the corporation, and issue capital stock. He can give that capital stock to his wife, to his daughter, to his son, to an infant child, or to a grandchild, and there is not a court in the land that can touch it. That is their property, if it is a bona fide gift of the donor. That is all there is to it.

Mr. HICKENLOOPER. Mr. President, will the Senator from Georgia yield?

Mr. GEORGE. I am glad to yield to the Senator from Iowa.

Mr. HICKENLOOPER. I want to be sure that I correctly understand the situation. Is it not a fact that the attitude of the Internal Revenue Bureau toward such transactions as the formation of such partnerships, assuming that the gift or the transfer by the father to the son is absolute, and completely vests the title of the property in a member of the family, is to take the peculiar position that while they do not question the validity of the gift or the validity of the transfer, so far as the property itself is concerned, and recognize that the property is vested in the donee, nevertheless for tax purposes they say, "We do not recognize it and we will charge the donor for the entire tax," meanwhile recognizing and admitting that the property has been transferred and the recipient is to be protected under the law in the ownership of the property itself. That is rather an anomalous situation, is it not?

Mr. GEORGE. Yes; and when the court is not a wise court it has taken that position. The Senator is quite correct. The Internal Revenue Department has attempted to take that position. Since the Tower case and the Culbertson case, there has been confusion about the subject, and lack of clarity. Some of the tax courts and some of the other courts have tried to enforce the views of the Commissioner of Internal Revenue, and the Department of Justice has brought suits all over the country. The record up to date is that they have won hardly 25 percent of those cases.

Mr. HICKENLOOPER. Mr. President, will the Senator yield for another question?

Mr. GEORGE. I yield.

Mr. HICKENLOOPER. One more example. Assuming always, of course, that the gift, sale, or transfer from the donor to the donee within the family is an actual and complete vesting of title under the laws of the State governing, has it come to the attention of the Senator, as it has to mine, that in instances where the Internal Revenue Department attempts to and does collect the total income taxes from the donor and not from the donee, still the Internal Revenue Department does not refund the gift taxes which the Government has received upon the gift, where it is a gift? In other words, the Government retains the gift taxes on the property which the donor has given to the donee, collects the total income taxes from the donor and does not refund the gift taxes?

Mr. GEORGE. They deny the partnership.

Mr. HICKENLOOPER. They deny the partnership for the purpose of collecting an income tax from the donor.

Mr. GEORGE. That is correct.

Mr. HICKENLOOPER. But they do not refund the gift tax.

Mr. GEORGE. Such cases as that have been brought to my attention.

Mr. HICKENLOOPER. When there is a gift they do not refund the gift tax that has been collected, thereby recognizing the validity of the transfer of the ownership of the property, but refusing to recognize it for tax purposes.

Mr. LEHMAN. Mr. President, will the Senator from Georgia yield?

Mr. GEORGE. I yield.

Mr. LEHMAN. I wonder whether the Senator from Georgia would advise me if he thinks that it looks like a bona fide transaction when a father takes a 10-day old son or daughter into partnership, particularly when the profits that may accrue to that infant child would inevitably remain under the trusteeship or control of the father, since he is dealing with a minor.

Mr. GEORGE. If the profits are attributable to the interest that passed to the child, it would be an uncivilized State that would not recognize the title in the child.

Mr. LEHMAN. Certainly under the language of the bill it would be perfectly legal. That is what we are objecting to. The partnership is supposed to be composed of men or women who contribute something. Certainly an infant child contributes nothing in the way of work, and the chances are he cannot contribute anything in the way of capital.

Mr. GEORGE. The Senator talks like the Tax Board and the Commissioner of Internal Revenue on this particular point. The child does contribute something. If the father makes a bona fide gift of one-fifth or one-sixth or one-half he does contribute. He does not get anything under this bill for his labor, because obviously he does not perform any. He gets only whatever his interest in the partnership is, measured by the interest which has passed to him. If it is not a bona fide transaction or transfer, or if the father controls power over the property in such a way as to give

him ownership in the eyes of the law, then, of course, the child does not become the owner.

Mr. HUMPHREY. Mr. President, will the Senator from Georgia yield?

Mr. GEORGE. I yield.

Mr. HUMPHREY. If the father gives the gift to the child, and the father has himself appointed trustee over the child and the gift, is he not in actual control?

Mr. GEORGE. Not necessarily.

Mr. HUMPHREY. Not necessarily?

Mr. GEORGE. Not necessarily. It depends upon what the powers of the trustee are. If the trusteeship is a bona fide one it may be all right. In the identical case, the father can incorporate the business and convey to the child by gift absolute title, to a share of the stock, or to one or more shares of stock, or to an interest in land.

Mr. DOUGLAS. Mr. President, will the Senator from Georgia yield for a question?

Mr. GEORGE. Yes; I am glad to yield to the Senator from Illinois.

Mr. DOUGLAS. The Senator from Georgia said that the infant child can be a bona fide partner. But is not the test of partnership that the so-called partner shall make a direct and positive contribution to the partnership, either (a) through personal effort, or (b) through capital put into the business? The infant child makes no personal contribution, and any capital that is put in is derived from the partnership itself, so that there is no positive contribution of the infant child.

Mr. GEORGE. If he makes a contribution of capital, it does not make any difference where he got it, whether his grandmother gave it to him, or his aunt, whether his godfather gave it to him, or his own father gave it to him. If he makes a capital contribution to the partnership, he is entitled to a return on that interest—not for services rendered.

Mr. HUMPHREY. Mr. President, will the Senator from Georgia yield?

Mr. GEORGE. I yield.

Mr. HUMPHREY. I should like to have the Senator from Georgia tell me how a 6-month-old child makes this great, deliberate decision to make a capital investment in his father's business. I mean, what words does he use? What writing does he use? How does he determine it?

Mr. GEORGE. Fortunately we live in a civilized country where the father can make a decision for the son or the child.

Mr. HUMPHREY. There is where we get the answer.

Mr. GEORGE. Or his mother can make it, or his grandfather can make it, and can convey property for him.

Mr. KERR. Mr. President, will the Senator from Georgia yield?

Mr. GEORGE. I yield, but first I want to say that there is no law against the formation of a partnership with a minor of any particular age. It does not make any difference if that minor, through gift or otherwise, owns anything that he puts into it or that goes into it, he has a partnership interest. That is all the law recognizes.

Mr. KERR. Is it not a fact that the provision merely recognizes two of the

oldest and most cherished and most honored principles of the race: No. 1, that the parent does have the responsibility for the guardianship of the child and the child's assets, and, No. 2, that the integrity of the partnership relation that can exist between people is to be guarded?

Mr. GEORGE. That is true, but there is a limitation. He cannot assign his earnings.

Mr. KERR. That is correct.

Mr. GEORGE. He can assign his property.

Mr. KERR. And is it not true that partnership is the oldest form of joint enterprise known to the English race, to the English law, and to the American law?

Mr. GEORGE. I think that is correct. The cases in point, let me say, arose first in connection with bona fide partnerships between husband and wife. Now, since the split income provision has been written into our law, the partnership of the wife with the husband, so far as the future is concerned, is taken care of in any event.

Mr. HICKENLOOPER. Mr. President, will the Senator yield for another question?

Mr. GEORGE. Will the Senator from Iowa permit me to finish the statement? What I have just stated is true so far as partnerships between husband and wife are concerned. Then the question arises whether we will not clarify the law, and get away from decisions, particularly those in the Tower and Culbertson cases, and other cases that really brought about confusion, which arose, I dare say, because there was not a clear conception of the old principle, or the equitable principle, which was involved. That is what this section is intended and designed to do. It does not open the door for any closed case. It does not open it for any case that is barred by the statute. But if the case is still pending, if it is still open, of the statute has not run against it, it does protect the partnership to the extent of the capital interest of the partnership, along with the head of the partnership, the father.

Mr. HICKENLOOPER. Mr. President, will the Senator from Georgia yield?

Mr. GEORGE. I yield.

Mr. HICKENLOOPER. I ask the Senator if situations of this kind have not come to his attention, which I understand are rather frequent over the country: Take, for example, the case of a father who has made a complete gift to a minor child or to his wife; gift-taxes have been paid, and the property has become completely vested in the donee. The Internal Revenue Bureau says that the donor, the father, is responsible for all the income in connection with that partnership. But in the case of a minor child who has a guardian completely removed from the father, that guardian, in addition to the father, or the donor, paying all the income tax, as an individual, can proceed against the partnership and the father for a full share of the return that is made, in that partnership, and therefore the donor is not only charged with the full income tax, but he is charged with ac-

counting, for instance, to the minor in addition for the share to which that minor is entitled.

The PRESIDING OFFICER. The time of the Senator from Georgia has expired.

Mr. HICKENLOOPER. Mr. President, I did not know that the Senator was speaking on limited time.

Mr. GEORGE. Yes; very limited.

What the distinguished Senator from Minnesota fails to apprehend is that when the father parts with valuable property to his minor child, the ownership of that property goes from the father, if the transaction was a bona fide one.

Mr. HUMPHREY. Mr. President—

The PRESIDING OFFICER. The Senator from Minnesota has 4 minutes.

Mr. HUMPHREY. Mr. President, I wish to take up at the end of the phrase of the Senator from Georgia. It is perfectly true that when the father transfers a property as a gift to a child, the ownership is transferred to the child, but the control remains in the father. The United States Supreme Court has upheld what the junior Senator from Minnesota is now saying. The case of *Tinkoff v. Commissioner*, 120 Federal, 2d, 564, was noted in the majority opinion of Mr. Chief Justice Vinson in *Commissioner v. Culbertson* (1949), (337 U. S. 733), as the "reductio ad absurdum of the theory that children may be partners with their parents before they are capable of being entrusted with the disposition of partnership funds or of contributing substantial services."

The United States Supreme Court says what everyone must recognize, that any father knows that a child of 2 years of age is incapable of making a decision as to the disposition of property in his possession.

The Senator from Georgia has stated the case clearly and concisely for this amendment, namely, that when property is transferred to a child the control still vests in the father.

This is nothing more nor less than a shameful act of permitting tax avoidance. I submit that the record bears me out. What did the courts hold? The courts set up the test of good faith, and acting with a business purpose in the conduct of an enterprise, in order for a family partnership to be given tax recognition.

What does the Senate provision set up, and what does the House provision set up? They replace the good faith and business purpose tests with the mere test that the gift of a capital share is a real gift, and that ownership by the recipient is actual ownership.

Mr. MILLIKIN. Mr. President, will the Senator yield?

Mr. HUMPHREY. Actual ownership means not only the ownership, but the control of property. If I should give to my four children a portion of my personal income or my personal property, is there anyone who believes that I would not control it? Does anyone believe that any father who does such a thing does not control the property? Of course he controls it. He who giveth taketh away. Does anyone believe that

6-month-old Johnny is going to hire an attorney to fight his father?

Mr. MILLIKIN. Mr. President—

Mr. HUMPHREY. Mr. President, my time is very limited.

Bona fide partnerships, of course, are legal. A bona fide partnership means a partnership for the purpose of conducting a business, a partnership in which services are contributed for the conduct of the business. No court in the land would overthrow a bona fide partnership; but I submit that the cases we are talking about are partnerships which are not bona fide, partnerships entered into for the purpose of dividing the income for tax-evasion purposes.

It is a strange thing that from 1939, at the beginning of World War II, the number of family partnerships steadily increased. At that time there were 290,000 such partnerships in America. By 1948 there were 930,000. For the year 1947 returns from partnerships indicated family participation in 30 percent of the cases.

The fact is that the higher we raise tax rates the greater the number of family partnerships. I say that this is an amendment which should be adopted, because no honorable, decent, fair citizen would be injured by the removal of this provision. Reasonable family partnerships are legal; but those who connive to get around the true intent and purpose of the law will be given the sanction of the law; and I submit that at this time that is not desirable.

The PRESIDING OFFICER. The time of the Senator from Minnesota has expired.

The question is on agreeing to the amendment offered by the Senator from Minnesota [Mr. HUMPHREY]. On this question the yeas and nays have been ordered, and the clerk will call the roll. The legislative clerk called the roll.

Mr. JOHNSON of Texas. I announce that the Senator from New Mexico [Mr. ANDERSON] is absent by leave of the Senate.

The Senator from New Mexico [Mr. CHAVEZ], the Senator from Nevada [Mr. McCARRAN], the Senator from Wyoming [Mr. O'MAHONEY], the Senator from Georgia [Mr. RUSSELL], and the Senator from North Carolina [Mr. SMITH] are absent on official business.

I announce further that if present and voting, the Senator from New Mexico [Mr. CHAVEZ], the Senator from Georgia [Mr. RUSSELL], and the Senator from North Carolina [Mr. SMITH] would vote "nay."

Mr. SALTONSTALL. I announce that the Senator from Maine [Mr. BREWSTER] is absent on official business, and, if present, he would vote "nay."

The Senator from Minnesota [Mr. THYE] is absent by leave of the Senate, and, if present, he would vote "nay."

The Senator from New Hampshire [Mr. TOBEY] is absent because of illness.

The Senator from Nebraska [Mr. WHERRY] is necessarily absent.

The Senator from Pennsylvania [Mr. DUFF] is detained on official business.

The result was announced—yeas 27, nays 58, as follows:

YEAS—27

Aiken	Hunt	Monroney
Cain	Ives	Moody
Case	Kefauver	Morse
Cordon	Kilgore	Mundt
Douglas	Langer	Murray
Green	Lehman	Neely
Hennings	Long	Pastore
Hill	Magnuson	Smathers
Humphrey	McMahon	Sparkman

NAYS—58

Bennett	George	McFarland
Benton	Gillette	McKellar
Bricker	Hayden	Millikin
Bridges	Hendrickson	Nixon
Butler, Md.	Hickenlooper	O'Connor
Butler, Nebr.	Hoey	Robertson
Byrd	Holland	Saltonstall
Capehart	Jenner	Schoeppel
Carlson	Johnson, Colo.	Smith, Maine
Clements	Johnson, Tex.	Smith, N. J.
Connally	Johnston, S. C.	Stennis
Dirksen	Kem	Taft
Dworshak	Kerr	Underwood
Eastland	Knowland	Watkins
Eaton	Lodge	Welker
Ellender	Malone	Wiley
Ferguson	Martin	Williams
Flanders	Maybank	Young
Frear	McCarthy	
Fulbright	McClellan	

NOT VOTING—11

Anderson	McCarran	Thye
Brewster	O'Mahoney	Tobey
Chavez	Russell	Wherry
Duff	Smith, N. C.	

So Mr. HUMPHREY's amendment was rejected.

Mr. WILLIAMS. Mr. President, on behalf of myself and other Senators, I send an amendment to the desk. It is designated as 9-20-51-K. I ask unanimous consent that the reading of the amendment be dispensed with and that it be printed in the RECORD at this point. I ask for the yeas and nays on the amendment.

The yeas and nays were ordered.

Mr. WILLIAMS. I shall be very brief in explaining the amendment, because I believe all the Members of the Senate understand it.

Mr. AIKEN. I do not understand it. I should like to have an explanation.

Mr. KILGORE. Mr. President, a parliamentary inquiry.

The PRESIDING OFFICER. Does the Senator from Delaware yield for a parliamentary inquiry?

Mr. WILLIAMS. I yield for that purpose.

Mr. KILGORE. Inasmuch as the yeas and nays have been ordered, I suggest that the amendment be read.

Mr. WILLIAMS. I am willing that the amendment be read.

The PRESIDING OFFICER. The clerk will state the amendment.

The Chief Clerk read the amendment proposed by Mr. WILLIAMS (for himself, Mr. FREAR, Mr. WATKINS, Mr. FERGUSON, Mr. GILLETTE, Mr. IVES, Mr. BENNETT, Mr. SCHOEPEL, Mr. BYRD, Mr. CAIN, Mr. BRICKER, Mr. BUTLER of Maryland, Mr. HENDRICKSON, Mr. JENNER, Mr. BREWSTER, Mr. MARTIN, Mr. KEM, and Mr. MORSE) as follows:

At the proper place in the bill insert the following new section:

"SEC. . (a) Compensation of the President.

"(1) Effective as of November 1, 1951, section 102 of title 3 of the United States Code is amended by striking out the words 'no tax liability shall accrue and for which.'

"(2) Effective at noon on January 20, 1953, section 102 of title 3 of the United States Code is amended to read as follows:

"COMPENSATION OF THE PRESIDENT

"SEC. 102. The President shall receive in full for his services during the term for which he shall have been elected compensation in the aggregate amount of \$150,000 a year, to be paid monthly. He shall be entitled also to the use of the furniture and other effects belonging to the United States and kept in the Executive Mansion."

"(b) Compensation of the Vice President.

"(1) Section 104 of title 3 of the United States Code (relating to salary of the Vice President) is amended by striking out '\$30,000' and inserting in lieu thereof '\$40,000.'

"(2) Section 111 of title 3 of the United States Code (relating to an expense allowance for the Vice President) is repealed.

"(c) Salaries of Members of Congress and of the Speaker of the House.

"(1) Section 601 (a) of the Legislative Reorganization Act of 1946 (relating to salaries of Members of Congress and of the Speaker of the House) is amended—

"(A) by striking out '\$12,500' and inserting in lieu thereof '\$15,000'; and

"(B) by striking out '\$30,000' and inserting in lieu thereof '\$40,000.'

"(2) Section 601 (b) of the Legislative Reorganization Act of 1946 (relating to expense allowances for Members of Congress) is hereby repealed.

"(3) Subsection (e) of the first section of the act entitled "An act to increase rates of compensation of the President, Vice President, and the Speaker of the House of Representatives" (Public Law 2, 81st Cong.) (relating to an expense allowance for the Speaker of the House) is hereby repealed.

"(d) Computing deduction for retirement: In computing the amount to be deducted from the compensation of any official whose salary is changed by this section for the purposes of the Civil Service Retirement Act of May 29, 1930, and in computing the amount of any annuity under such act any change in compensation provided by this section shall be disregarded until further act of Congress.

"(e) Effective date: Except as provided in subsection (a) the provisions of this section shall take effect as of November 1, 1951."

Mr. WILLIAMS. Mr. President—

Mr. KILGORE. Mr. President—

The PRESIDING OFFICER. The Senator from Delaware has been recognized.

Mr. WILLIAMS. Mr. President, the purpose of this amendment is to repeal the special tax exemption now extended to the President, Vice President, Speaker of the House of Representatives, and Members of Congress.

Under the existing law the Members of Congress are paid \$15,000, with \$12,500 of this amount being taxable as salary and the remaining \$2,500 tax exempt. My amendment repeals the \$2,500 tax exemption and places the entire amount of \$15,000 under the classification of salary.

Under the existing law the Vice President and the Speaker of the House are paid \$40,000, with \$30,000 of this amount being taxable as salary and the remaining \$10,000 exempt. The amendment repeals the \$10,000 tax exemption and

places the entire amount of \$40,000 under the classification of salary.

Under the existing law the President of the United States is paid \$150,000, with \$100,000 of this amount being taxable as salary and the remaining \$50,000 tax exempt. Under the Constitution the President's salary cannot be changed during his term of office. However, it is possible to repeal the tax-exemption provision of the so-called expense allowance; and my amendment does this, thereby making the entire amount of \$150,000 taxable.

The amendment provides that after January 20, 1953, the same formula as outlined for Members of Congress will be followed with respect to the President's salary, with the entire amount of \$150,000 being classified as salary.

It should be noted that the so-called \$50,000 tax-exempt expense allowance of the President, which item is affected under this amendment, has nothing whatever to do with the normal expense accounts which are allowed to the President of the United States. The President's traveling expenses, entertainment expenses, the expenses of the yacht *Williamsburg*, the airplane *Independence*, the winter home in Florida, the maintenance and personnel expenses of the White House, plus all other normal expenses attached to that office, are provided for specifically under different appropriations, and in no way are affected by the adoption of this amendment.

The \$50,000 item of the President is in exactly the same category as the \$10,000 item for the Speaker of the House and Vice President and the \$2,500 item for the Members of Congress. All of them were considered as a part of compensation, and were so classified in the legislative background.

I offer this amendment, not on the basis of the additional revenue provided but merely as a matter of principle. Nor is the amendment offered with the thought that the President, Vice President, or Members of Congress are overpaid. It is my opinion, and was my opinion at the time when the exemptions were extended, that any compensation to the President or the Members of Congress should be in the form of direct payments, with the entire amount subject to the same deductions and the same tax rates that are applied to all other citizens.

So, Mr. President, I urge adoption of the amendment.

Mr. FLANDERS. Mr. President, will the Senator yield?

Mr. WILLIAMS. I yield to the Senator from Vermont.

The PRESIDING OFFICER. Is the Senator from Delaware yielding the floor?

Mr. WILLIAM. No, Mr. President; but I yield to the Senator from Vermont.

Mr. KILGORE. Mr. President, can one Senator yield the floor to another Senator?

Mr. WILLIAMS. I am not yielding the floor.

Mr. FLANDERS. Mr. President, I am not asking for the floor. I am asking the Senator from Delaware to yield for a question.

Mr. WILLIAMS. I yield for a question to the Senator from Vermont.

Mr. FLANDERS. I wish to inquire of the Senator from Delaware whether the various persons named—the President, the Vice President, the Speaker of the House, Senators, and Representatives—would be entitled to put in their tax returns items for the actual expenses of their office, expenses to which they are subjected, and to obtain a tax reduction in view of those expenses?

Mr. WILLIAMS. Mr. President, if this amendment is adopted, the Members of Congress and all others affected by the amendment will be entitled to include all the deductions which now are available to American businessmen and to the average American taxpayer. They are entitled to all these same exemptions now.

Mr. BRIDGES. Mr. President, will the Senator yield?

Mr. WILLIAMS. I yield to the Senator from New Hampshire.

Mr. BRIDGES. The distinguished Senator from Delaware makes the statement that they would be entitled to the deductions available to businessmen and to all citizens. However, that is not true at the present time. Upon what assumption or with what assurance does the Senator from Delaware make that rather broad statement, for which I know he must have some basis.

Mr. WILLIAMS. When I said that the Members of Congress are entitled to all the deductions to which any normal American businessman is entitled, I made that statement because nowhere in the law—and if I am in error, I hope the Senator from New Hampshire will point it out—do I know of any provision stating that any Member of Congress is not entitled to all the expense deductions to which a businessman is entitled. So why would not Members of Congress be entitled to them, and on the other hand why are they entitled to any more?

Mr. BRIDGES. Mr. President, the Senator from Delaware is proceeding on the basis of an assumption, rather than on the basis of a specific ruling by the Bureau of Internal Revenue. However, before the \$2,500 expense account was put into effect, a ruling such as the one he has suggested was never forthcoming, with the result that no Senator or Representative could take such an exemption for his expenditures. Nothing that has occurred since then would warrant the Senator from Delaware in making the statement he has made. If anything to warrant his statement has occurred since then, I should like to have it pointed out specifically.

Mr. WILLIAMS. Mr. President, the Senator from Virginia [Mr. BYRD] was one of the opponents of the expense-account provision at the time when it was made. He opposed it on the ground that it would set up a special class of taxpayers. I should like to have him discuss this point, in reply to the question which has been asked by the Senator from New Hampshire.

Mr. BYRD. Mr. President, at one time former Senator Reed, of Pennsylvania, offered an amendment, which was adopted, by means of which a Member

of Congress could deduct the expenses of his office.

However, a Senator cannot deduct his living expenses, any more than a businessman can.

Mr. GEORGE. A businessman can deduct them if he comes to Washington.

Mr. BYRD. However, Washington is the place of business of a Member of Congress.

Mr. BRIDGES. Can a Member of Congress deduct his expenses in his home State?

Mr. GEORGE. No.

Mr. BRIDGES. A Member of Congress should be able to deduct them in either one case or the other.

Mr. GEORGE. If a Member of Congress lives in Washington and pays taxes in his home State, he does not live in either place, under the ruling. [Laughter.]

Mr. McCLELLAN. Mr. President—

Mr. FLANDERS. Mr. President, will the Senator from Delaware yield, to permit me to make a further inquiry?

Mr. WILLIAMS. I yield to the Senator from Vermont.

Mr. FLANDERS. From time to time—in fact, practically every week end—I go home to Vermont to attend some meeting of my constituents, to which they earnestly invite me. In fact, that is an expense of the particular business in which I am now engaged.

I should like to inquire whether the Senator contemplates and has any reason for thinking that the Bureau of Internal Revenue would admit that such expenses, which in my case are very heavy, would be deductible.

Mr. WILLIAMS. I suggest that the Senator from Vermont address his question to the Collector of Internal Revenue, who is the proper person to make such interpretations of the law.

Mr. President, I repeat that this is not a case of cutting the salaries of Members of Congress. When we take this job in Washington, we know what the obligations of the job are, and we should anticipate them. I think the salaries should be fixed accordingly. I do not believe any special amount should be set aside as exempt from taxation.

For instance, let us consider the President's salary. At the present time one-third of it is tax-exempt. If we are going to exempt from taxation one-third of the President's salary, and if we can justify that arrangement some day some Member of Congress will suggest why not exempt from taxation one-third of the salary of each Member of Congress; or else why not reduce the President's salary?

Mr. President, if we do not stop this practice now, eventually we shall set up a special class in the United States. This principle is against everything American.

So far as the case of the Senator from Vermont is concerned, he is maintaining a home in Vermont, his home State. In my case, I am maintaining a home in Delaware, my home State. Both of us knew that that would be the case; we knew at the time when we began our service in the Senate.

The arguments you advance may be said of all employees in our offices. who

also come to Washington from their homes in other areas; and if we are going to provide ourselves with such an exemption because we have homes in our own States, we should provide a similar exemption for our employees, who are in a similar situation; and if we are going to make such an exemption for them, why not make a similar exemption for all Government employees in the city of Washington who are in a similar situation? In that case, sooner or later, unless we check this practice now, it will expand to the point where there will be a privileged class of Government employees who will be tax-exempt, and the rest of the people will be paying their salaries.

Mr. President, I think this amendment should be adopted. I think we should repeal this provision; in fact it never should have been passed.

At the time when the Congress raised the President's salary, I said we should fix the salary at whatever we thought it should be, but we should make all of it subject to taxation.

When the President of the United States or when Members of Congress state, as Senators have stated today, "We are going to raise the taxes of the American people because they have too much money to take home and spend," we should be sure that we treat ourselves in the same way that we treat the rest of the American people. This amendment should be adopted unanimously before we even consider raising other people's taxes.

Mr. President, I yield the floor.

Mr. BRIDGES. Mr. President, I should like to say a word or two about this matter.

The subject of congressional salaries has been delicately bypassed in this Chamber and in the House at the other end of the Capitol for some years. It is a crying shame that Members of the United States Senate and Members of the House of Representatives will not face this question.

Two years ago we raised all salaries in the executive branch. At that time perhaps some of us thought that congressional salaries should be adjusted. We were told, "Oh, no; we cannot touch congressional salaries." We found that we could not touch them at that time.

The result was that we raised the salary of everyone in the bureaus downtown—and some of them very deservedly—to a higher level, but we postponed the day when we would consider raising congressional salaries.

Mr. President, you know and I know that most of the people of the United States expect the Members of Congress to be paid adequately. A Member of Congress must maintain a home in his home State and he also must maintain a home in Washington. He must maintain an office in his home State; and he must have an automobile in his home State. He must have an automobile in Washington. He must travel back and forth between his home State and Washington, in keeping in touch with his official duties. He is called upon to contribute to every cause which comes along.

Today there is not a Member of the Senate whose administrative assistant is not better off than he is, as the result of the drains upon congressional salaries.

Mr. President, I have no objection to meeting the issue as the Senator from Delaware has proposed, provided that we write into the law, so that it will not be subject to the whim of some internal revenue collector, a provision that a Member of Congress may take exemptions for legitimate expenses, and provided also it is written into the law that the salaries of Members of Congress, instead of being \$15,000 a year, shall be \$22,500 a year. I propose to offer such an amendment. Let us measure up to the challenge.

Mr. MAYBANK and Mr. LONG addressed the Chair.

The PRESIDING OFFICER. Does the Senator from New Hampshire yield, and if so to whom?

Mr. BRIDGES. I yield first to the Senator from South Carolina.

Mr. MAYBANK. So far as expenses are concerned, the distinguished Senator from New Hampshire knows that as members of the Appropriations Committee we were not allowed more than a few telephone calls a month, in 1942. The Senator and I, together with the Senator from Rhode Island [Mr. GREEN], took up the matter at that time. A committee was appointed to see that a Senator might be permitted to use a telephone at least once a day.

Mr. BRIDGES. Certainly. A clerk downtown can pick up the telephone to call San Francisco, if he wants to, three times a day.

Mr. MAYBANK. But we were only allowed to make a few calls a month.

Mr. BRIDGES. When we looked into the matter, we found that one executive agency had more telephone calls in a year than the entire legislative branch, that the cost of its telephone service alone was more than the cost of such service for the entire legislative branch.

Mr. LONG. Mr. President, will the Senator from New Hampshire yield?

Mr. BRIDGES. I yield to the Senator from Louisiana.

Mr. LONG. My recollection is that in the past 3 years Members of Congress have received no increase at all, though we have increased the salaries of the Cabinet officers by 50 percent. The salaries of other Federal employees have been increased from 20 to 30 percent. Meanwhile, though the cost of living has gone up about 15 percent, United States Senators are the only Federal employees who have not had an increase.

Mr. BRIDGES. That is correct.

Mr. HUNT. Mr. President, will the Senator yield?

Mr. BRIDGES. I yield to the Senator from Wyoming.

Mr. HUNT. I should like to ask the distinguished Senator, further, whether the pending proposal does not amount simply to a reduction in the case of United States Senators and Members of the House of Representatives.

Mr. BRIDGES. That is correct.

Mr. HUNT. Is there anything in the law today which will prevent the Senator from Delaware from taking advan-

tage of a tax exemption, if he desires to do so?

Mr. BRIDGES. I think that is correct. If any Senator does not care to take advantage of it, that is optional with him.

Mr. HUNT. Let me ask the Senator whether, if this tendency keeps up, the Senate, to which we belong, will be a millionaires' club, and nothing else.

Mr. BRIDGES. That is correct. The Senate of the United States should be a cross section of America. We should have some rich men in the Senate, of course, but we should also have in office people of modest means and poor people. If the United States Senate closes its doors to all except millionaires, God help America.

Mr. HUNT. If I may ask one more question, this may be chicken feed for the chickens of the Senator from Delaware, but it is something else to the rest of us; is it not?

Mr. BRIDGES. Mr. President, let us take action at this time. I know that any statement a Senator may make on this subject, whatever his vote may be, will be used against him politically. Very well. I am willing to take my chances. I think every Member of the Senate ought to meet this issue at this time. I did not know it was to come up today. I do not have an amendment in which I might spell out a provision for a credit for official expenses.

Mr. McFARLAND. Mr. President, will the Senator from New Hampshire yield for a question?

Mr. BRIDGES. I yield.

Mr. McFARLAND. Has the Senator made a calculation to determine whether the \$2,500 allowance for expenses covers the additional expense of his home, during the time he is required to remain in Washington?

Mr. BRIDGES. In theory it does; yes.

Mr. McFARLAND. Does it cover that expense?

Mr. BRIDGES. No; it does not cover the expenses.

Mr. McFARLAND. Of course, amendments could be offered to increase salaries, but would it not be better to take care of the matter by special legislation, rather than in connection with a tax bill? We are trying to finish the session. Why not proceed to vote down this amendment, and consider the matter in the form of a special bill, to be dealt with by the appropriate committee?

Mr. BRIDGES. I may say to the majority leader that he makes a very eloquent plea. There is a good deal of logic in what he says. But I have heard the same plea from the previous majority leader and from the majority leader before that. I have acquiesced, as most Senators have, to these pleas. I think we have now reached the time when we should act.

Mr. MAYBANK. Mr. President, will the Senator from New Hampshire yield?

Mr. BRIDGES. I yield to the Senator from South Carolina.

Mr. MAYBANK. I merely desire to recall some history to the Senator's mind. As I remember, in 1942 and 1943, the acting chairman of the Appropriations Committee at that time, the distinguished Senator from Tennessee [Mr.

McKELLAR], acting for the late Senator Glass, appointed us on a subcommittee to investigate the question of expenses. I shall not mention any name, but we found that in one particular year one Senator had to pay nearly \$1,000 extra for the stationery he used.

Mr. BRIDGES. Let me digress a little. In reporting the legislative appropriation bill we found that a Representative from one district, for example who might represent thirty-five or forty thousand constituents had an \$800 allowance for stationery, whereas a United States Senator, representing an entire State, such as New York, had an allowance of but \$500. The Senator from Louisiana—and I doff my hat to him—knows very well that the expenses of a Senator representing a large State are naturally greater than those of a Representative who represents one congressional district. That illustrates the inequity of the situation. Senator after Senator has come to me to tell me that he has exceeded his stationery allowance and that costs are mounting on various items. We must meet the issue on behalf of the Members of Congress, if we want a hard-working, conscientious Congress. I think it is about time to take action.

Therefore, Mr. President, I should like to offer two amendments.

First, on page 2, line 22, of the amendment of the Senator from Delaware, I would strike out "\$15,000" and insert "\$22,500," and after line 22, I would insert the words "expenditures by Members of Congress: In the case of expenditures made after November 1, 1951, by a United States Senator, a Representative in Congress, a Delegate from a Territory, or a Resident Commissioner from Puerto Rico, the amount paid or incurred during the taxable year in maintaining living quarters away from his legal residence, within the District of Columbia, or from the vicinity thereof, and the amount paid or incurred during the taxable year for other ordinary and necessary expenses in connection with the performance of his official duties."

I would like to have such an amendment adopted—and I am shooting from the hip at this time—so that deductions might be made legally on a proper basis. I have not had time to perfect the amendment. But something along the line I suggest should be enacted along with the amendment proposed by the Senator from Delaware.

Mr. McCLELLAN. Mr. President, will the Senator yield?

Mr. BRIDGES. I yield.

Mr. McCLELLAN. I did not get the full import of the last amendment.

Mr. BRIDGES. The last amendment is intended to make provision so that a Senator or a Representative or a Delegate may be able to claim deductions on his income tax for legitimate expenses incurred in the District of Columbia in performing his duties in the Capital, both as to living expenses and expenses incurred in the same way as a businessman, a labor leader, or an agricultural leader incurs expenses when he comes to Washington to transact his business.

Mr. McCLELLAN. I thank the Senator from New Hampshire. I think we should change the law in that respect

from the way it is now written. I think we should change it in accordance with the amendment of the Senator from Delaware [Mr. WILLIAMS], plus the amendment of the Senator from New Hampshire, so as to put all taxpayers in the country on the same basis. We are not dealing here simply with a problem that is acute to many of us, certainly to those who are in the low-income group, as I am, but we are dealing with a matter of vital principle, and we ought not to enact class legislation and exempt some from the operation of the tax law, but we should put all on the same tax basis. We should keep it within reasonable bounds as it would be in relation to businessmen. I should like to have something worked out so that I can support the amendment of the Senator from Delaware with a perfecting amendment which would put us all on the same tax basis.

Mr. FREAR. Mr. President, will the Senator from New Hampshire yield?

Mr. BRIDGES. I yield.

Mr. FREAR. Did I correctly understand that the Senator from New Hampshire intends to offer two amendments separately?

Mr. BRIDGES. Yes; I would offer the two separately.

Mr. IVES. Mr. President, will the Senator yield?

Mr. BRIDGES. I yield to the Senator from New York.

Mr. IVES. Would the Senator from New Hampshire consider an amendment making the President's salary \$500,000? By that process he would receive approximately what he is now receiving. I can see a great deal of merit in such a proposal, for it would give the people of the United States information as to the income taxes we have to pay, and, at the same time, provide the President, presumably, with what he needs.

Mr. BRIDGES. I believe taxes should be equitable. I do not want to deprive the President of what he is now receiving. I think the President of the United States should be compensated adequately.

Mr. CAIN. Mr. President, will the Senator from New Hampshire yield?

Mr. BRIDGES. I yield to the Senator from Washington.

Mr. CAIN. I should like to say to my friend from New Hampshire that the Senator from Delaware [Mr. WILLIAMS], has stated that there is a constitutional prohibition against changing the salary of a President during his term of office, but I likewise understand that there is no prohibition against taking away the tax exemption on the \$50,000 which is now going to the President of the United States. Am I correctly advised?

Mr. WILLIAMS. Yes.

Mr. CASE. Mr. President, will the Senator from New Hampshire yield?

Mr. BRIDGES. I yield.

Mr. CASE. The simplest way to take care of the tax-liability matter is merely to repeal the clause in the present law relating to the tax we have been discussing. In a paragraph in the Reorganization Act which sets up the sum of \$2,500 there occurs this clause, "for which no tax liability shall be incurred or accounting be made."

It is that clause which makes the \$2,500 not subject to taxation. The simplest thing to do is to strike that clause. The amendment offered by the distinguished Senator from Delaware would increase the salary from \$12,500 to \$15,000 and entirely repeal that paragraph.

Under date of January 7, 1948, George J. Schoeneman, Commissioner of Internal Revenue, made a ruling holding that—

Expenses relating to or resulting from the discharge of his official duties—

Referring to a Member of Congress—including his meals and lodging while in Washington, D. C., may be offset against the \$2,500 expense allowance for that year.

The thing to do is to delete the clause in the present law which makes that amount not subject to taxation. The Commissioner's letter to Representative JARMAN would still stand, and the salary would be \$12,500 with a \$2,500 expense allowance for which accounting would have to be made.

Mr. BENNETT. Mr. President, will the Senator yield?

Mr. BRIDGES. I yield.

Mr. BENNETT. Up until noon I was assuming that the Jarman letter was the last word on the right of a Senator to an expense allowance; but it is not. There is another ruling. But, first, let me read what the Jarman letter says:

Accordingly, it is held that amounts expended in 1947 by a Member of Congress for expenses relating to or resulting from the discharge of his official duties, including his meals and lodging while in Washington, D. C., may be offset against the \$2,500 expense allowance for that year. If such offset does not exceed the \$2,500 expense allowance, no deduction for congressional expenses may be taken in computing net income. If such offset does exceed the \$2,500 expense allowance, then those congressional expenses in excess thereof which qualify under section 23 (a) (1) (A) of the Internal Revenue Code may be deducted in computing net income.

Today we went to the Department and asked how they would interpret the last ruling in relation to expenditures in excess of \$2,500. We have received a 1949 ruling, from which I read the following language:

The business location, post, or station, of a Member of Congress is the District of Columbia. The duties of a Congressman consume practically all his time, and are regarded as taking precedence over any other business in which he may be engaged. Accordingly, it has been consistently held that the personal living expenses, including rent paid for a residence, of Members of Congress while in the District of Columbia for the purpose of attending Congress are not deductible for Federal income-tax purposes.

I now quote from a 1950 ruling:

In order to be entitled to the deduction * * * a taxpayer must incur the expense for meals and lodging while neither at his usual place of abode nor at his principal place of business. Accordingly, this office is of the opinion that the cost of the taxpayer's meals and lodging while at home with his family represents nondeductible personal expenses, even though during such periods he was on business trips from his principal to his minor place of employment.

In other words, we cannot deduct our expenses at home, and we cannot deduct them in Washington. An ordinary tax-

payer when away from home has the privilege of deducting his expenses. So the latest ruling wipes out the Jarman ruling, and we are subject to this ruling which gives us no deduction for expenses.

Mr. BENNETT subsequently said: Mr. President, I ask unanimous consent to insert in the RECORD at the conclusion of my discussion earlier the complete documents from which I quoted.

Mr. CASE. Mr. President, reserving the right to object, and I do not intend to object, is the Senator including the Schoeneman letter?

Mr. BENNETT. Yes.

The PRESIDING OFFICER (Mr. CLEMENTS in the chair). Is there objection?

There being no objection, the documents were ordered to be printed in the RECORD, as follows:

UNITED STATES TREASURY DEPARTMENT,
Washington, September 26, 1951.

Mr. ROBERT W. BARKER,

Administrative Assistant to Hon. Wallace F. Bennett, Senate Office Building,
Washington, D. C.

DEAR MR. BARKER: In accordance with your telephone conversation of this date there are quoted below excerpts from Bureau rulings concerning the deductibility, for Federal income-tax purposes, of expenses incurred by Members of Congress.

Excerpt from a 1949 ruling:

"The business location, post, or station of a Member of Congress is the District of Columbia. The duties of a Congressman consume practically all his time and are regarded as taking precedence over any other business in which he may be engaged. Accordingly, it has been consistently held that the personal living expenses, including rent paid for a residence, of Members of Congress while in the District of Columbia for the purpose of attending Congress are not deductible for Federal income-tax purposes."

Excerpt from a 1945 ruling:

"It is also recognized that in addition to their congressional duties Members of Congress are sometimes engaged in a business located outside of the District of Columbia and incur traveling expenses in the pursuit of such business. Where such expenses are shown to have been incurred they constitute allowable deductions under the provisions of section 23 (a) (1) (A) of the Code."

The following position was taken, however, in a 1950 ruling dealing with a taxpayer not a Member of Congress:

"In order to be entitled to the deduction * * * a taxpayer must incur the expense for meals and lodging while neither at his usual place of abode nor at his principal place of business. Accordingly, this office is of the opinion that the cost of the taxpayer's meals and lodging while at home with his family represents nondeductible personal expenses, even though during such periods he was on business trips from his principal to his minor place of employment."

Very truly yours,

E. I. McLARNEY,
Deputy Commissioner.

ADVISORY MEMORANDUM No. 1838

JANUARY 7, 1948.

MY DEAR MR. JARMAN: Further reference is made to your letter of July 16, 1947, inquiring whether the living expenses incurred by a Member of Congress while in Washington, D. C., may be offset, for Federal income-tax purposes, against the \$2,500 expense allowance being received in 1947 and whether other congressional expenses incurred and paid during 1947 may be deducted on page 3 of Form 1040 for the purpose of arriving at net income.

Section 601 (b) of the Legislative Reorganization Act of 1946 (60 Stat. 812), provides the following expense allowance for Members of Congress:

"Effective on the day on which the Eightieth Congress convenes there shall be paid to each Senator, Representative in Congress, Delegate from the Territories, Resident Commissioner from Puerto Rico, an expense allowance of \$2,500 per annum to assist in defraying expenses relating to, or resulting from the discharge of his official duties, for which no tax liability shall incur, or accounting be made; such sum to be paid in equal monthly installments."

Sections 601 (c) and (d) of that act repeal, effective on the day on which the Eightieth Congress convenes, the expense allowance of \$2,500 per annum provided to each Member of Congress by the Legislative Branch Appropriation Acts of 1946 and 1947 (59 Stat. 238 and 60 Stat. 386), "to assist in defraying expenses related to or resulting from the discharge of his official duties."

It is noted that the purpose of such expense allowances, as specified in the three enabling acts, is substantially the same. It may be helpful therefore to review, insofar as pertinent to your inquiry, the position taken by this Bureau with respect to the allowances paid in 1945 and 1946. Bureau ruling dated July 20, 1945 to Hon. Emmet O'Neal, published in volume 91, CONGRESSIONAL RECORD, page A3607, held in part that the expense allowance paid in each of those years was includible in gross income, and that a Congressman claiming such allowance as a deduction from gross income by listing it as "fully expended in the performance of official duties" could be required, if so requested, to substantiate the claimed deduction by showing that the entire \$2,500 was used for expenses which are properly deductible under section 23 (a) (1) (A) of the Internal Revenue Code. In reply to specific questions presented by other Members of Congress, the Bureau further held that the Legislative Branch Appropriation Acts of 1946 and 1947 did not entitle a Congressman to any deduction to which he would not otherwise have been entitled and did not permit him to deduct amounts spent for meals and lodging while in Washington.

The Legislative Reorganization Act of 1946, however, expressly provides an expense allowance "for which no tax liability shall incur, or accounting be made." Clearly, therefore, the \$2,500 allowance received by a Member of Congress in 1947 is excludible from gross income. Furthermore, where a Congressman does not claim any deduction for congressional expenses on his 1947 tax return (other than those provided for by a specific appropriation, such as the mileage or stationery allowance), it appears that the Bureau has no authority to declare what expenses may be charged against such allowance, to question whether such allowance was properly exhausted, or to require any accounting in connection therewith.

On the other hand, where a Congressman does claim a deduction for congressional expenses on his 1947 return (in addition to those provided for by a specific appropriation), the Bureau takes the position that in order to be allowable such expenses (1) must qualify as a proper deduction under section 23 (a) (1) (A) of the Code (for the Legislative Reorganization Act of 1946 does not enlarge the scope of legal deductions); and (2) must be in excess of those properly chargeable against the \$2,500 allowance (inasmuch as to permit a deduction for expenses paid from a tax-exempt allowance would result in granting a double tax benefit).

Admittedly, it is difficult to reconcile this second prerequisite with the statutory provision that no accounting shall be made with respect to the \$2,500 expense allowance. To abandon such prerequisite, however,

would not only permit a double tax benefit but would also, in effect, treat the \$2,500, or a portion thereof, as constituting additional tax-free compensation rather than an allowance for congressional expenses as authorized by law. Since it appears evident that Congress did not intend either such result, it necessarily follows that a Congressman may deduct on his 1947 return only such expenses (qualifying under sec. 23 (a) (1) (A) of the code) as exceed those properly chargeable against the \$2,500 allowance. Furthermore, since a Congressman, like any other taxpayer, is required to substantiate his claim for deduction, if so requested by the internal-revenue agent examining his return, and as he could substantiate such a deduction only by showing that the expenses claimed were actually in excess of those which fully and properly exhausted his \$2,500 allowance, he would virtually have to render an accounting for his tax-exempt expense allowance. This result is believed to be in accord with the legislative intent (compare Senator Overton's explanation of an amendment having similar import which the Committee on Appropriations adopted in connection with the legislative branch appropriation bill of 1946, 91 CONGRESSIONAL RECORD 4950-4953), and the Bureau is therefore of the opinion that the statutory preclusion of an accounting was designed to apply only to those cases where no deductions are claimed for such excess expenditures.

Whether a Congressman claiming such a deduction may offset his living expenses in Washington against the \$2,500 allowance received in 1947 necessarily depends upon what expenses Congress intended to assist in defraying by means of this allowance. As the language "expenses relating to, or resulting from the discharge of his official duties," appears to have no fixed legal connotation, and as the significance thereof is not readily ascertainable from the statute itself, it is necessary to resort to the legislative history of this provision in order to fully comprehend its meaning.

Section 601 of the bill (S. 2177) as introduced in the Senate would have (a) increased the compensation of Members of Congress to \$15,000 per annum; (b) fixed their "home" for the purpose of section 23 (a) (1) (A) of the Internal Revenue Code at their place of residence within the State, Territory, or possession which they represent; and (c) repealed their then-existing expense allowance. Senate Report No. 1400, Seventy-ninth Congress, second session, page 36, stated that the purpose of subsection (b) was to permit Congressmen to deduct their living expenses in Washington and other expenses incident to their absence from home on congressional service. That subsection was eliminated, however, by Senator La Follette's amendment, 92 CONGRESSIONAL RECORD 6575, for the reason that it was a revenue proposal, which under the Constitution must originate in the House of Representatives (see 92 CONGRESSIONAL RECORD 10050). The House then debated the question (see particularly 92 CONGRESSIONAL RECORD 10038, 10048, 10096, and 10097) whether to restore that subsection to the bill or to adopt the amendment offered by Representative Brown of Ohio, which fixed the compensation at \$12,500 per annum and provided the new, tax-free expense allowance. The latter amendment was agreed to and was ultimately enacted into law, apparently because it was considered more "fundamental" to recompense a Member of Congress for such expenses (including his living expenses in Washington) from a tax-free allowance than to provide simply for the deductibility of those expenses which would otherwise have had to be paid from salary.

Accordingly, it is held that amounts expended in 1947 by a Member of Congress for expenses relating to or resulting from the discharge of his official duties, including his

meals and lodging while in Washington, D. C., may be offset against the \$2,500 expense allowance for that year. If such offset does not exceed the \$2,500 expense allowance, no deduction for congressional expenses may be taken in computing net income. If such offset does exceed the \$2,500 expense allowance, then those congressional expenses in excess thereof which qualify under section 23 (a) (1) (A) of the Internal Revenue Code may be deducted in computing net income.

If further correspondence relative to this matter is necessary, please refer to IT:P:TR-VSW-3.

Very truly yours,

GEO. J. SCHOENEMAN,
Commissioner.

Hon. PETE JARMAN,
House of Representatives,

Washington, D. C.

Business expenses: Section 23 (a), I. R. C.

Gross income (exclusions): Section 601 (b), Legislative Reorganization Act of 1946.

Personal expenses: Section 24, I. R. C.

The \$2,500 expense allowance received by a Member of Congress for 1947 pursuant to section 601 (b) of the Legislative Reorganization Act of 1946 is excludible from gross income. Amounts disbursed in 1947 by a Member of Congress for expenses relating to or resulting from the discharge of his official duties, including his meals and lodging while in Washington, D. C., may be offset, without accounting therefor, against the allowance received, provided that no deduction may be allowed for congressional expenses if the amount offset does not exceed the amount of the allowance. If the amount offset exceeds the \$2,500 expense allowance received then those congressional expenses in excess thereof which qualify under section 23 (a) (1) (A) of the Internal Revenue Code may be deducted in computing net income.

Mr. CASE. Mr. President, I think that what the Senator from Utah has said proves the point I was trying to make, that the simplest course to follow is to strike out the clause which makes the amount not subject to tax liability, and then we shall have retained the \$2,500 expense allowance. If we put it into salary and change the salary from \$12,500 to \$15,000, we will not know where we are.

Mr. President, I have an amendment, which I send to the desk and I should like it read at the appropriate time.

The PRESIDING OFFICER. The amendment will be received and will lie on the desk.

Mr. MAYBANK. Mr. President, will the Senator from New Hampshire yield?

Mr. BRIDGES. I yield.

Mr. MAYBANK. The question now being debated has been under discussion for many years. I remember it was debated in 1942 and 1943 and again in 1947 and 1948. I understand there is great confusion with respect to the President's expense account. The question is asked: "Why does not the Congress of the United States reduce the expense account of the President, rather than to make it taxable?" If it were made taxable it would simply take money out of one pocket of the Treasury and put it in another. I can understand that the President is not entirely popular with some persons, from what has been said around here, but why is it not proposed to reduce the amount rather than tax it further? Why give the President \$50,000 and then tell the revenue collector

to go around and take back \$30,000 in taxes?

Mr. BRIDGES. Mr. President, I now propose my first amendment to the Williams amendment, which is to amend, on page 2, line 22, by striking out "\$15,000", and to insert, "\$22,500." I make the figure \$22,500 on the recommendation of several Senators.

Mr. DIRKSEN. Mr. President, will the Senator yield?

Mr. BRIDGES. I yield.

Mr. WILLIAMS. A parliamentary inquiry.

The PRESIDING OFFICER. The Senator will state it.

Mr. WILLIAMS. The yeas and nays have been ordered on my amendment. Is another amendment in order?

The PRESIDING OFFICER. The ordering of the yeas and nays does not preclude the offering of an amendment to the amendment.

Mr. BRIDGES. Mr. President, I yield to the Senator from Illinois.

Mr. WILLIAMS. Did the Chair rule whether it was in order to offer the amendment?

The PRESIDING OFFICER. The Chair ruled it was in order.

Mr. DIRKSEN. I should like to make a suggestion to the Senator from New Hampshire. I wrestled with this problem on the House side, and I recognized that Members of the House and Senate are the only officers of the Federal Government who are compelled to raise their own salaries by law, because there is no other way to do it. We can divest ourselves of any self-serving idea when we vote on the salary of the President, the Vice President, and anybody else in this Government. But when it comes to Members of the House and Senate, why we are sort of stranded.

I puzzled over this matter, and in 1947 I submitted a resolution on the House side. I did not press it for action, but it provided in substance that a salary commission should be appointed consisting of 18 persons, 6 appointed by the Vice President, 6 by the President, and 6 by the Speaker. They were to come from business, industry, and labor; they were to make a finding, and whatever that finding was would be the salary for Members of the House and Senate. That would divest us from any self-serving idea whatsoever. It would give the members of the commission an opportunity to explore the whole matter, including increased living costs. I think that would be an infinitely better approach than the one contemplated this evening.

My suggestion to the Senate is simply to accept the Williams amendment first, because the nontaxable item got into the Legislative Reorganization Act as a floor amendment in the House. I was one of the managers of the bill, and I remember that the amendment was offered on the floor, and it was accepted, but it was not contemplated by the Joint Committee on Legislative Reorganization. So we can, in a sense, disclaim responsibility for it. But it has been something of a headache since that time. So I am not averse to taking away the tax-

exempt feature of the \$2,500 expense account. Then I would be in favor of creating a salary commission.

I may say to the Senate that I have introduced a similar measure in the present session of the Congress. It has been reported once by the Committee on Post Office and Civil Service. It was called back, and the committee is making some technical modification of the measure, and it will probably be reported and placed on the Senate Calendar in short order. I think the chairman of the Committee on Post Office and Civil Service will probably bear out that statement.

Mr. JOHNSTON of South Carolina. The junior Senator from Illinois is entirely correct. The measure was reported by the committee, and then it was found that there was a technical error in it, and it was called back, and the committee reported it again last Tuesday, and it will be placed on the calendar.

Mr. HUNT. Mr. President, would it not be a more practical and feasible solution of the situation not to follow now the suggestion of the Senator from Illinois but to defeat the amendment offered by the Senator from Delaware and then, when the bill comes from the Committee on Post Office and Civil Service we can add the proposal of the Senator from Illinois to the bill which comes from the committee?

I am absolutely opposed to the amendment offered by the Senator from Delaware. As one Member of this body I did not come here to liquidate what small fortune I may have. The amendment which has been submitted is absolutely nothing but a salary reduction. I agree with the Senator from New Hampshire. It is time that we on the Senate floor have the intensional fortitude to stand up and speak what we are thinking, and not engage in demagoguery for the people at home to consume, in order that we might receive some favorable consideration at election time.

Mr. WELKER. Mr. President, I am impressed by the remarks made by my distinguished friend the Senator from New Hampshire. I am one of the co-sponsors of the amendment offered by my distinguished colleague from Delaware. We have listened to the very learned discourse on the proposition that we cannot afford the salary reduction, which is really what the amendment would bring about.

Mr. President, I desire to call to the attention of each Member the very salient fact that throughout America the people who sent us here know that we cannot live and exist on the salaries we receive. Senators maintain homes in New Hampshire, Idaho, or in whatever State they represent, and also in Washington, D. C., and they have a terrible load of contributions and expenses heaped upon them. So it is said quietly many times: "The Senator from New Hampshire"—or Idaho, or Maine, whatever State he may represent—"is either a millionaire or gets money for his vote." In other words, I have heard it said that a poor man cannot be a Senator. He has to be a millionaire or a crook. It is

true a Senator cannot exist upon the salary he receives, with the terrific expenses he is required to meet.

Mr. President, I join with my friend the Senator from Wyoming [Mr. HUNT] and say it is time for us to quit being demagogues, and to be realistic because when we take the position of Senator the people at home know that we either have to go out and speak to make ends meet, or we have to practice law on the side, or maintain other occupations—or we are even accused of accepting graft and gratuities. Much as we hate to hear such things, they are being said. I say it is time that we get a salary such as the Senator from New Hampshire has suggested, which will induce poor men and men of limited means to serve in the Senate on an equal footing with those fortunate individuals who possess the wealth that is represented here.

Mr. MORSE rose.

Mr. BRIDGES. Does the Senator from Oregon wish me to yield to him?

Mr. MORSE. I want the floor in my own right.

Mr. STENNIS. Mr. President, will the Senator from New Hampshire yield?

Mr. BRIDGES. I yield.

Mr. STENNIS. It seems to me that we are losing sight of the real issue which is before the Senate. This is not a question of what our salary should be, or what our deductions should be, or what our expenses are. It seems clear to me that Congress has already put itself in such a position that it cannot pass on the salaries and expenses and deductions and allowances of other groups. For instance, when the question arose about the President's salary and the Vice President's salary, and the tax-free funds which were to be provided, we were not in position to say "No." I did not feel that I was because I was getting the benefit of a special provision. We have set up standards for ourselves which we deny to others. That is the issue and the only issue involved in the Williams amendment, as I see it. I cannot see how we can set up a standard for ourselves more liberal than that of the average school teacher who may have to leave her home and go to a place where she has to pay board and room rent and transportation if she goes back to her regular place of abode at the week-end, the month-end, or at the end of the school session. We deny her any special tax exemption for such expenses. How can we set up a more favorable standard for ourselves?

I think we must face the issue of the salary we should pay ourselves. It is a matter that we should not have to decide for ourselves, but under the present scheme of things we must do so. I respectfully submit that we cannot pass by this opportunity to set ourselves square with the people and put ourselves back in a position to pass upon salaries, expenses, and allowances of others. Until we rid ourselves of this special privilege we are not worthy judges of others.

Mr. HUNT. Mr. President, will the Senator from New Hampshire yield to me so that I may ask a question of the distinguished Senator from Mississippi?

Mr. BRIDGES. I yield.

Mr. HUNT. I should like to ask the distinguished Senator from Mississippi how many pieces of mail he has received complaining about the very small tax exemption to which we are entitled?

Mr. STENNIS. I do not know that I have received any, but I have the feeling that the people of the United States would have more respect for us as a body if we were to change the present law.

Mr. HUNT. I believe that our constituents will think we are timid—I cannot express exactly what I should like to say on the floor of the Senate with regard to what our constituents will think of us. If this afternoon we vote to accept the amendment of the Senator from Delaware and take from \$250 to \$1,000 out of our salaries, our constituents will have some things to say about us which could not be repeated on the floor of the Senate.

Mr. WILLIAMS. Mr. President, I should like to point out to the Senator from Wyoming that when he votes for a \$6,000,000,000 tax bill he is doing exactly that to every American taxpayer. He is voting to reduce the take-home pay of every wage-earner.

Mr. HUNT. Including myself.

Mr. WILLIAMS. Yes, and why should Senators not be included? I did not offer this amendment in any spirit of demagoguery. I stated in the beginning that I felt that Members of Congress should be adequately paid. At the time the amendment was offered to extend the exemption to the President in January 1949, I said, "Let us face the issue and put the salary where it belongs, but make it all taxable." Our country was founded upon the principle that the ruling class would be subject to the same laws as other citizens.

This is not the place to raise salaries. This is a revenue-producing measure. This is a tax bill. If the only reason Members are willing to vote for my amendment is to get a salary increase, then let them vote against it.

The fact that this amendment is raising such a furore is all the more reason why it should be adopted. It proves that if Congress and the President are subject to the same taxation as other people we will be more sensitive as to how these periodic tax increases are affecting them.

The amendment of the Senator from New Hampshire [Mr. BRIDGES] would apply to only one item in my amendment; namely, the item with respect to Members of Congress. Are Senators willing to take the tax exemption away from the President of the United States, the Vice President, and the Speaker of the House, yet unwilling to give up their own? I say let us correct all or none.

Mr. President, I am not trying to cut the salaries of Members of Congress, but, as a matter of principle, there should not be any special tax-exempt group in this country. I have been arguing that ever since I have been in the Senate. I argued that point when the dollar was worth much more than it is now. If we had had the courage to face the problem 4 or 5 years ago, we could have cured the situation long ago.

I am unalterably opposed to any amendment to my amendment which would raise salaries at this time. I shall vote against the amendment of the Senator from New Hampshire, and, if it is adopted, I shall then vote against my own amendment as thus amended.

If the only way for me to take away the tax exemption is to give myself a salary increase, so far as I am concerned, it can remain exactly where it is.

Mr. HUNT. Mr. President, will the Senator from New Hampshire yield to me?

Mr. BRIDGES. I yield.

Mr. HUNT. If the Senator from Delaware has not designed this amendment to cut the salaries of Members of Congress, why does he not replace or restore the amount of the cut we are going to take?

Mr. WILLIAMS. I will answer the Senator from Wyoming by saying that it is for the same reason that we are not restoring the incomes of the millions affected by this same tax bill. We are not restoring the taxable salaries of any other American citizens. We are taking from everyone in the country. What I am doing today is something that should have been done 5 or 6 years ago. As the Senator from Illinois [Mr. DIRKSEN] pointed out, I do not believe that the committee which studied this question in the House ever intended that this measure providing special tax exemption should be enacted. The best argument for the repeal of it is the Senator's own argument, when he says that he does not want to vote for this amendment because it is a salary reduction. That is the best argument for voting for my amendment, because the Senator admits that these tax-exempt allowances were placed in the bill as salary measures.

No Member of Congress nor any other Government official should have a special tax credit. When I fill out my tax return I get the \$1,200 allowance which every other American taxpayer gets, plus \$2,500 additional. The President gets his \$1,200 plus an extra \$50,000. Why?

The President tells Congress that he wishes an increase in taxes. The other day the President said that he was calling on every American citizen to come forward in the great emergency, accept the tax increase, and make sacrifices. He said that everyone, from the President of the United States down to the ditch digger, should enthusiastically accept these sacrifices. But unless my amendment is adopted his own salary will be exempted.

Mr. HUNT. Mr. President, will the Senator from New Hampshire yield to me?

Mr. BRIDGES. I yield.

Mr. HUNT. We are voting on a tax increase of five and a half or six billion dollars. I should like to say to the Senator from Delaware that we are increasing our own taxes as well as the taxes of everyone else. This bill is not aimed exclusively at our constituents. We shall participate in it just as they participate in it.

I do not quite understand why the Senator from Delaware selects this time and this particular bill to bring up this

question, which is certainly very controversial. It seems to me that it should be dealt with in a measure entirely separate from the bill we are now discussing, instead of being brought up at this time.

Mr. WILLIAMS. Mr. President, will the Senator from New Hampshire yield to me?

Mr. BRIDGES. I yield.

Mr. WILLIAMS. The reason this amendment is offered at this particular time is because last year when I offered this provision in the form of a bill it went to the Civil Service Committee, and that committee failed to take action, claiming that it was a revenue measure. The committee said that I should wait and offer it in connection with a tax bill. This is the tax bill. We must either vote on the question now or else we must say that we do not want to take action. Failure to adopt this amendment will, in effect, be saying that we are willing to raise everybody's taxes except ours.

Personally I do not think we should vote for any tax increase on the rest of the American people until the President of the United States and the Members of Congress are willing to accept their equal share of the burden.

Mr. MORSE. Mr. President, I think the Senator from Arkansas [Mr. McCLELLAN] placed his finger on the main point when he in effect pointed out the very basic principle involved in this issue, as to whether it was right, when we passed the Reorganization Act, to take the benefit of a \$2,500 nonaccountable tax-exempt expense allowance.

Some of us were opposed to it at that time. The Senator from Virginia [Mr. BYRD], as well as the Senator from Delaware [Mr. WILLIAMS], and several other Senators felt that it was wrong, as a matter of principle, for us to give ourselves the benefit of such a discriminatory advantage.

When that bill came back from conference some of us made inquiry as to whether or not that principle had been retained, and we were told that it had been, and that we had no choice, that we either had to vote against the entire bill as it came from conference, or vote for the bill. I voted for the bill. I declared for the record a reservation with regard to this matter.

I think we ought to consider the experience which I am sure has been shared by many of us in the Senate since that action. I am willing to testify this afternoon, in keeping with the principle of the confessional, that many in my constituency have not been able to understand why we did it. I think we did a great injustice to the Congress, so far as its standing among the people of the country is concerned, when we passed the reorganization bill with this provision in it.

In my opinion, it has hurt the reputation of the Congress. There are millions of American people who believe that we acted out of a selfish motivation on that day, and that we protected our own pocketbooks by adopting a principle of tax exemption which we were not willing to give to the rest of the American taxpayers. I believe it has hurt us. The Senator from Arkansas is correct when

he puts his finger on this principle, as the Senator from Virginia [Mr. BYRD] has done on many occasions in the past, and as the Senator from Delaware [Mr. WILLIAMS] has done.

The first step we ought to take is to do away with our tax exemption of \$2,500 on a non-accountable expense account. Of course it can be argued that individually we do not have to accept that tax exemption, but I think that is a pretty fallacious argument, when we lay down, as a matter of policy of the Congress, that this \$2,500 nontaxable, non-accountable expense allowance should accrue to the Members of the Congress, and then say, "If any one Member does not like it he does not have to take advantage of it." The fact remains that, in my opinion, it is bad public policy to leave that kind of exemption on the statute books. I believe we should take ourselves out from under it, and that we should make perfectly clear to the taxpayers that we are not asking for any special treatment for ourselves. We would have a hard time convincing them that that is not exactly what we have done.

I disagree with the Senator from Delaware [Mr. WILLIAMS] on a position he has taken in regard to the point which the Senator from New Hampshire has made as to whether or not we ought to go into the question of salaries of the Members of Congress. I believe the American people appreciate our taking a forthright and courageous stand on these issues, and I do not believe that we ought to pass to some agency or commission the obligation of judging what the salaries in Congress should be. I do not know of any people who are better qualified to tell the American people what the problems of the expense of serving in the Senate are than the Members of the Senate themselves. As the representatives of the people we owe it to them to tell them so if we honestly believe that the salaries which we receive are not sufficiently high to give them the type of representation to which they are entitled, and that there should not be put upon Members of Congress a burden which they should not be expected to bear if they are going to carry out the people's business in a proper way.

Mr. KILGORE. Mr. President, will the Senator yield?

Mr. MORSE. Not at the moment. I wish to finish the thesis of my argument, and then I shall yield. I am sure that it is nothing new to my colleagues sitting on the floor of the Senate this evening, but I wish to make the record on it, because I believe the taxpayers of the country ought to know the facts.

My colleagues will take judicial notice of the fact that even on a \$15,000 salary, including the \$2,500 expense allowance, which, as my friend from Delaware said, was really passed by us well knowing at the time that what we were doing was incorporating it into a salary item in the name of a nontaxable, non-accountable expense allowance, it is impossible to do the job if one has family obligations and if one has the responsibility of sending children to school,

which is true of most of us. Certainly it cannot be done on a salary of \$15,000 a year.

What is being done, Mr. President? The Members of the Senate who find that the salary check at the end of the month constitutes their primary source of income must find other sources of income. There are quite a number of us who find ourselves in that position. The Senate is not yet a rich man's club. As my friend the Senator from New Hampshire [Mr. BRIDGES] said earlier in the debate, the Senate should be composed of a cross section of the economic groups of America. We should have the rich man here; we should have the man here from the so-called middle economic group; and we should have in this body the man from the low-income group, so far as personal incomes are concerned.

The actual experience of those of us who find it necessary to try to live on the monthly salary check is that we must make use of other sources of income to supplement the income from our salary. Even then most of us find that a serious illness within our family would put us in the red. Therefore, some of us engage in lecturing. Some participate legitimately in law practice on a State basis, not involving Federal questions. Some of us find it necessary to continue legitimately with commercial enterprises. It just happens to be one of the economic realities of serving in the Senate.

I am perfectly willing, in this spirit of the confessional, to say that if during the year I did not average at least two speeches a month with an honorarium, I could not economically serve in the Senate of the United States. I must average about \$750 over and above the amount of money I get from my senatorial check to meet expenses.

I once made an offer to Miss Strauss, of the League of Women Voters—I believe it was 3 years ago, or perhaps it was 4 years ago—when we were discussing the economic aspects of service in the United States Senate, to make my office and private accounts available to any committee of the League of Women Voters, with the suggestion that they get 3 or 4 other Senators and 3 or 4 Representatives to do likewise. The purpose was to let them make a study for 1 year of what it actually costs a Member of the Senate and a Member of the House to serve in Congress. In other words, I would let them make that study as a basis of educating the American people concerning some of the economic facts connected with serving in Congress. I regret that the League of Women Voters did not see fit to carry out the suggestion. Such a project would be very educational. I repeat the offer, and I make the same offer now to any other responsible group. I do so because I believe the American people should have the facts with regard to the expenses involved.

I do not believe we should in part meet the problem on the basis of the principle, which we adopted when we enacted the Reorganization Act, of giving ourselves a \$2,500 tax-exempt, nonaccountable expense account. I do not believe we can square it very well with a sense of fair play, which I believe is typical of the

average American voter. One just cannot reconcile what we did with what the voter believes ought to be the rules of the game, equally and uniformly played by all taxpayers. I believe the voter is right about it. I have never been able to reconcile it.

Let us look at some of the extra expenses—which are not individual to me—which go with service in the Senate. I should like to have the ear of some of my friends and colleagues in the Senate who serve on the Committee on Rules and Administration. I believe they have been following a policy in regard to requirements and procedures with respect to senatorial expenses which has not been very wise. Let us take the matter of telegrams, particularly with respect to the new rule which was adopted this year regarding telegrams, greatly reducing the number of telegrams which a Member of the Senate may send. In carrying out what I consider to be the people's business, particular hardships are placed on the Members of the Senate who live a considerable distance from Washington, D. C., where a letter will not reach a constituent quickly.

If there were abuses in connection with sending of telegrams, and if telegrams were being sent not for carrying on the people's business, that situation could be checked, without laying down the kind of limitation which the Committee on Rules and Administration has laid down with the telegraph restriction this year.

Mr. President, I should like to see a calculation made of the actual net cost of sending a short telegram in handling a problem for a constituent in one's home State and of the net cost of a letter to the same constituent. I would say that the difference in cost would not be nearly so much as many people seem to believe.

The result of the rule with respect to telegrams, which the Committee on Rules and Administration has laid down, will cost some of us living in the West several hundred dollars out of our own pockets, because we cannot possibly carry on the people's business under that regulation.

Let us go into the question of telephone messages. It was pointed out by my good friend, the Senator from New Hampshire [Mr. BRIDGES] that in almost any office downtown the same restrictions are not imposed which we find in the Senate under the rules which have been laid down for the use of the telephone. There again, I believe we ought to be allowed to make our own record in the use of the telephone. If we earnestly believe that in carrying on the people's business a telephone call will expedite the handling of a constituent's business in Washington, we ought to be allowed to use the telephone.

A few days ago I was greatly embarrassed when, in telephoning to the editor of a newspaper in my home State, I had to make the telephone call collect because I no longer had available funds with which to make that call on my own budget. I simply cannot afford to make the long-distance telephone calls which should be made to my State, but which

cannot be made within the budget I have available. I do not need to tell my colleagues in the Senate that it does not leave a very good impression with one's constituents to be telephoning to them collect. However, we have to think of our own personal financial obligations and responsibilities in weighing the kind of reaction we may make by making collect telephone calls.

This afternoon something has been said about stamps. Let us consider the case of Members of Congress who live in States remote from Washington. What do we suppose will be the reaction of a constituent when he writes to his Senator—as a constituent usually does only when he wishes to refer to a subject which he regards as important, and which he thinks needs handling—and thereafter receives from his Senator a reply which is sent to him in a franked envelope. That constituent's reaction very naturally is, "My Senator must not think enough of my request to bother to use an air-mail stamp in replying to it."

Of course, Mr. President, there is also the factor that a Member of Congress generally receives mail in proportion to the population of his State. That factor should be considered. At the same time we find that Members of Congress from some States of small population receive rather heavy mail, even as compared with the mail received by Senators coming from States of large population. However, no account is taken of those factors and other items of expense which are not covered by the office budgets we have available.

Furthermore, on many occasions we find that when a certain issue is before the Congress and when we become involved in a controversy in the course of sponsoring a bill, for instance, and when we find that controversy causes a large volume of mail to descend upon our offices, an amount of mail so large that we cannot begin to handle it with our own office force, we have to employ extra office help, and that expense comes out of our own pockets.

Thus, Mr. President, I could enumerate a long list of extra expenses in connection with carrying on the business of our office, expenses which a Senator who is trying to do a conscientious job as a Member of the Senate cannot pay out of his salary, because his office-expense budget cannot begin to meet those expenses.

Then there is the matter of travel. Let us be frank about it, Mr. President. Again I speak in behalf of some Senators who live some distance away from Washington. As realistic politicians, we know that we cannot come to Washington and stay here for 11 months and never return to our home States during that time, and expect to find very many political fences in good repair there at the end of the 11 months. That is only one of the political realities of the job. Therefore, if we wish to report to the people on the facts about our records, we have to return to our home States several times during the year, and we have to pay out of our own pockets the expense of those trips.

For instance, I cannot travel by airplane or by railroad from Washington to my home State and spend a week or 10 days there, on such a so-called fence-mending trip, without being required to spend a minimum of \$500 for the trip. That expense is an inseparable part of the cost of service in the Senate.

The American people will understand and appreciate those facts, once they are told about them, Mr. President.

I agree with the Senator from New Hampshire that we should be so sensitive about facing the salary problem.

One other item of expense which we have not met adequately, either by means of the Reorganization Act or under the policies of the Committee on Rules and Administration, is the expense for research help in our offices. The Reorganization Act does not begin to provide the research assistants we need. In our work on various bills we find ourselves constantly faced with well-financed lobbies, both Government lobbies and private lobbies, with large staffs of research assistants. Sometimes I marvel, Mr. President, that Members of the Senate do the remarkably fine job they do, both in debate and in committee work, when I stop to think of the very limited staff Senators have to help them prepare the technical matter that must be prepared if we are to meet the powerful groups, Government and private, who are lobbying for special interests in connection with various bills.

I think we are overlooking our responsibilities to the people of the United States when we do not provide ourselves with more adequate help, because we are the advocates of the public's interest in these matters, and I do not believe we can justify trying to carry on the public's business when we know we are not adequately financing the staffs we need in order to protect the public's interest.

There, again, I think the voters would agree with us, once they came to understand the facts in regard to the financial costs of serving in this body.

There are many other expenses which I might list; but I believe we cannot justify continuing what I think was a wrong principle which was adopted when the Reorganization Act was passed. I agree with the Senator from Arkansas, the Senator from Virginia, and the Senator from Delaware that in this tax bill we should take ourselves out from under the special benefits which we voted for ourselves when we adopted this expense allowance; and then I think we should join at once with the Senator from New Hampshire in facing the question of how much we should increase congressional salaries, knowing very well the kind and variety of expenses we meet.

I do not know whether \$22,500 is the proper figure or whether \$20,000 is the proper figure; but I am satisfied that we cannot justify a figure less than \$20,000 if we are going to be fair to our constituents and if we are going to relieve ourselves of some of the extra burdens we have to assume in order to meet the expenses of a Senator's job.

Mr. IVES. Mr. President, will the Senator yield?

The PRESIDING OFFICER (Mr. CLEMENTS in the chair). Does the Senator from Oregon yield to the Senator from New York?

Mr. MORSE. I yield.

Mr. IVES. I should like to ask the distinguished Senator from Oregon whether he feels that the expenses which are legitimately attributable to the work we do in Washington, the expenses which are connected with our positions in the Senate, should be allowed as deductions for income-tax purposes.

Mr. MORSE. I think they should be allowed as deductions fully accountable for in our income-tax returns, but not including living expenses.

I do not share the view—and on this point I differ with my good friend, the Senator from New Hampshire—that our living expenses in the District of Columbia should be deductible. I think we must face the fact that inherent in the job, when one runs for election to Congress, is the understanding in the contract he enters into with the voters that in order to perform the duties of his office he will have to move to Washington and will have to live there. I think we incur that obligation ourselves when we run for office.

Mr. HOLLAND. Mr. President, will the Senator yield?

Mr. MORSE. I shall yield in a moment.

Mr. President, I do not believe that obligation goes so far that the people would feel that we should also assume the obligation of paying for the extra office expenses to which I have referred. I would find it difficult to reconcile myself to the view that it would be right and proper to deduct my living expenses in Washington; but I certainly think it would be proper to deduct what we can actually say are the extra office expenses of the job which are not covered by the office budget which is provided for our work.

Mr. IVES. Mr. President, will the Senator yield?

Mr. MORSE. I yield to the Senator from New York.

Mr. IVES. The Senator from New York would again like to inquire of the Senator with reference to the attitude he would take regarding the propriety of Members of Congress being allowed the same privilege with regard to deductions for income-tax purposes as those which are allowed people in private life. That means simply this: It seems to me to be very clear that as Members of the Senate, or as people holding Government positions, we should be given the same privilege to deduct which is given to people in private industry, in private work, and in private effort.

I fully agree with the Senator's observation with respect to the \$2,500 expense allowance, which I myself do not approve. I think that ought to be eliminated. But by the same token I do not see why we should not have the same privilege, the same right, which is given to every other American citizen in every other walk of life, namely, to deduct the expenses which are directly attributable to the work in which he is engaged, and that in this particular instance applies also to living expenses insofar as housing is concerned, and insofar as those

expenses are above and beyond what one would actually have in his own home, if he had to maintain an establishment himself.

Mr. MORSE. There is a certain amount of merit. In fact, there is a great deal of merit in the observation of the Senator from New York. But I would still draw distinctions, Mr. President, between service in the Congress and the expenses of one engaged in a commercial enterprise who comes to Washington or who goes to New York or to any other place on a business trip.

Mr. WILLIAMS. Mr. President, will the Senator yield?

Mr. MORSE. I decline to yield at the moment. I may say to the Senator from New York that I think there is a difference between the case of the man engaged in a business enterprise and the kind of obligation which a man in public life incurs, when he comes to Washington to live to carry on the work of the Senate or the House, knowing full well when he ran for the office that it was obligatory on his part to make that move, and that for the period of time while he was living in Washington, that was in effect his place of residence. I think his case is quite different from that of an industrialist in New York who comes to Washington or who goes to Chicago for a week or 10 days, stopping at a hotel and incurring expenses in connection with a business trip. There is quite a distinction both as to motivation and as to prior notice. We were put on notice when we ran for the office that that kind of expense went inherently with the job. I repeat, however, what I said before, that we are in a position to protect ourselves legitimately from extra expenses over and above living expenses.

Mr. IVES. I rise.

Mr. MORSE. I yield to the Senator from New York.

Mr. IVES. The question I had desired to ask the distinguished Senator he has already answered. I was going to ask him whether he did not feel, then, that the alternative is to provide ourselves with an increase in compensation or salary, as he has suggested.

Mr. MORSE. Yes; I think we should do so.

Mr. WILLIAMS. Mr. President, the question has been raised as to the matter of extra expenditures in our offices and extra expenses in the performance of our duty. Under section 23 (a) of the existing law, and section 48 (d), there is specifically spelled out the fact that any Member of Congress, or any man holding public office, who spends money out of his own pocket in the performance of his duties, may deduct those as legitimate expenses. This amendment has nothing whatever to do with that provision. We are already entitled to this exemption and will continue exempt so far as this type of expense is concerned.

Mr. MORSE. I want to say to the Senator from Delaware, the fact that he can deduct such items as expenses does not mean that he can include those expenses in his tax return. It is not meant to cover his out-of-pocket money. I am talking about what is happening to the

poor man in the Senate, the man of small means who cannot afford to pay the extra expenses unless he finds other sources of income.

Mr. WILLIAMS. I am speaking to the Senator from Oregon, and I think he will agree with me that the place to take care of that question is not when a tax bill is before the Senate. This is not the place to discuss it. I hope no Senator will support this amendment as an excuse to raise his own salary. I am offering the amendment as a matter of principle. Let us vote on it accordingly.

Mr. MORSE. I think there is something in what the Senator says, but the questions are so interrelated that I do not believe any great or heinous crime would be committed if the subject should be dealt with in this bill.

Mr. HOLLAND. Mr. President, will the Senator from Oregon yield?

Mr. MORSE. I yield to the Senator from Florida.

Mr. HOLLAND. I invite the Senator's attention to one item which I think he has not as yet mentioned, though he may have it in mind. It is that, admitting the truth of the statement of the Senator that anyone running for the office of Senator has complete knowledge of the fact that extra expenses of living are involved, many Senators now serving in the Senate ran for office and were elected after the passage of the legislative reorganization bill, and they have a complete right to rely upon the continuance of the provision made at the time they offered themselves for office, to the effect that \$2,500 was allowed over and above the stipend of \$12,500, to be a tax-free allowance. In the making of their plans on that assumption they were thoroughly within their rights. As a matter of fact, their engagement was in the nature of a contract, and they have a complete right to expect at least what was provided in the law. Speaking for that group of Senators, whom I think both the Senator from Oregon and the Senator from Florida represent, insofar as their economic status is concerned, it seems to the Senator from Florida that there is a real consideration there which must not be lost sight of, and which is in the nature of an assurance given to a large group of Senators now belonging to this body.

I desire to call that matter to the attention of the distinguished Senator from Oregon, and to invite his comments with reference thereto.

Mr. MORSE. Mr. President, I appreciate the views of the Senator from Florida. I do not go all the way with him. I think that the only right such candidates for the Senate had was the right to hope that there might not be any change in the law, but they certainly knew when they ran for office that it would be almost impossible to predict what the Congress of the United States might do on any piece of legislation, including salary legislation, during their tenure of office.

I also seriously question whether, except in a very loose way, it would be appropriate to say that any contract was entered into. I think that once they were elected, they owed the duty to the very people who voted for them to ex-

amine the salary structure of the Congress to determine for themselves whether a wrong principle was involved in it, and I believe that if they find there is, then they have the duty to vote to eliminate that principle, even though it might cost them \$2,500, which they took for granted, when they ran for office, they might receive while they served in the Senate.

Mr. MAYBANK. Mr. President, will the Senator yield for a question?

Mr. MORSE. I was about to yield the floor. I yield to the Senator from South Carolina.

Mr. MAYBANK. The distinguished Presiding Officer (Mr. MONRONEY in the chair) was a member of the conference on the Reorganization Act. I had the pleasure, the night the conference report was brought to the Senate, of talking to the distinguished Senator from Wisconsin, former Senator La Follette, in connection with some things which have been brought up here. I refer particularly to the salaries of administrative officers, and so forth, which I voted against.

On the Rules Committee, of which I was a member before the Reorganization Act became effective, I served long with former Senator Bankhead, as the Senator from Oklahoma knows.

I should like to ask the Senator from Oregon a question. He proposes a solution for all this difficulty, and I join him in his position that the income taxes of Senators should be published and the public should know where the money comes from. It would do me no good, whether there was \$2,500 or \$25,000 in an expense account. I do not understand why the Senator from Oregon does not propose an amendment to make public the income taxes of Members of Congress. I join the Senator from Oregon and congratulate him. I am willing to make mine public, and I hope that will be some answer to the question brought up. I cannot speak for the Senator from New Hampshire [Mr. BRIDGES], but I believe that he feels the same way.

Mr. MORSE. I thank the Senator. I have a long-pending resolution to publish the income taxes of Members of Congress, but I seriously question whether it would be appropriate to add it to the bill which is now under consideration. I seriously question whether it should be attached to a tax bill.

Mr. MAYBANK. I want the Senator from Oregon to know that I am absolutely sincere in what I have stated.

Mr. MORSE. I think my resolution will be on the floor of the Senate within the next 10 days as a part of another proposal which is being made to the Senate in connection with the report of the Subcommittee on Ethics in Government. I do not care to say more at this time for fear someone will say I am jumping the gun on some report. I do wish to say, however, that a principle of the Morse resolution has been approved by a good many members of the committee. I think that such a resolution would be very helpful and would do no harm to anyone whose conduct has been proper.

Mr. MAYBANK. Mr. President, will the Senator yield?

Mr. MORSE. I yield.

Mr. MAYBANK. In the 1920's, when I was in business, names were published in the newspapers in connection with income taxes. I was proud that my name was in the newspaper, showing I had enough sense to make some money. I think it is the duty of Congress to bring to the people of the United States information as to the salaries and other income Members of Congress receive, rather than to take away \$2,500 which to many of them does not mean very much but to others might deprive them of the opportunity to be in this august body.

Mr. MORSE. Mr. President, I yield the floor by saying that I think this is the time for us forthrightly to meet both the question of expense and the question of salary.

Mr. BRIDGES. Mr. President, I should like to address a question to the distinguished majority leader and the distinguished chairman of the Committee on Post Office and Civil Service. I understand there is a bill which has been reported having to do with a civic commission to be appointed by the President, the Chief Justice, and the Vice President, to make a study and determination of congressional salaries. Is that correct?

Mr. JOHNSTON of South Carolina. There is a joint resolution providing for the establishment of a commission to study the question and to make recommendations to the Congress within 3 months.

Mr. BRIDGES. Mr. President, I should like to ask a question of the majority leader.

I do not think we should consider salaries in connection with the pending bill, but I thought it was wise that we have a discussion of the subject. If such a bill is reported, will it receive the consideration of the Senate?

Mr. McFARLAND. So far as I am concerned, I should be perfectly willing to have it receive the consideration of the Senate.

Mr. BRIDGES. In that case, Mr. President, I withdraw my amendment to the Williams amendment with reference to the item of \$22,500, and move that the so-called Williams amendment be laid upon the table.

The PRESIDING OFFICER. The question is on agreeing to the motion of the Senator from New Hampshire [Mr. BRIDGES] to lay on the table the Williams amendment. The question is not debatable.

Mr. KNOWLAND and other Senators requested the yeas and nays.

The yeas and nays were ordered.

Mr. CAPEHART. Mr. President, a parliamentary inquiry.

The PRESIDING OFFICER. The Senator will state it.

Mr. CAPEHART. Mr. President, may I offer an amendment to the Williams amendment?

The PRESIDING OFFICER. Not at this time. The motion to table the Williams amendment has already been made and the yeas and nays have been ordered.

Mr. DOUGLAS. Mr. President, a parliamentary inquiry.

The PRESIDING OFFICER. The Senator will state it.

Mr. DOUGLAS. What is the precise question now before the Senate?

The PRESIDING OFFICER. The question is on agreeing to the motion of the Senator from New Hampshire [Mr. BRIDGES] to lay on the table the amendment offered by the Senator from Delaware [Mr. WILLIAMS].

Mr. DOUGLAS. I suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The Chief Clerk called the roll, and the following Senators answered to their names:

Aiken	Hendrickson	McMahon
Bennett	Hennings	Millikin
Benton	Hickenlooper	Monroney
Bricker	Hill	Moody
Bridges	Hoey	Morse
Butler, Md.	Holland	Mundt
Butler, Nebr.	Hunt	Neely
Cain	Ives	Nixon
Capehart	Jenner	Pastore
Carlson	Johnson, Tex.	Robertson
Case	Johnston, S. C.	Russell
Clements	Kefauver	Saltonstall
Connally	Kem	Schoeppel
Cordon	Kerr	Smathers
Douglas	Kilgore	Smith, Maine
Dworshak	Knowland	Smith, N. J.
Eastland	Langer	Smith, N. C.
Eaton	Lodge	Sparkman
Ellender	Long	Stennis
Ferguson	Magnuson	Underwood
Flanders	Malone	Watkins
Frear	Martin	Welker
Fulbright	Maybank	Wiley
George	McCarthy	Williams
Gillette	McClellan	Young
Green	McFarland	
Hayden	McKellar	

The PRESIDING OFFICER (Mr. MONRONEY in the chair). A quorum is present.

The question is on the motion of the Senator from New Hampshire [Mr. BRIDGES] to table the amendment of the Senator from Delaware. The yeas and nays have been ordered, and the clerk will call the roll.

The legislative clerk called the roll.

Mr. JOHNSON of Texas. I announce that the Senator from New Mexico [Mr. ANDERSON] is absent by leave of the Senate.

The Senator from Virginia [Mr. BYRD] is absent because of illness in his family, and if present would vote "nay."

The Senator from New Mexico [Mr. CHAVEZ], the Senator from Minnesota [Mr. HUMPHREY], the Senator from Colorado [Mr. JOHNSON], the Senator from New York [Mr. LEHMAN], the Senator from Nevada [Mr. McCARRAN], the Senator from Montana [Mr. MURRAY], the Senator from Maryland [Mr. O'CONOR], and the Senator from Wyoming [Mr. O'MAHONEY] are absent on official business.

I announce that on this vote the Senator from New Mexico [Mr. CHAVEZ] is paired with the Senator from Maryland [Mr. O'CONOR]. If present and voting, the Senator from New Mexico would vote "yea," and the Senator from Maryland would vote "nay."

Mr. SALTONSTALL. I announce that the Senator from Maine [Mr. BREWSTER] is absent on official business.

The Senator from Minnesota [Mr. THYE] is absent by leave of the Senate.

The Senator from New Hampshire [Mr. TOBEY] is absent because of illness.

The Senator from Nebraska [Mr. WHERRY] is necessarily absent.

The Senator from Illinois [Mr. DIRKSEN], the Senator from Pennsylvania [Mr. DUFF], and the Senator from Ohio [Mr. TAFT] are detained on official business.

The result was announced—yeas 34, nays 45, as follows:

YEAS—34

Benton	Hoey	McFarland
Bridges	Holland	McKellar
Clements	Hunt	McMahon
Eaton	Johnson, Tex.	Monroney
Ellender	Johnston, S. C.	Pastore
Fulbright	Kefauver	Russell
George	Kerr	Smathers
Green	Kilgore	Smith, N. C.
Hayden	Long	Sparkman
Hennings	Magnuson	Underwood
Hickenlooper	Malone	
Hill	Maybank	

NAYS—45

Aiken	Flanders	Morse
Bennett	Frear	Mundt
Bricker	Gillette	Neely
Butler, Md.	Hendrickson	Nixon
Butler, Nebr.	Ives	Robertson
Cain	Jenner	Saltonstall
Capehart	Kem	Schoeppel
Carlson	Knowland	Smith, Maine
Case	Langer	Smith, N. J.
Connally	Lodge	Stennis
Cordon	Martin	Watkins
Douglas	McCarthy	Welker
Dworshak	McClellan	Wiley
Eastland	Millikin	Williams
Ferguson	Moody	Young

NOT VOTING—17

Anderson	Humphrey	O'Mahoney
Brewster	Johnson, Colo.	Taft
Byrd	Lehman	Thye
Chavez	McCarran	Tobey
Dirksen	Murray	Wherry
Duff	O'Connor	

So, the motion to table was rejected. Mr. WILLIAMS and Mr. McFARLAND addressed the Chair.

The PRESIDING OFFICER. The Senator from Delaware.

Mr. WILLIAMS. Does the Senator from Arizona wish to make a statement?

Mr. McFARLAND. Yes, I wish to make a statement.

Mr. WILLIAMS. I yield to the Senator from Arizona.

Mr. McFARLAND. Mr. President, I certainly hope that amendments to increase the salaries of Members of Congress will not be offered to this amendment. If Senators feel that their expenses are less than \$2,500, and that their expense allowance should be taxed, it is their privilege to vote for this amendment. However, I do not think the Senate of the United States should consider a salary increase for its Members while we are working on tax legislation to raise additional revenue.

Mr. MAYBANK. Mr. President, will the Senator yield?

Mr. McFARLAND. In a moment I shall be glad to yield.

Personally I find it necessary to spend more than \$2,500 for extra expenses, but it is all right with me if the Senate wants to do away with the tax-exempt \$2,500 allowance.

Regardless of the action taken on this amendment, I think it would be a very poor example of sacrifice for us to take

action to raise our salaries on a tax bill. I hope the Senate will not even attempt to do so. Let us go ahead and eliminate the tax exemption, but do not raise the salaries. Let any action regarding Senators' salaries be taken by separate legislation in the manner suggested by the distinguished Senator from New Hampshire [Mr. BRIDGES].

Mr. MAYBANK. Mr. President, will the Senator yield?

Mr. McFARLAND. I yield.

Mr. MAYBANK. I thoroughly agree with the distinguished majority leader. I would not be one to vote for salary increases. This is a revenue bill.

One thing which might be of some benefit would be to find out the source of income of all Senators. That subject has been discussed for a long time. I am willing to join the Senator from Oregon [Mr. MORSE] in his effort to require a disclosure of the source of Senators' incomes. Information with respect to my income will be public property for anyone who wants it.

I shall vote against the amendment of the Senator from Delaware to eliminate the tax exemption with respect to the \$2,500 allowance. That makes no difference to me. I do not intend to vote to raise my own salary. This is a revenue bill, and not a salary bill. I thoroughly agree with the majority leader. However, it is about time for the people to know where the income of Members of Congress comes from.

This amendment would affect also Members of the House of Representatives. It would deny them the \$2,500 expense allowance.

Mr. McFARLAND. Mr. President, it is all right to vote for a proposal to require a disclosure of the source of the income of Members of Congress.

Mr. MAYBANK. That is what I was referring to.

Mr. McFARLAND. Mr. President, I have sufficient confidence in Senators to believe that the income of every Senator is legitimate.

Mr. MAYBANK. I did not intimate otherwise.

Mr. McFARLAND. Some people feel that their private business is their own affair and should not be made public so long as it is completely honest. If men of ability are to be induced to come to the Senate, they should not be humiliated by having someone make unfair use of information with respect to their source of income. If that is permitted it is possible that we shall have a hard time getting able men to come to the Congress.

Mr. MAYBANK. I never suggested such a thing. That is not a fair reply to what I said. I am not charging any Senator with ever having done wrong. I simply made the statement that the Senator from Oregon had had before the committee for a long time a resolution requiring such disclosure.

Mr. HUNT. Mr. President, will the Senator yield?

Mr. McFARLAND. I yield to the Senator from Wyoming.

Mr. KNOWLAND. Mr. President, a parliamentary inquiry.

Mr. McFARLAND. I yielded to the Senator from Wyoming for a question.

Mr. KNOWLAND. Mr. President, a parliamentary inquiry.

The PRESIDING OFFICER. The Senator will state it.

Mr. KNOWLAND. Who has the floor?

The PRESIDING OFFICER. The majority leader has the floor, and has yielded to the Senator from Wyoming.

Mr. WILLIAMS. Oh, no, Mr. President. I have the floor.

The PRESIDING OFFICER (Mr. STENNIS in the chair). The Chair is in error. The Senator from Delaware has the floor, and has yielded.

Mr. WILLIAMS. I had yielded to the Senator from Arizona [Mr. McFARLAND]. I thought he wanted to make a statement about the program for tonight. I did not know that he wished to make a speech on the amendment. However, I will yield to him for that purpose provided I do not lose the floor.

Mr. HUNT. Mr. President, will the Senator from Delaware yield to me so that I may ask a question of the majority leader?

Mr. WILLIAMS. I yield with the understanding that I do not lose the floor.

Mr. HUNT. The Senator from Arizona stated that he did not believe it was proper to increase our salaries on a tax bill. I ask him how he feels he can justify, or how any other Senator can justify, reducing our salaries on the same bill.

Mr. McFARLAND. In answer to the Senator's question I may say that I am not asking that salaries or compensation be reduced. If the Senate wants to act to take away from Members of Congress the privilege of receiving an exemption on allowances to which they are now entitled, it has a right to do so.

Mr. AIKEN. Mr. President, will the Senator yield?

Mr. McFARLAND. I yield to the Senator from Vermont.

Mr. WILLIAMS. I yield to the Senator from Vermont with the understanding that I do not lose the floor.

The PRESIDING OFFICER. The Senator from Delaware has the floor. To whom does he yield?

Mr. WILLIAMS. I ask unanimous consent that I may yield to the Senator from Vermont without losing the floor.

The PRESIDING OFFICER. Is there objection to the Senator from Delaware yielding to the Senator from Vermont without losing the floor? The Chair hears none.

Mr. AIKEN. Not having heard all the debate before voting, I thought I was voting for a salary decrease for Members of Congress. I think we should be ridiculed for that. Nevertheless, that is the situation.

What I should like to know now is whether we are voting on a salary decrease or a salary increase of \$2,500. In the discussion preceding the vote was it anticipated by any Member of the Senate that the necessary expenses in connection with the senatorial office should be deductible? It makes a difference.

Mr. McFARLAND. I wish merely to appeal to Senators not to adopt the salary-increase amendment. If they wish to attach a salary-decrease amend-

ment to a tax bill, that is up to them. Certainly I do not believe that we ought to increase our salaries in this bill.

Mr. AIKEN. Mr. President, will the Senator from Delaware please explain whether we are voting for an increase in salary or a decrease in net income?

Mr. WILLIAMS. Mr. President, the pending amendment, which has been offered by the Senator from Delaware, merely provides that the \$15,000, which we are now getting, will all be classified as salary, and shall be fully taxable. To the extent that the present \$2,500 exemption will be made taxable it constitutes a decrease in salary. The salary-increase amendment offered by the Senator from New Hampshire to which the Senator from Arizona [Mr. McFARLAND] has referred, has been withdrawn. As the amendment now at the desk stands, it is the same amendment which is on the desk of every Senator. It would make the full congressional salary of \$15,000 taxable. It would make the full \$40,000 of the Vice President and the full \$40,000 of the Speaker of the House taxable. It would make the full \$150,000 of the President of the United States taxable.

As I stated before, I never offered the amendment on the basis of the increased revenue involved. I know that the amount of increased revenue provided by the amendment is insignificant in comparison with the total amount in the bill.

But the American people will accept this tax increase in a better spirit if we will set the example by repealing our special exemption.

No one disputes the fact but that this is the place to offer the amendment. This is the only place, according to what we have always been told. Early this year when I introduced a special bill, which was referred to the Committee on Post Office and Civil Service, that committee advised me that they thought the bill should be submitted as an amendment to a revenue-producing measure. This is the first revenue-producing measure which we have had before the Senate since Congress has been in session this year.

I offered a similar amendment last year and the year before. It was defeated. I believe that as a matter of principle we should adopt the measure. If necessary to overcome some of the arguments, and in order to get action and to pass the amendment as it is, namely, as a clean amendment, without any salary increase or anything else attached to it, I would modify my amendment by making the effective date throughout the amendment January 3, 1953. In that way, if any Member of Congress wishes to run for office again he will know exactly what he is doing. This would leave every Representative and Senator, and the President of the United States, the Vice President, and the Speaker of the House to continue as is until January 3, 1953. I would much prefer doing it now. I believe it should be done now. However, I think the important thing is that we should get it done this way if we cannot get it done

any other way. I would make such a compromise though only with the understanding that no other amendments will be offered and the Senate will give me a clear cut vote.

The PRESIDING OFFICER (Mr. STENNIS in the chair). The Senator from Delaware will suspend until the Chair tries to get order in the Senate. Senators will take their seats. Visitors to the Senate will please sit down in the rear of the Chamber and remain quiet.

Mr. JOHNSTON of South Carolina. Mr. President—

The PRESIDING OFFICER. The Senator from Delaware has the floor. If visitors in the Chamber do not remain quiet, the Chair will ask the Sergeant at Arms to assist the Chair in preserving order.

Mr. WILLIAMS. Mr. President, a parliamentary inquiry.

The PRESIDING OFFICER. The Senator will state it.

Mr. WILLIAMS. Does it take unanimous consent to modify my amendment, in view of the fact that the yeas and nays have been ordered?

The PRESIDING OFFICER. The Senator is correct.

Mr. WILLIAMS. In order that we may settle the question and get a decision tonight, I ask unanimous consent that my amendment be modified to provide the effective date of January 3, 1951.

SEVERAL SENATORS. I object!

The PRESIDING OFFICER. Objection is heard.

Mr. WILLIAMS. Very well. I shall leave the amendment as it is, and I shall resist any amendment to increase the salaries of the President, the Vice President, and Members of Congress, as well as any special provisions other than those which are extended to businessmen. I shall insist on a vote on the amendment.

Mr. CASE. Mr. President, I offer an amendment to the amendment of the Senator from Delaware.

The PRESIDING OFFICER. The clerk will state the amendment to the amendment.

The CHIEF CLERK. In lieu of the paragraph in the Williams amendment which changes the compensation of Senators and Representatives from \$12,500 to \$15,000, and in lieu of the paragraph repealing paragraph (b) of section 601 of the Legislative Reorganization Act of 1946 (Public Law 601—79th Cong.), it is proposed to amend said paragraph (b) by striking out thereof the following words: "for which no tax liability shall incur, or accounting be made."

Mr. CASE. Mr. President, the language contained in the amendment offered by the Senator from Delaware [Mr. WILLIAMS] proposes to amend section 601 of the Legislative Reorganization Act of 1946 by changing the figure "\$12,500" to the figure "\$15,000." Then it would strike out the second paragraph of the act, which is paragraph (b).

If the amendment is adopted in the form in which it now appears, that is, if the Williams amendment is adopted, as offered, the compensation of a Member of Congress will not be \$12,500, but

it will be \$15,000, and there will be stricken the following paragraph:

(b) Effective on the day on which the Eightieth Congress convenes there shall be paid to each Senator, Representative in Congress, Delegate from the Territories—

And so forth—

an expense allowance of \$2,500 per annum to assist in defraying expenses relating to, or resulting from the discharge of his official duties, for which no tax liability shall incur, or accounting be made; such sum to be paid in equal monthly installments.

The whole issue arises because there is included in the Legislative Reorganization Act the words: "for which no tax liability shall occur, or accounting be made." That is the whole issue. That is the whole question involved. It has relation to the principle of morals or ethics, or whatever we wish to call it, as to whether or not we shall have an allowance for which we do not have to make any accounting. It is involved in the words: "for which no tax liability shall incur, or accounting be made."

My proposal is to strike out the offending words which make the expense allowance not subject to accounting and not subject to taxation. Therefore, instead of increasing the compensation from \$12,500 to \$15,000, the amendment would leave the compensation at \$12,500, and it would leave the expense allowance of \$2,500, but it would strike out the words: "for which no tax liability shall incur, or accounting be made." In other words, the \$2,500 would be paid to us, but it would be an expense allowance which would be subject to accountability. We would be in the same situation as anyone else in that respect.

Mr. KNOWLAND. Mr. President, will the Senator yield?

Mr. CASE. Yes.

Mr. KNOWLAND. What would be the effect of the amendment offered by the Senator from South Dakota relative to the expense account of the Vice President, the Speaker of the House, and the President of the United States?

Mr. CASE. My amendment to the Williams amendment would not touch those items. The Williams amendment takes care of that. My amendment does not go to that point.

Mr. CAPEHART. Mr. President, will the Senator yield?

Mr. CASE. Yes.

Mr. CAPEHART. What expenses would be charged against the \$2,500 allowance? Would it be railroad fare, hotel expense, or rent? What would the \$2,500 cover?

Mr. CASE. In my own opinion—and that is all I can give—the Bureau of Internal Revenue would have to make a ruling on the point. In the so-called Jarman letter, which was written by Mr. Schoeneman to Mr. JARMAN, it is held that "amounts expended in 1947 by a Member of Congress for expenses relating to or resulting from the discharge of his official duties, including his meals and lodging while in Washington, D. C., may be offset against the \$2,500 expense allowance for that year."

The letter which the distinguished Senator from Utah presented today indicates that the Internal Revenue Bureau

has changed the ruling on that phase of the subject. On that point I should like to suggest that if we wipe out the \$2,500 expense allowance, we wipe out any basis in law for allowing anything particularly as expenses of Members of Congress. If we let stand in the form which I suggest the paragraph of the Legislative Reorganization Act which provides a \$2,500 expense allowance, we would merely be saying that the amount shall be accountable for tax purposes. If we strike out the paragraph, we destroy the expense allowance theory, and we merely increase the salary from \$12,500 to \$15,000. I think the legislative history would be much clearer if we simply were to delete the offending words and were to leave ourselves with a salary of \$12,500 and an expense allowance of \$2,500, because then there would be a basis for allowing expenses.

Mr. President, I am not anxious to use all the time available to me; I am perfectly willing to have the vote taken now.

Mr. WILLIAMS. Mr. President, will the Senator from South Dakota yield?

Mr. CASE. I yield.

Mr. WILLIAMS. I hope the Senator from South Dakota will not press his amendment to my amendment, because his amendment would spell out a special consideration for the Members of Congress than that provided by the remainder of the amendment for the President, the Vice President, and the Speaker of the House. That is wrong. I do not think we should set up two different groups.

Rather than to do that, I would much prefer to follow my original compromise, namely, to make the effective date of my amendment January 3, 1953. To accept your amendment would mean that we are willing to take away the exemption of the President and Vice President but not our own. I want to remove all or none effective on the same date.

So I think it would be better to vote on my amendment as it is. As before, I repeat my offer to make the effective date January 3, 1953, with the understanding that these other amendments be withdrawn. I want an outright repeal of this special exemption for both the President and the Members of Congress all effective the same day.

Let us correct a mistake which has been made and one which we all recognize as being unfair.

Mr. BRIDGES. Mr. President, will the Senator from South Dakota yield?

Mr. CASE. I yield.

Mr. BRIDGES. I wish to make to the Senator from South Dakota the point that the weakness in his position, as I see it, is that we would establish one formula for an expense account for the President, the Vice President, and the Speaker of the House, and another formula for the expense accounts of Members of the Congress. Certainly the entire approach should be on the basis that if a Member of Congress is required to spell out and justify his expense account, so should the President, the Vice President, and the Speaker of the House. All should be treated on the same basis.

Mr. CASE. Mr. President, as I understood the purpose of the amendment of the Senator from Delaware [Mr. WILLIAMS], it was to make the expenses which should be charged against the remuneration subject to tax accountability. What does the amendment of the Senator from Delaware do with respect to the President and the Vice President?

Mr. WILLIAMS. Mr. President, the normal expense accounts of the President and the Vice President are not in any way affected, in so far as this amendment is concerned. Every Member of Congress knows that the \$50,000 exemption of the President and the \$10,000 exemption to the Vice President and to the Speaker of the House are in exactly the same category as the \$2,500 exemption to the Members of Congress. All of us regard this as added compensation. It is merely called an expense account, to justify the making of the exemption.

In addition to this \$50,000 item, the President of the United States has a regular expense account, which Congress approves, to take care of all the normal expenses of running his office. He should have that allowance, and I am not attempting to touch it.

However, none of the money now being considered is used for running the White House. I do not think we should repeal the expense allowance for the President and the Vice President unless we repeal our own expense allowance in the same clean-cut manner, and effective on the same date.

So I hope the Senator from South Dakota will not press for the adoption of his amendment to my amendment. I would much prefer to modify my amendment making the effective date January 3, 1953, which would be the date of the convening of the new Congress; and at that time every person who ran for Congress would know what he would receive, if elected.

All I am asking is a clear cut vote on my amendment based upon its merits.

Mr. GEORGE. Mr. President, will the Senator from South Dakota yield to me?

Mr. CASE. I yield.

Mr. GEORGE. I have not interfered with or taken part in the debate on this question because, frankly, I have not understood quite what was meant or what was intended to be done, or why. However, I assume that those are perfectly irrelevant considerations, anyway.

I should like to know when the Senator from Delaware proposes to make his amendment effective.

Mr. WILLIAMS. Mr. President, if the Senator from South Dakota will yield to me, let me say that under the amendment as it is printed now, the effective date is November 1, 1951, namely, the same effective date as that of the tax bill which is pending before us. Personally, I feel that should remain the effective date.

However, many Members of the Senate feel that certain Members of Congress might, at the time of their election, have been under the impression that they would receive this \$2,500 tax exempt and that otherwise they would not have run for office.

Therefore, in order to meet that objection, I am willing to make the effective date of my amendment January 3, 1953, which will be at the beginning of the next Congress.

Mr. GEORGE. 1953?

Mr. WILLIAMS. Yes, 1953.

Mr. GEORGE. Would that also be applicable to the President, the Vice President, the Speaker of the House and the Delegates from the possessions?

Mr. WILLIAMS. That is correct; it would be applicable to all of them on the same date.

I do not think we should repeal the tax exemption for the President and the Vice President as of one effective date, but make the effective date in our case some projected date in the future. I think all should be the same, Mr. President.

Mr. GEORGE. Mr. President, I agree with the Senator from Delaware as to that; and if he is proposing to make the effective date of his amendment January 3, 1953, I would offer no objection to it, and I see no reason why we should debate the amendment any longer.

Mr. WILLIAMS. Mr. President, if the Senator from South Dakota will withdraw his amendment to my amendment, I will modify my amendment so as to make the effective date of it January 3, 1953, which will be the date of the convening of the new Congress.

Mr. GEORGE. I would not have the slightest objection, for that will provide opportunity to the Congress to consider these questions in the meantime.

Mr. WILLIAMS. That is correct; and it will put the Congress on notice, officially, that effective on that date there will be no more special tax exemptions for anyone—either for the President, the Vice President, or the Members of Congress—and it will be up to us to recognize that situation.

Mr. GEORGE. I would have absolutely not the slightest objection, if that is done.

However, I do not think now is the time for us to stop to fix the salary of the President or the Vice President or the Speaker of the House.

Mr. WILLIAMS. I think the Senator from Georgia is entirely correct, and that is why I have asked that that matter not be brought in at this time.

Mr. CASE. Mr. President, of course, under the Constitution we cannot change the remuneration of the President during the term for which he is elected; under the Constitution we can neither increase nor decrease the remuneration of the President under such conditions. Certainly it would be in harmony with that if we did not attempt to change our own salaries or remuneration during our period of service.

As I recall, a number of years ago the late Senator Borah, of Idaho, took the position that when the salary was increased during the term for which he was elected he should not accept the increase during that term.

Mr. BRIDGES and Mr. WATKINS addressed the Chair.

The PRESIDING OFFICER. Does the Senator from South Dakota yield; and, if so, to whom?

Mr. CASE. Mr. President, I decline to yield at this time.

Mr. WILLIAMS. Mr. President—

Mr. CASE. Mr. President, I should like to speak for a minute longer in my own time.

Mr. JOHNSTON of South Carolina. Mr. President—

The PRESIDING OFFICER. The Senator from South Dakota declines to yield at this time, and he has the floor.

Mr. CASE. Mr. President, on many occasions the point has been made that what is at fault is the expense allowance. I think I have pointed out how the expense allowance can be cleared up, namely, by simply deleting the words which relate to the liability or nonliability for taxation.

The President of the United States had an expense allowance of approximately \$40,000, if I remember correctly, under the old law, before the Legislative Reorganization Act was passed. If he does not spend that money for expenses, he does not receive it; and it is accountable for tax purposes in that case.

The increase in the salary of the President made by the act passed just prior to the last inauguration of the current President made an increase in that amount. I do not see that that is particularly involved in my amendment to the amendment of the Senator from Delaware.

I am perfectly willing to withdraw my amendment to the amendment of the Senator from Delaware, but I shall do so on the supposition that this entire issue then will come before the Senate for further consideration. By changing the effective date of the amendment, as the Senator from Delaware proposes to do, the issue will not be entirely resolved. We shall have indicated that we wish to get away from the present status of the \$2,500. However, I wish to suggest to Senators that instead of simply eliminating the \$2,500 and increasing our salaries, so that hereafter a Member of the Senate will receive a salary of \$15,000, consideration should be given to handling the situation by doing away with or striking out the offending words in the way I have suggested, by means of the amendment which I have proposed to the amendment of the Senator from Delaware.

So, Mr. President, I will withdraw my amendment to the amendment of the Senator from Delaware, because such action will expedite the consideration of this question, in my opinion; and I do so in order that the entire issue will be before the Congress for consideration.

I now withdraw my amendment to the amendment of the Senator from Delaware.

The PRESIDING OFFICER. The amendment proposed by the Senator from South Dakota to the amendment of the Senator from Delaware is withdrawn.

Mr. WILLIAMS. Mr. President, I ask unanimous consent to modify my amendment as follows:

On page 1, in line 2, strike out "November 1, 1951," and substitute therefor "January 3, 1953."

The PRESIDING OFFICER. The Senator from Delaware asks unanimous

consent to modify his amendment in the way he has just stated. Is there objection?

Mr. McFARLAND. Mr. President, reserving the right to object, although I shall not object, I wish to say that I do not think this is the proper time or place to be legislating for January 3, 1953. If it is proper to have this matter handled now, why try to bind a future Congress?

However, in order to settle the question now, I shall not object, although I do not think this Congress should try to establish a standard for a future Congress.

Mr. GEORGE. Mr. President, if the Senator from Arizona will yield, let me say that I think I may reassure the majority leader that probably none of us will be here on January 3, 1953. [Laughter.] So he need not worry.

The PRESIDING OFFICER. Will the Senator from Delaware restate his request, please?

Mr. WILLIAMS. Mr. President, I ask that the following modification be made in the amendment I have submitted: On page 1, in line 2, strike out the date "November 1, 1951" and insert "January 3, 1935."

On page 3, in line 19, strike out the date "November 1, 1951" and insert "January 3, 1953."

The PRESIDING OFFICER. Is there objection to the request of the Senator to modify his own amendment?

Mr. LONG. I object.

Mr. AIKEN. Mr. President, the question I wanted to ask the Senator from Delaware is this: Taking the increase in tax rates provided for in this bill, and adding to it the loss due to the elimination of tax exemption on the \$2,500, what would be the total amount of reduction in income of a Member of Congress earning \$15,000 a year?

Mr. WILLIAMS. I do not know. I would not want to undertake to say. I am offering my amendment based upon the argument there should be no special tax exemption.

Mr. AIKEN. Would the Senator say that it would be roughly about \$1,200?

Mr. WILLIAMS. If the Senator from Vermont knows the answer, he may give it. I offer my amendment on its merits.

Mr. AIKEN. No; I do not know the answer. If I did, I would not have asked the question.

The PRESIDING OFFICER. The Chair advises the Senate that objection has been heard to the request of the Senator from Delaware to modify his amendment; but the Senator may offer an amendment, even though the yeas and nays may have been ordered.

Mr. WILLIAMS. Mr. President, I did not hear the objection. Who objected?

The PRESIDING OFFICER. Objection was heard. The Senator from Louisiana objected.

Mr. WILLIAMS. I move that "January 3, 1953," be substituted for "November 1, 1951."

Mr. MALONE obtained the floor.

Mr. GEORGE. Mr. President, will the Senator from Nevada yield?

Mr. MALONE. Mr. President, I ask unanimous consent that I may yield to the Senator from Georgia without losing the floor.

The PRESIDING OFFICER. Is there objection? The Chair hears none, and it is so ordered.

Mr. GEORGE. Mr. President, I do not know why we cannot vote on the motion of the Senator from Delaware. Whether it is finally disposed of tonight or tomorrow will not make much difference, but it seems to me we ought to have a vote.

Mr. LONG. The Senator from Louisiana has no objection to voting on the motion.

Mr. MALONE. Mr. President, I have not yielded to the Senator from Louisiana.

The PRESIDING OFFICER. The Senator from Nevada has the floor, and he has yielded to the Senator from Georgia.

Mr. WILLIAMS. Mr. President, will the Senator from Nevada yield?

Mr. MALONE. Mr. President, I ask unanimous consent that I may yield to the Senator from Delaware without losing the floor.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. WILLIAMS. Mr. President, to facilitate matters, I may say that I understand there is objection on the part of the Senator from Louisiana to my request, but I would certainly rather have the date which is in the bill. If we could have a vote on my amendment immediately, voting it up or down, I would withdraw the motion and call for a vote on the amendment.

Mr. GEORGE. Mr. President, that would not at all be agreeable to anyone. But if the effective date were fixed in January 1953 that would give us time to consider these questions, and to have a proper hearing.

Mr. LONG. Mr. President, I withdraw my objection.

The PRESIDING OFFICER. In order that we may keep the RECORD straight, the Senator from Nevada yielded to the Senator from Georgia.

Mr. WILLIAMS. Mr. President, will the Senator from Nevada yield for a renewal of the unanimous consent request, in view of the fact that the Senator from Louisiana has withdrawn his objection.

Mr. MALONE. Mr. President, do I have the floor?

The PRESIDING OFFICER. The Senator from Nevada has the floor.

CONGRESS SHOULD REASSERT ITS CONSTITUTIONAL POWER

Mr. MALONE. Mr. President, the Congress has abrogated its constitutional powers to the executive branch of the Government, and it follows the lines of least resistance when it assumes that the people do not pay the taxes levied on organizations. The consumer pays the taxes of corporations and others, and businessmen are simply indirect taxing agencies, adding the tax levy to normal selling prices and turning the collections over to the United States Treasury.

The principle involved in this means of collecting taxes is a shameful farce perpetrated upon the citizens of this country, and the Senate should face the situation. It is a complete subterfuge, in extracting the earnings of the citizens of this Nation.

The recent international conference held in Canada created another very disturbing situation. Mr. President, almost every nation outlined its need for more United States money, and there is but little doubt that our State Department was receptive to the point of pledging such assistance. It is the Democratic game of committing the Congress of the United States to international expenditures before such plans are submitted to the Congress. The Marshall plan was a shining example of that technique.

THE MARSHALL PLAN

Mr. President, when Mr. Marshall made that little statement of his up at Harvard with a paragraph inserted in the middle of his speech, about which he himself knew little, if anything, he started a ball which Mr. Bevin caught on the first bounce in England, and within 60 days he told us exactly how much it was going to cost. Then the distinguished Senators of the Foreign Relations Committee and other Senators told us, in effect, that it would be a breach of faith if we did not vote this money for these nations. We were told that these nations had been led to believe they were going to get the appropriations, which amounted to \$17,000,000,000 during 4 or 5 years. The Secretary of State had committed us before a bill was prepared and sent to Congress.

Mr. President, Congress has been led into senseless spending over two decades through progressive agreements, all pointed toward more and more centralization of Government and more and higher taxes.

Mr. KILGORE. Mr. President, will the Senator yield for an insertion in the RECORD?

Mr. MALONE. Mr. President, I think it is now time that the junior Senator from Nevada addressed the Senate.

The PRESIDING OFFICER. The Senator declines to yield.

Mr. MALONE. Mr. President, administration programs include foreign aid—billions of dollars to Europe with no conditions attached—and the proposition that taxes must be raised to siphon off any raise in wages and to collect any remaining money from businessmen. How can we stop this senseless dissipation of the wages and property of our people unless we refuse to appropriate the money and fix the tax rates that will destroy the family and the business incomes of the Nation?

Mr. President, Congress has become so accustomed to accepting the budgets sent to it by the President that it makes no effort to find out whether they make sense, makes no effort to analyze them, and makes no effort to determine whether the billions upon billions of dollars sent to foreign nations accomplish anything for us.

It is time the budgets were pared down by Congress and that we started to discharge our responsibility to the American people, which responsibility was fixed by the Constitution of the United States.

THERE IS A PATTERN

Mr. President, Congress has made what could be a fatal mistake. It has assumed that each move by the ad-

ministration, each principle established by its seemingly haphazard proposed legislation, each part of its outwardly ragged foreign policy, was to be considered by itself upon its own merits.

The blunt truth, whether we like it or not, is that there is nothing haphazard about the continuity of the legislation establishing domestic and foreign policy. There is a definite pattern which, when viewed in perspective, falls into place forming a frightening mosaic of European Fabian-Marxist socialism.

During the past two decades, Congress has given up its power to regulate commerce, its power to regulate the money supply, its power to approve treaties, and many of its other constitutional powers. Congress can regain its constitutional powers, and it should reassert its rightful authority as an independent branch of the Government. Congress has the power, if it has the intestinal fortitude, to take back its constitutional powers and to protect the people of the United States from a power-mad and tax-mad administration.

It may be remembered that Hitler never dissolved the Reichstag. He simply ignored it. Congress is subservient to the executive branch of the Government at this time. It is tied to the President's whims and seemingly does not possess the moral strength to break the spell. The checks and balances set up by the Constitution are gone. The legislative and the judicial branches are dominated by the executive branch of the Government.

The domination by the executive branch has been aided and abetted by what has become known as the bipartisan policy—collusion between representatives of two supposedly independent branches of the Government.

Mr. President, I ask unanimous consent to have included in the RECORD at this point in my remarks, excerpts from the CONGRESSIONAL RECORD of May 22, 1951, page 5740, under the heading "Six factors to destroy economic system."

There being no objection, the matter was ordered to be printed in the RECORD, as follows:

SIX FACTORS TO DESTROY ECONOMIC SYSTEM

The six factors used in the last 18 years in preparing for the destruction of the economic system of this country include—

First. The removal of the metal base for our money, and the utter debasement of the currency of the United States of America.

There is absolutely no brake on the printing press money now. Congress has proved that it will make the change in the backing of the fictional metal base for the money. When we come to the point where we do not have enough gold in Fort Knox to have 40 percent value behind the currency, Congress changes the figure to 25 percent.

Perhaps it will not be long before they, perhaps, will change it to 15 percent, and then to 10 percent unless a definite move is made to control inflation. Congress is trained to do what the President asks it to do, and it seems that we simply cannot stop the printing of paper money, and inflation is the natural result.

Second. The free-trade program initiated through the 1934 Trade Agreements Act by the President, by his State Department, and the continual lowering of tariffs and import fees without any regard for the fair and reasonable competitive principle, and with the

apparent objective from the beginning of one economic world, has laid the foundation for averaging the living standards of this country with those of the other nations of the world. Some say that was done to prevent war. Well, we have followed this path now for 18 years, and this is the second war within 10 years—world war III.

It is wearing us down "keeping us out of war."

Third. Income and other taxes are levied without restraint. They have in many cases reached the point where the law of diminishing returns takes over, and investment of venture capital is disturbed.

Just the mere fact that there is tampering with the tariffs, that there is continued tinkering with the tariffs, threatening the tariffs and import fees, not only prevents venture capital from going into a new business, but runs private capital out of the business stream of the Nation.

Fourth. Subsidies are paid to producers in lieu of the tariff or import fee. As has been said, there has been a gradual substitution of subsidies for tariffs. As a matter of fact, when the tariff and import fees are removed or substantially lowered below the differential, then the subsidies must be substituted to make up the difference, to hold our standard of living.

Fifth. The Securities and Exchange Commission, with its engineers and hand-raised economists insisting upon their own judgment as to the success of a venture before allowing stock or shares to be sold when, as a matter of fact, the real objective should be to guarantee that the truth and the facts are told to prospective investors, not to determine the feasibility of the project, because when that is finally determined without any doubt, there is no need to sell stock. This action prevents many new business developments.

Sixth. Emergency economic controls contribute greatly to socialization and nationalization of industries and complete economic control by the President of the United States.

Mr. MALONE. Mr. President, I would add a seventh point, as follows:

Seventh. Deficit financing, apparently based on the theory that the greater the debt the greater the wealth of the country.

MARK THEORY: INCOME TAX TO DESTROY CAPITALISM

Mr. President, speaking of income taxes, Karl Marx said in 1875 that this was the way to bring about world socialism and the breakdown of any capitalistic system of government. I quote the principle espoused by him:

From each according to his abilities, to each according to his needs.

That is a statement which Karl Marx made in 1875 in criticism of the Gotha program. That program was followed by those who favored a slow-type revolution, whereas Marx said labor should move swiftly against the government.

Mr. President, recently Mr. Truman set up a new agency of the Government to procure strategic and critical minerals and materials sorely needed by the Government, the shortage having been brought about by his administration and his predecessor's during the last two decades. Through Executive orders and legislation recommended by them, and through the lack of legislation which they themselves defeated, there has been brought about a condition where only taxpayers' money, appropriated here, may be used for rehabilitating the stockpiles of strategic and critical minerals.

Calendar No. 737

82^D CONGRESS
1ST SESSION

H. R. 4473

IN THE SENATE OF THE UNITED STATES

SEPTEMBER 20 (legislative day, SEPTEMBER 19), 1951

Ordered to lie on the table and to be printed

AMENDMENT

Intended to be proposed by Mr. CARLSON to the bill (H. R. 4473) to provide revenue, and for other purposes, viz: At the proper place in the bill insert the following new section:

1 SEC. . NONBUSINESS CASUALTY LOSSES.

2 (a) REMOVAL OF LIMITATION.—Section 122 (d)
3 (5) (relating to net operating loss deduction) is amended
4 by inserting after “Deductions” in the first sentence thereof
5 a comma and the following: “other than deductions allow-
6 able under section 23 (e) (2) and (3),”.

7 (b) EFFECTIVE DATE.—The amendment made by this
8 section shall be applicable with respect to taxable years
9 beginning after December 31, 1950.

82^d CONGRESS
1ST SESSION

H. R. 4473

AMENDMENT

Intended to be proposed by Mr. CARLSON to the bill (H. R. 4473) to provide revenue, and for other purposes.

SEPTEMBER 20 (legislative day, SEPTEMBER 19), 1951

Ordered to lie on the table and to be printed

EXTENSION OF AUTHORITY FOR COMMITTEE ON LABOR AND PUBLIC WELFARE TO EMPLOY ADDITIONAL PERSONNEL

Mr. HAYDEN. Mr. President, from the Committee on Rules and Administration, I report favorably, with amendments, Senate Resolution 143, submitted by the Senator from Montana [Mr. MURRAY] on May 23, 1951, and referred to the Committee on Labor and Public Welfare. I ask for its immediate consideration.

The VICE PRESIDENT. The title of the resolution will be stated for the information of the Senate.

The LEGISLATIVE CLERK. A resolution (S. Res. 143) extending the authority of the Committee on Labor and Public Welfare to employ additional personnel, reported from the Committee on Rules and Administration with amendments.

The VICE PRESIDENT. Is there objection to the present consideration of the resolution?

There being no objection, the Senate proceeded to consider the resolution.

The VICE PRESIDENT. The amendments will be stated.

The first amendment was, on page 1, line 5, to strike out "additional personnel" and insert "one additional staff member and one additional clerical assistant."

The amendment was agreed to.

The next amendment was, in line 6, to strike out "August" and insert "January."

The amendment was agreed to.

The resolution, as amended, was agreed to, as follows:

Resolved, That the authority of the Committee on Labor and Public Welfare, or any duly authorized subcommittee thereof, under Senate Resolution 215, Eighty-first Congress, agreed to February 9, 1950, authorizing the Committee on Labor and Public Welfare to employ one additional staff member and one additional clerical assistant, is hereby continued until January 31, 1952.

INTERNAL SECURITY—INCREASE IN LIMIT OF EXPENDITURE BY JUDICIARY COMMITTEE

Mr. HAYDEN. Mr. President, from the Committee on Rules and Administration, I report favorably, with amendments, Senate Resolution 198, reported by the Senator from Nevada [Mr. McCARRAN] from the Committee on the Judiciary on August 27, 1951, and I submit a report, No. 841, thereon. I ask for its present consideration.

The VICE PRESIDENT. The clerk will state the title of the resolution for the information of the Senate.

The LEGISLATIVE CLERK. A resolution (S. 198) increasing the limit of expenditures by the Committee on the Judiciary relating to the internal security of the United States.

The VICE PRESIDENT. Is there objection to the present consideration of the resolution?

Mr. SALTONSTALL. Mr. President, reserving the right to object, I understand from my colleague from Arizona that the report was not made by unanimous decision of the committee. There-

fore, I hope the Senator will not press for action at this time.

Mr. HAYDEN. I will simply say, Mr. President, that there was no disagreement in the committee at all as to the desirability of continuing the activities of the committee for a reasonable period of time. The proposal was to provide money to carry on the activities of the committee until January 31, 1953. The Senator from Nebraska [Mr. WHERRY] has been particularly insistent in the committee that all the committees should come to the Senate in January and work out their problems for a year at a time; in other words, that we should not make 2-year authorizations. But the Committee on Rules and Administration realized that the activities of this committee were such that it ought to be able to plan ahead. So instead of fixing the time for a year, the committee provided for 6 months in the next year, which would bring it up to June 30. I am sure the chairman of the Committee on the Judiciary, while, of course, he would like to have the resolution provide for a year and a half, will be entirely satisfied with provision for 6 months.

Mr. SALTONSTALL. Mr. President, will the Senator yield for a question?

Mr. HAYDEN. Yes.

Mr. SALTONSTALL. The ranking Republican member of the Committee on the Judiciary, the senior Senator from Wisconsin [Mr. WILEY] is present. If he has no objection I have no objection. If he knows of no objection from the point of view of the Committee on the Judiciary I have no objection.

Mr. WILEY. I know of no objection.

There being no objection, the Senate proceeded to consider the resolution which had been reported from the Committee on Rules and Administration with amendments in line 4, after the word "by", to strike out "\$195,000" and insert "\$117,000", and in line 10, after the word "before", to strike out "January 31, 1953", and insert "June 30, 1952."

The amendments were agreed to.

The resolution (S. Res. 198), as amended, was agreed to, as follows:

Resolved, That the limitation of expenditures under Senate Resolution 366, Eighty-first Congress, relating to the internal security of the United States, agreed to December 21, 1950, is hereby increased by \$117,000, and such sum together with any unexpended balance of the sums previously authorized to be expended under such resolution shall be paid from the contingent fund of the Senate upon vouchers approved by the chairman of the committee and covering obligations incurred under such resolution on or before June 30, 1952.

BILLS INTRODUCED

Bills were introduced, read the first time and, by unanimous consent, the second time, and referred as follows:

By Mr. TAFT:

S. 2185. A bill for the relief of Annemarie E. Peterson and Wilhelm Ernst Geisel; to the Committee on the Judiciary.

By Mr. KEFAUVER:

S. 2186. A bill to amend section 1 of title 17 of the United States Code to make the public reproduction or rendition of a musical composition by or upon a coin-operated machine a public performance for profit when

a fee is not charged for admission to the place where such reproduction or rendition occurs, and for other purposes; to the Committee on the Judiciary.

By Mr. HENDRICKSON (for himself, Mr. SMITH of New Jersey, Mr. MARTIN, and Mr. DUFF):

S. 2187. A bill granting the consent of Congress to a supplemental compact or agreement between the State of New Jersey and the Commonwealth of Pennsylvania concerning the Delaware River Port Authority, formerly the Delaware River Joint Commission, and for other purposes; and

S. 2188. A bill granting the consent of Congress to a supplemental compact or agreement between the State of New Jersey and the Commonwealth of Pennsylvania, authorizing the Delaware River Joint Commission to construct, finance, operate, maintain, and own a vehicular tunnel or tunnels under, or an additional bridge across, the Delaware River and defining certain functions, powers, and duties of said Commission, and for other purposes; to the Committee on Public Works.

(See the remarks of Mr. HENDRICKSON when he introduced the above bills, which appear under a separate heading.)

SUPPLEMENTAL COMPACTS BETWEEN NEW JERSEY AND PENNSYLVANIA RELATING TO DELAWARE RIVER TUNNELS AND BRIDGES

Mr. HENDRICKSON. Mr. President, on behalf of myself, my colleague, the senior Senator from New Jersey [Mr. SMITH], and the Senators from Pennsylvania [Mr. MARTIN and Mr. DUFF], I introduce for appropriate reference two bills. The purpose of these bills is to obtain authorization from the Congress for a supplemental compact or agreement between the State of New Jersey and the Commonwealth of Pennsylvania for the ultimate purpose of providing vehicular tunnels or additional bridges across the Delaware River.

I will have considerably more to say on these bills at some later date.

The bills introduced by Mr. HENDRICKSON (for himself, Mr. SMITH of New Jersey, Mr. MARTIN, and Mr. DUFF) were read twice by their titles and referred to the Committee on Public Works, as follows:

S. 2187. A bill granting the consent of Congress to a supplemental compact or agreement between the State of New Jersey and the Commonwealth of Pennsylvania concerning the Delaware River Port Authority, formerly the Delaware River Joint Commission, and for other purposes; and

S. 2188. A bill granting the consent of Congress to a supplemental compact or agreement between the State of New Jersey and the Commonwealth of Pennsylvania, authorizing the Delaware River Joint Commission to construct, finance, operate, maintain, and own a vehicular tunnel or tunnels under, or an additional bridge across, the Delaware River and defining certain functions, powers, and duties of said Commission, and for other purposes.

REVENUE ACT OF 1951—AMENDMENTS

Mr. HENNINGS submitted an amendment intended to be proposed by him to the bill (H. R. 4473) to provide revenue, and for other purposes, which was ordered to lie on the table and to be printed.

Mr. DIRKSEN submitted an amendment intended to be proposed by him to House bill 4473, supra, which was ordered to lie on the table and to be printed.

HOUSE BILL AND JOINT RESOLUTION
REFERRED

The following bill and joint resolution were each read twice by their titles and referred as indicated:

H. R. 1628. An act to provide for the acquisition of land and the construction thereon of buildings and appurtenances essential for forest-fire-control operations of the Forest Service, United States Department of Agriculture, at or near Missoula, Mont., and for other purposes; to the Committee on Agriculture and Forestry.

H. J. Res. 330. Joint resolution to permit articles imported from foreign countries for the purpose of exhibition at the Chicago International Trade Fair, Inc., Chicago, Ill., to be admitted without payment of tariff, and for other purposes; to the Committee on Finance.

EXECUTIVE MESSAGE REFERRED

As in executive session,

The VICE PRESIDENT laid before the Senate a message from the President of the United States submitting the nomination of John A. Roseen, of California, to be United States marshal for the Northern District of California, vice Edward J. Carrigan, which was referred to the Committee on the Judiciary.

ADDRESS, EDITORIALS, ARTICLES, ETC.,
PRINTED IN THE APPENDIX

On request, and by unanimous consent, addresses, editorials, articles, and so forth, were ordered to be printed in the Appendix, as follows:

By Mr. NEELY:

Address on the International Labor Organization, delivered by George Delaney, international representative of the American Federation of Labor, at the AFL convention in San Francisco, Calif., on September 19, 1951.

By Mr. WILEY:

Statement prepared by him and other material regarding crime along the water front.

By Mr. MURRAY:

Article entitled "Missouri Waltzes to 'Billion Dollar Blues,'" written by Albert H. Jenkins, and published in the Machinist Monthly Journal for October 1951.

By Mr. STENNIS:

Editorial entitled "Senator Butler Called the Turn," published in the Kearney (Nebr.) Hub, referring to the proposed admission of Hawaii as a State.

By Mr. SCHOEPPPEL:

Statement by Everett C. Seal before the Senate Committee on Banking and Currency on September 18, 1951, on the question of the imposition of slaughter quotas on the meat industry.

TRIBUTE TO EMIL RIEVE, GENERAL PRESIDENT OF THE TEXTILE WORKERS OF AMERICA, CIO

Mr. MURRAY. Mr. President, I arise to pay tribute to one of America's outstanding labor leaders, Emil Rieve, general president of the Textile Workers of America, CIO. His life is not only a story of a successful trade unionist, but is also a mirror of American democracy. It reflects a life of a man who, in accordance with American tradition, rose from poverty to become a great public figure.

Mr. Rieve was born in 1892 in Warsaw, Poland, of Alsatian ancestry. He came to the United States when he was 13 years of age, and after only 4 years of schooling he went to work in a Pennsylvania hosiery mill for \$2.50 a week.

After he joined the American Federation of Hosiery Workers, an affiliate of the United Textile Workers in the American Federation of Labor, his ability, zeal, and hard work on behalf of the underpaid and oppressed workers in the textile mills earned for him the national presidency of the Federation by 1929.

Through the years of the great depression between 1929 and 1932, when mill after mill was shut down, and thousands upon thousands of workers were looking for jobs that did not exist, Mr. Rieve did not give up the fight but continued to give his unceasing and untiring efforts to the cause of the people he represented. And with the election of President Roosevelt in 1933 and the passage of legislation by the Congress guaranteeing labor freedom to organize and the right to bargain collectively, the United Textile Workers added thousands of men to its union rolls.

Later Mr. Rieve became the guiding spirit of the Textile Workers Organizing Committee which was set up by the CIO in 1937, and out of which grew the Textile Workers Union of America, which has contributed to peaceful labor relations in the textile industry.

He has served five terms thus far as president of the Textile Workers of America, and during that time the organization has increased its membership threefold, now numbering over 450,000 members, and their wages have tripled in the same period.

Mr. Rieve has a great record for public service. During World War II he served as a member of the War Labor Board. Once again in the present national great emergency he is serving on the Wage Stabilization Board.

In September 1942 he represented the United States as one of its delegates at the first Inter-American Conference on Social Security at Santiago, Chile. He has served on the labor committee of the American Heart Association and the National Committee for the Physically Handicapped. In these two fields he has endeavored to make American working people aware of the deadliest killer of mankind, heart illnesses, and the need for a national program to aid persons with physical handicaps.

His work is not only one of personal achievement, but has helped make America a better land in which to live.

REVENUE ACT OF 1951

The Senate resumed the consideration of the bill (H. R. 4473) to provide revenue, and for other purposes.

Mr. STENNIS. Mr. President, I ask unanimous consent to make a 1-minute statement.

The VICE PRESIDENT. Without objection, the Senator may proceed.

Mr. STENNIS. Mr. President, on last Monday, September 24, there was a yea-and-nay vote on the adoption of a committee amendment to the pending tax bill. This vote is recorded on page 12200 of the RECORD for said date, and correctly records the Senator from Mississippi as voting in the negative. The Senator from Mississippi came into the Chamber just before the roll call was started and understood from a colleague

that the vote was on the Capehart amendment, and also understood the Presiding Officer to announce that the vote was on the Capehart amendment. On examination of the RECORD of said date, on page 12199, I find that the Presiding Officer was announcing that the Capehart amendment, as amended, had been agreed to and the roll call was on the adoption of the committee amendment as amended. If the Senator from Mississippi had so understood the issue on the roll call, he would have voted "yea"; but as he was of the impression it was the Capehart amendment, similar to the Capehart amendment voted on at the session of September 22, he voted "nay."

The Senator from Mississippi does not ask permission to change his vote, as he is of the opinion that such a request should not be made except under very extraordinary circumstances. He does make this statement so that the RECORD may be clear as to his intentions to vote in favor of all associations being brought within the sphere of tax responsibility under some fair taxing formula.

Mr. WILLIAMS. Mr. President, I have an amendment pending at the desk. I ask unanimous consent to modify the amendment.

The VICE PRESIDENT. The Senator from Delaware asks unanimous consent to modify his amendment—

Mr. WILLIAMS. On page 1, line 2, I wish to strike out the date "November 1, 1951" and insert the date "January 3, 1953."

The VICE PRESIDENT. That amendment has already been agreed to. The amendment was modified last night.

Mr. WILLIAMS. Was it modified also on page 3, line 19?

The VICE PRESIDENT. It was modified in two places.

Mr. WILLIAMS. I understood there was objection. I did not know that the objection had been withdrawn.

Mr. STENNIS and Mr. GEORGE addressed the Chair.

The VICE PRESIDENT. Does the Senator yield to the Senator from Mississippi or the Senator from Georgia?

Mr. STENNIS. Mr. President, will the Senator yield for a parliamentary inquiry?

Mr. WILLIAMS. I yield the floor.

Mr. STENNIS. Mr. President, I make a point of order. The Senator from Mississippi was presiding last evening, and is of the opinion very definitely that that amendment was not adopted. The question never was put. The Senator from Nevada [Mr. MALONE] obtained the floor before there was an opportunity to put the question on the amendment offered by the Senator from Delaware.

The VICE PRESIDENT. If the yeas and nays had not been ordered, the Senator could modify his own amendment.

Mr. STENNIS. The yeas and nays had been ordered.

The VICE PRESIDENT. The RECORD ought to speak for itself on that point.

Mr. WILLIAMS. Mr. President, I think the Senator from Mississippi, who was presiding last night, is correct. I noticed this morning that the RECORD

does not indicate that the amendment had been changed, but in order that there may be no confusion I ask unanimous consent that the amendment now on the desk be made to read, on page 1, line 2, "January 3, 1953" instead of "November 1, 1951"; also the same change on page 3, line 19.

The VICE PRESIDENT. The Chair is advised that the Senator from Louisiana [Mr. LONG] offered an amendment which he later withdrew, and that the Senator from Delaware was given unanimous consent to modify his amendment. The Journal so shows. If the Senator wishes to modify it again in the same way, the Chair presumes there would be no harm in the duplication.

Mr. GEORGE. Mr. President, the Journal, of course, imparts verity. There is no need to do anything else.

Mr. WILLIAMS. I am satisfied, so long as it is understood.

The VICE PRESIDENT. The question now is on agreeing to the amendment of the Senator from Delaware [Mr. WILLIAMS] as modified.

Mr. GEORGE. Mr. President, I stated last night that the committee would accept the amendment if modified in this way. I have no objection whatever to it.

Mr. President, I ask unanimous consent that the order for the yeas and nays on this amendment be rescinded, unless some Senator wishes a yeas-and-nays vote. The committee is entirely willing to accept the amendment as modified.

Mr. CAIN. Mr. President, the Senator from Washington had intended to speak in support of the pending amendment. In a most willing effort to accommodate the wishes of other Senators to have the matter disposed of and to have a vote at this time, I only ask unanimous consent that a brief statement which I have prepared be printed in the RECORD as a part of my remarks.

There being no objection, the statement was ordered to be printed in the RECORD, as follows:

STATEMENT BY SENATOR CAIN

Mr. President, much was said on and about the pending amendment last night and little needs to be said today but I do want to say this.

The junior Senator from Washington finds it difficult to grapple with more than one problem at a time. My present interest runs directly and only to what the Williams amendment intends to accomplish.

That my own expenses are heavy, that I possess a healthy and growing but expensive family, that I maintain two homes one of which is several thousand miles away, that I speak sometimes for honorariums in order to make ends meet and to benefit from an extra trip to my State, or that I believe that serious consideration ought to be given to raising the rate of annual compensation now given to members of the Congress, are matters of no importance or concern at the moment.

These questions, which are of real importance to most members of the Congress, can be fully discussed and action taken on them when S. 1117, a bill to create a Commission on Congressional Salaries, is called up for debate by the majority leader.

In supporting the Williams amendment I am urging the adoption of a measure which

will cost me a considerable sum of money I can ill afford to lose. That, however, is beside the point at issue. I am anxious to vote for the pending amendment, as I have been in support of its purpose since first I came to the Senate, because I do not believe that the President of the United States, or the Vice President, or the Speaker of the House, or the members of Congress are entitled to a tax privilege or exemption which is not available to citizens, generally. I am very positive in my conviction that all of our annual compensation, regardless of its size, ought to be taxable.

The VICE PRESIDENT. The Senator from Georgia [Mr. GEORGE] asks unanimous consent that the order for the yeas and nays be vacated. Is there objection?

Mr. WILLIAMS. Mr. President, I object. I am perfectly willing to have the amendment voted on. However, several Senators who were called from the Chamber last night did not have an opportunity to vote. I told them that a vote would be taken today.

The VICE PRESIDENT. The Senator from Delaware objects.

Mr. GEORGE. Mr. President, I hope the yeas-and-nays vote may proceed, because there is no objection to the amendment.

The VICE PRESIDENT. The question is on agreeing to the amendment offered by the Senator from Delaware [Mr. WILLIAMS], as modified. On this question the yeas and nays have been ordered, and the Secretary will call the roll.

The legislative clerk called the roll.

Mr. JOHNSON of Texas. I announce that the Senator from New Mexico [Mr. ANDERSON] is absent by leave of the Senate.

The Senator from New Mexico [Mr. CHAVEZ] is absent on official business and if present would vote "yea."

Mr. SALTONSTALL. I announce that the Senator from New Hampshire [Mr. TOBEY] and the Senator from Nebraska [Mr. WHERRY] are necessarily absent.

The Senator from Nevada [Mr. MALONE] is absent on official business.

The Senator from Maine [Mr. BREWSTER], the Senator from Pennsylvania [Mr. DUFF], and the Senator from California [Mr. NIXON] are detained on official business. If present and voting, the Senator from Maine [Mr. BREWSTER] would vote "yea."

The yeas and nays resulted—yeas 74, nays 10.

Mr. GEORGE, Mr. BRIDGES, and Mr. JOHNSON of Colorado addressed the Chair.

The VICE PRESIDENT. The Senator from Georgia.

Mr. JOHNSON of Colorado. Mr. President—

The VICE PRESIDENT. The Senator from Georgia is recognized.

Mr. JOHNSON of Colorado. Mr. President, a point of order.

The VICE PRESIDENT. The Senator from Colorado will state it.

Mr. JOHNSON of Colorado. I was in the Chamber before the Chair finished announcing the result, and I was trying to attract the attention of the Chair.

The VICE PRESIDENT. The Chair did not hear the Senator from Colorado.

Mr. GEORGE. Mr. President, I ask unanimous consent that the Senator from Colorado be allowed to cast his vote.

The VICE PRESIDENT. Is there objection? The Chair hears none, and the name of the Senator from Colorado will be called.

The legislative clerk called the name of Mr. JOHNSON of Colorado, and he voted in the affirmative.

Mr. BRICKER. Mr. President—

The VICE PRESIDENT. For what purpose does the Senator from Ohio rise?

Mr. BRICKER. Mr. President, has the vote been recorded?

The VICE PRESIDENT. The Chair tried to record it, but it was unrecorded. [Laughter.]

Mr. BRICKER. I ask unanimous consent that I may be permitted to vote.

The VICE PRESIDENT. Is there objection? Of course, unless the Senator from Ohio was in the Chamber, seeking recognition at the time when the vote was being taken, and before the result was announced, it is in opposition to the rule to give such unanimous consent. The Chair cannot even submit such a question unless the Senator from Ohio can state that he was in the Chamber, seeking recognition.

Mr. BRICKER. I think I came in the door just as the Senator from Colorado asked for recognition and was recognized. I do not know exactly what the situation at that time was.

Mr. SALTONSTALL. Mr. President, a parliamentary inquiry.

The VICE PRESIDENT. The Senator from Massachusetts will state it.

Mr. SALTONSTALL. Because of the addition of the vote of the Senator from Colorado, the final result of the vote has not yet been announced; and therefore I believe the Senator from Ohio is in order.

The VICE PRESIDENT. The new tabulation has not been announced; that is correct.

The Chair will recognize the Senator from Ohio "under dem heads," as the Senator from Alabama used to remark; but this will be the last one that will be recorded. [Laughter.]

The Senator from Ohio.

The legislative clerk called Mr. BRICKER's name, and he voted in the affirmative.

Mr. ELLENDER. Mr. President—

The VICE PRESIDENT. This raises more trouble.

The Senator from Louisiana.

Mr. ELLENDER. I vote "nay."

The VICE PRESIDENT. The Chair will declare a 10-minute recess for Senators to come into the Chamber. [Laughter.]

Mr. CASE. Mr. President—

The VICE PRESIDENT. The Senator from South Dakota.

The legislative clerk called Mr. CASE's name, and he voted in the affirmative.

Mr. HOLLAND. Mr. President—

The VICE PRESIDENT. The Senator from Florida.

Mr. HOLLAND. I think the distinguished Vice President should know that several of us have been embarrassed by

the fact that the bells in our offices did not ring for this particular vote. But for the fact that my junior colleague had me called to the floor, I would not have known the vote was in progress.

The VICE PRESIDENT. The Chair thought the bell of the Senator from Florida always rang. [Laughter.]

Mr. HOLLAND. Mr. President, the Senator from Florida desires to express his appreciation; and in the sense that the Vice President means, the Senator assures the Vice President that his opinion is correct. [Laughter.]

Mr. CASE. Mr. President—

The VICE PRESIDENT. For what purpose does the Senator from South Dakota rise?

Mr. CASE. I merely would like to state that the Senator from Louisiana [Mr. Long] has stated to me that the bell in his office did not ring; and I wish to say that the bell in my office did not ring, either.

The VICE PRESIDENT. Well, the Senator from Louisiana has voted.

Mr. GEORGE. Mr. President, I call for the regular order.

The result was announced—yeas 77, nays 11, as follows:

YEAS—77

Aiken	Hill	Monroney
Bennett	Hoey	Moody
Bricker	Holland	Morse
Butler, Md.	Humphrey	Mundt
Butler, Nebr.	Ives	Neely
Byrd	Jenner	O'Connor
Cain	Johnson, Colo.	O'Mahoney
Capehart	Johnson, Tex.	Pastore
Carlson	Johnston, S. C.	Robertson
Case	Kefauver	Russell
Connally	Kem	Saltonstall
Cordon	Kerr	Schoeppel
Dirksen	Kilgore	Smathers
Douglas	Knowland	Smith, Maine
Dworshak	Langer	Smith, N. J.
Eastland	Lehman	Smith, N. C.
Eaton	Lodge	Sparkman
Ferguson	Long	Stennis
Flanders	Magnuson	Taft
Frear	Martin	Thye
George	Maybank	Watkins
Gillette	McCarran	Welker
Green	McCarthy	Wiley
Hendrickson	McClellan	Williams
Hennings	McMahon	Young
Hickenlooper	Millikin	

NAYS—11

Benton	Fulbright	McKellar
Bridges	Hayden	Murray
Clements	Hunt	Underwood
Ellender	McFarland	

NOT VOTING—8

Anderson	Duff	Tobey
Brewster	Malone	Wherry
Chavez	Nixon	

So Mr. WILLIAMS' amendment, as modified, was agreed to.

Mr. GEORGE. Mr. President, I agreed to accept this amendment, not that it has any place whatsoever in this bill, so far as concerns the fixing of congressional salaries or the salary of the Speaker of the House or the salary of the Vice President or the salary of the President; but when the amendment was modified so that it would not become effective until January 3, 1953, I did not think it was worth while to lose more time on the amendment, because in the interval between now and January 3, 1953, Congress will have ample time to deal with this problem.

Mr. McFARLAND. Mr. President, will the Senator from Georgia yield?

Mr. GEORGE. I yield only for a question.

Mr. McFARLAND. I wish to ask a question.

Mr. GEORGE. Yes, I yield.

Mr. McFARLAND. Does the Senator from Georgia think it is fair for one Congress to have a privilege and then try to bind another Congress which will not have that privilege?

Mr. GEORGE. I am satisfied that the other Congress will take care of itself.

Mr. McFARLAND. But the other Congress will not come into existence until after this amendment has become effective, and at that time the present Congress will be out of existence.

Mr. GEORGE. Mr. President, before January 3, 1953, we can do the thing we should do though, not, of course, in connection with a tax bill. The only legitimate purpose this amendment could have is merely to strike out a tax exemption which had been given to certain officers. That is all right; it is legitimate, and that is what the amendment does. However, so far as the salary is concerned, the Congress will have all of next year in which to determine what should be the salary of the President, the salary of the Vice President, the salary of the Speaker of the House, and the salaries of the Members of the Congress.

Mr. McFARLAND. Of course, I understand that.

ANNOUNCEMENT OF SUSPENSION OF COLLECTOR AND DEPUTY COLLECTORS OF INTERNAL REVENUE

Mr. GEORGE. Mr. President, an investigation has been going on in certain of the revenue offices of the country. I now wish to announce—not for the purpose of delaying consideration of the tax bill—that the President this morning has suspended Collector Smyth and, I believe, six of his deputies or assistants in the San Francisco office, which is collection district No. 1, I believe, because of disclosures which have been made or which were made during the course of yesterday and the day before.

Mr. WILLIAMS. Mr. President, the Senator from Georgia has just called attention to the fact that the President has announced the dismissal of the collector of internal revenue, Mr. Smyth, in the San Francisco district, along with eight other employees. I merely want to say that I am glad that the Commissioner of Internal Revenue has at last recognized the deplorable conditions which existed in that office, and that apparently he is taking greatly needed but rather belated action, but at least I am glad that he is taking steps to correct that situation. I hope that he will continue, and will expose and reveal to the people of California and other people throughout the country exactly what these men have done, and that he will see that action is taken to punish them. The conditions in this office are, if possible, in an even worse condition than those which exist in New York.

Mr. CONNALLY. Mr. President, I think the Senator from Delaware used unfortunate language when he referred to the Commissioner of Internal Revenue having belatedly taken steps, and

so on. The Commissioner of Internal Revenue has only been in office a very short time, and he is not to be blamed for the conditions in the San Francisco district.

Mr. WILLIAMS. Mr. President, the Senator from Texas is partially correct. Perhaps I should say it was the belated action on the part of the Bureau of Internal Revenue. It is not necessary now to go into the question of who is responsible but I will say that someone here in Washington is responsible for dragging their feet on this case.

Mr. CONNALLY. Very well.

Mr. WILLIAMS. But I express my own opinion that it has been most unfortunate for the State of California that the action was not taken prior to this time.

Mr. CONNALLY. That may be, but the present Commissioner of Internal Revenue is not to blame for it, since he has been in office only a very short time, a week or 10 days or 2 weeks, and he ought not to be blamed for it. He should be praised instead of being abused.

Mr. WILLIAMS. Mr. President, the present commissioner has been in office 2 months, and his predecessor, Mr. Schoeneman before that knew of the deplorable conditions existing in that area and did nothing. I was amazed to find that the collector himself was not even paying his own taxes, yet still he was allowed to continue in office.

Mr. MILLIKIN. Mr. President, I would also like to say with reference to the dismissal or suspension of certain revenue officers in California, that the Senate Finance Committee, under the initiative of the Senator from Delaware [Mr. WILLIAMS], had already commenced preliminary investigations of the situation in California.

REPORT ON INCOME BY GOVERNMENT OFFICIALS (H. DOC. NO. 244)

The PRESIDING OFFICER (Mr. HILL in the chair) laid before the Senate a message from the President of the United States, which was read and referred to the Committee on Finance.

(For President's message, see today's proceedings of the House of Representatives, pp. 12515-12516.)

REVENUE ACT OF 1951

The Senate resumed the consideration of the bill (H. R. 4473) to provide revenue, and for other purposes.

Mr. GEORGE. Mr. President, I hope now that we may have the next amendment which Senators wish to offer to this bill.

Mr. BRIDGES and Mr. WILLIAMS addressed the Chair.

The PRESIDING OFFICER. The Senator from New Hampshire.

Mr. BRIDGES. Mr. President, I send to the desk an amendment and ask that it be read.

The PRESIDING OFFICER (Mr. HILL in the chair). The clerk will state the amendment.

The CHIEF CLERK. On page 331, line 22, after the word "organizations", it is proposed to insert "or hospitals"; and on page 332, line 6, after the comma, it

is proposed to insert "or to the benefit of a hospital, or an institution for the rehabilitation of physically handicapped persons which maintains or is building for proper maintenance such a hospital or institution staffed or to be staffed by qualified professional persons for the treatment of the sick and/or the rehabilitation of the physically handicapped."

Mr. WILLIAMS and Mr. MAYBANK addressed the Chair.

The PRESIDING OFFICER. Does the Senator from New Hampshire yield; and if so, to whom?

Mr. BRIDGES. I agreed to yield first to the Senator from South Carolina.

Mr. MAYBANK. Mr. President, I may say I had certain amendments which were sent to the desk, but which cover more or less the same subject as that covered by the amendment of the Senator from New Hampshire. In order to save time, I send to the desk an amendment to the amendment of the Senator from New Hampshire, which I have discussed with the distinguished Senator from New Hampshire.

The PRESIDING OFFICER. Does the Senator from New Hampshire yield to the Senator from South Carolina for that purpose?

Mr. BRIDGES. I yield.

The PRESIDING OFFICER. The clerk will state the amendment proposed by the Senator from South Carolina to the amendment of the Senator from New Hampshire.

The LEGISLATIVE CLERK. On line 9 of Mr. BRIDGES' amendment, after the word "handicapped", it is proposed to insert the words "or an eleemosynary corporation under State law exempt under section 101 (6) of the Internal Revenue Code."

Mr. TAFT. Mr. President, will the Senator from New Hampshire yield?

Mr. BRIDGES. I yield to the Senator from Ohio.

Mr. TAFT. Mr. President, I opposed this amendment in committee, but I opposed it because it did not seem to me that we should retroactively authorize universities or any other institutions to receive a tax exemption on an unrelated business which they had been operating previously, and which I think was always taxable. However, since the committee saw fit to give retroactive treatment in a tax exemption on unrelated business to universities and other educational institutions, I agree fully that it ought also to be extended to hospitals, and to cases of the kind covered by the amendment of the Senator from New Hampshire. So I may say that if the House will accept the other provision—I think the House bill already contained the other provision—

Mr. GEORGE. Oh, yes.

Mr. TAFT. I think I shall fully support this amendment in conference, to see that hospitals are accorded the same treatment as that given to universities.

Mr. BRIDGES. I thank the Senator.

Mr. MILLIKIN. Mr. President, will the Senator yield?

Mr. BRIDGES. I yield to the Senator from Colorado.

Mr. MILLIKIN. I simply want to say that in view of the explanations which have been made to me on this subject by the distinguished Senator from New Hampshire and by Senators from other States, I hope the amendment will be adopted. I think it is just.

Mr. ROBERTSON. Mr. President, will the Senator yield?

Mr. BRIDGES. I yield to the Senator from Virginia.

Mr. ROBERTSON. Mr. President, I should like to ask the distinguished Senator whether the effect of this amendment is merely limited to relieving hospitals and eleemosynary institutions from the payment of taxes on money which they collected from an unrelated business and spent under the assumption that it was not taxable, but that it does not go to the extent of relieving them from the payment of taxes on such collections in the future.

Mr. BRIDGES. That is correct. I would in no way undertake to ask for any future exemptions. This is merely to take care of the past. That is what the distinguished Senator from South Carolina and I are attempting to do.

Mr. MAYBANK. I would say that is correct.

Mr. ROBERTSON. All these benefits then are intended for charitable institutions which have already spent the money, thinking they had the right to do so without taxation.

Mr. BRIDGES. That is correct.

Mr. MAYBANK. Mr. President, I should like to say to the Senator from Virginia that this is the amendment about which I spoke to him recently.

Mr. GEORGE. Mr. President, I accept the amendment.

Mr. BRIDGES. Mr. President, I may say to the Senator from Georgia that I accept the amendment of the Senator from South Carolina to my amendment.

The PRESIDING OFFICER. The Senator from New Hampshire modifies his amendment to include the amendment of the Senator from South Carolina, as the Chair understands.

Mr. BRIDGES. That is correct.

Mr. GEORGE. Mr. President, let me make a brief statement. The House included in its bill the section which is now numbered 601, on page 331, which merely exempts colleges and universities, educational institutions which in past years were engaged in what now is probably unrelated business, from past taxation; that is, from the tax imposed prior to the time Congress dealt with this subject.

This amendment simply broadens it so as to exclude those past years in the case of the institutions mentioned in the amendment. In committee I voted to strike out the entire provision. It ought to be stricken out, or all these institutions should be given the same treatment; and that, as I understand, is exactly what this amendment undertakes to do.

Mr. BRIDGES. That is correct.

Mr. GEORGE. Mr. President, I am glad therefore to take this amendment to conference.

The PRESIDING OFFICER. The question is on agreeing to the amend-

ment of the Senator from New Hampshire [Mr. BRIDGES], as modified.

The amendment, as modified, was agreed to.

The PRESIDING OFFICER (Mr. STENNIS in the chair). The bill is open to further amendment.

Mr. HUMPHREY. Mr. President, I should like to call up my amendment "9-24-51-E."

The PRESIDING OFFICER. The clerk will state the amendment offered by the Senator from Minnesota.

The CHIEF CLERK. On page 150, it is proposed to strike out lines 11 through 17, and insert in lieu thereof the following: "receipt of such stock shall be recognized unless (A) it appears that any corporation which is a party to such reorganization (i) was not intended to continue the active conduct of a trade or business after such reorganization or in fact ceased to continue the active conduct of a trade or business within 3 years thereafter, or (ii) was used principally as a device for the distribution of earnings and profits to the shareholders of any corporation a party to the reorganization, or (B) the stock of any such corporation is sold or exchanged by such shareholder within a period of 3 years from the date of the distribution."

Mr. McFARLAND. Mr. President, will the Senator yield?

Mr. HUMPHREY. I am happy to yield.

Mr. McFARLAND. May I inquire of the Senator if he would be willing to have a limitation of debate on this amendment?

Mr. HUMPHREY. Yes. The Senator from Minnesota will not want more than 15 minutes on this amendment.

Mr. McFARLAND. I ask unanimous consent, Mr. President, that the debate on the amendment be limited to 15 minutes to a side, the time to be controlled by the Senator from Minnesota [Mr. HUMPHREY] and the Senator from Georgia [Mr. GEORGE]; that any amendments to the amendment must be germane, and that the same limitation of debate be applied to any amendments that may be offered to the amendment.

The PRESIDING OFFICER. The Senator from Arizona has presented a unanimous-consent request that debate on the amendment be limited to 15 minutes to the side, the time to be controlled by the Senator from Minnesota and the Senator from Georgia. Is there objection to the request? The Chair hears none, and it is so ordered. The Senator from Minnesota is recognized.

Mr. HUMPHREY. Mr. President, I do not believe there is a great deal of disagreement between the Senator from Georgia and the Senator from Minnesota on this amendment. I recall that a year ago we discussed this particular provision in the revenue act. This is known as the spin-off provision, and it affects, of course, corporate enterprises. The spin-off is a device which is used for the establishment of new corporate enterprises out of the undistributed reserves and earnings of large corporate business. My whole purpose in offering the amendment is directed toward what

I feel is the strengthening of the provisions which are in the Senate bill. The Senate bill has recognized the problem which is inherent in what we call corporate spin-offs. The Senate bill has included certain protective language to make such spin-offs responsible, efficient, and going business organizations. It was my opinion that we could strengthen the bill a little bit more. It is for that reason that I call to the attention of the chairman of the committee this particular amendment.

Mr. President, I have prepared a statement, and since the amendment is rather technical, I should like to make it.

Section 317 of the bill—and this is the section to which the amendment applies—would free from tax the type of corporate reorganization known as a spin-off. A spin-off occurs when a part of the assets of a corporation is transferred to a new corporation and the stock in the latter is distributed to the shareholders of the original corporation without a surrender by the shareholders of any of their stock in the original corporation.

In other words, Mr. President, corporation A has some undistributed earnings, and in large amounts. Corporation A sets up corporation B. The stock of corporation B is distributed to the original stockholders of corporation A, and the loophole which may be inherent in this provision is that the stockholders of corporation A may dispose of their stock on the basis of capital-gains treatment and not the earned-income treatment.

Under present law, the receipt by the shareholders of the stock of the new corporation would generally be taxable as a dividend to the extent of the earnings and profits of the existing corporation. Under the section as added by the Senate amendment, no tax whatever would be payable by the shareholders at the time of their receipt of the new stock. Their only tax liability would be a capital-gains tax upon the subsequent sale of that stock.

Let me digress there, Mr. President. Here is corporation A. Let us assume it has accumulated \$50,000,000 of undistributed earnings. Fifty million dollars could be distributed in dividends to the original stockholders. If it was, the dividends would be taxable at the earned-income rate. Under the device known as the spin-off, corporation A with the \$50,000,000 can set up a new corporation B, issue stock in that amount to the original stockholders of corporation A. One would think that the issuance of that stock, as with, let us say, a cooperative, where there would be allocated reserves, would be subject to the earned-income tax rate, but under the committee provision the stock is not subject to the earned-income tax rate. It is subject to the capital-gains rate when it is subsequently sold. That is the operation that takes place in a spin-off organization.

Now what are the pitfalls here, or what are the possible loopholes? The loophole has to do with whether or not the spin-off corporation, the new corporation, actually is engaged in business, whether it actually stays engaged in a

going business for a continuous period of time. My amendment incorporates new language, which I think I can explain in a few words.

The proposed amendment would provide a total of three safeguards in order to forestall tax avoidance.

The first of these limitations—part (i) of clause (A)—would deny tax-free treatment where it appears that any of the corporations involved was not intended to continue the active conduct of a trade or business or in fact ceased to continue the active conduct of a trade or business within 3 years after the reorganization.

Let me simplify that. In other words, if the business of one of these new spin-off corporations did not last any longer than 3 years, it would be obvious that the purpose of the spin-off reorganization was to obtain capital-gains treatment, which is the low-tax treatment, in lieu of the high earned income-tax treatment. The inclusion of the words of the amendment would provide a protective mechanism to see to it that when undistributed dividends are used to form a new corporation, there shall be at least a 3-year period of gainful activity to prove the legitimacy of the operation. This covers the case where in fact the shareholder has used the reorganization as a device for the distribution of earnings and profits by selling the stock of one of the corporations.

The second of these limitations—part (ii) of clause (A)—would deny tax-free treatment where it appears that any of the corporations involved is used principally as a device for the distribution of earnings and profits to shareholders. This change merely carries out the purpose of one of the limitations now in the bill, as that purpose is explained in the report of the Committee on Finance. The limitation now in the bill is too narrowly expressed, since it covers only the case where the new corporation is used as a device for the distribution of earnings and profits. The amendment prohibits the use of either the new or the old corporation for that purpose.

I am not going to argue the question further. I recall last year's colloquy. I was checking it in the RECORD and I found that the chairman of the committee was fully aware, as he is aware of every one of these problems of taxation, of the definite possibility of tax avoidance unless the law was quite precise and specific.

I may say for the committee that the provisions in the committee bill are better than those contained in tax bills prior to this time. It is my feeling, however, that since, as the record reveals, there are literally billions of dollars of undistributed dividends, billions of dollars of earnings, when corporate tax rates go up, when earned income-tax rate go up, the temptation is ever present to take undistributed profits and create a new corporation, issue stock in the new corporation to the stockholders of the original corporation, and permit the stockholders of the original corporation to cash in their new stocks, not as dividend, which it really is in fact, not as a profit taxable under earned-income-tax

rates, but taxable under capital-gains-tax rates.

So I should like consideration by the committee and acceptance of the amendment. I believe that it is constructive. I do not say that it will save vast amounts of money, or gain a great deal of new revenue, but I do believe, and this is the whole object of my argument, that as we step up the corporate rates, as we step up the earned-income rates, and as undistributed profits gather in the pool of a major corporation, in the case either of a split-up or a spin-off, which are two different types of reorganization of corporate structure, but particularly in the case of a spin-off it is imperative to provide that the new corporation which is established shall conduct for at least a 3-year period, a going, vital business, and to make it positively certain that during that 3-year period any exchange of stock or sale of stock shall not be treated on the basis of capital-gains rates, but rather on the basis of earned income tax rates. This is the protection which I believe to be necessary.

Mr. President, I yield the floor.

Mr. LEHMAN. Mr. President, will the Senator yield?

Mr. HUMPHREY. I yield for a question.

Mr. LEHMAN. As I understand the amendment, of which I am one of the sponsors, there is no disposition on the part of the Senator from Minnesota to handicap a company in legitimately increasing its business or the effectiveness of its business by means of setting up another corporation. I understand further that it is the purpose of the amendment merely to avoid tax evasion through the disposal of the stock or the proceeds of the stock within a period which would not be covered by the safeguards usually surrounding capital-gains transactions.

As a test or standard it is proposed that any proceeds received by the stockholder from the company must be held for a period of 3 years, thus indicating that the formation of the new corporation is not a device for the purpose of evading taxes, but merely a step which a company might legitimately take in furtherance of its business interests, or the extension of its business.

Mr. HUMPHREY. The Senator is absolutely correct. The spin-off provision was originally plugged in 1932, as the result of an extensive investigation. The Senator from New York knows that corporate split-ups are permissible under the law, and that therefore anyone who wishes to engage in a legitimate operation of dividing a corporation for the purpose of business expansion or business activity has that mechanism within the law. The corporate spin-off has been used—and this statement can be well documented—not for the purpose of expansion of legitimate-business activity, but as a tax-avoidance device. I think we can best judge that when we find that the stock of the new corporation created by the spin-off is not sold on the basis of earned income tax rates, but is sold on the basis of capital gains tax rates.

I conclude by saying that whenever we find in a tax bill a situation, an amendment, or a provision which permits the transfer or change of earned income into capital gains for the purpose of obtaining capital gains tax treatment, we can rest assured that there is a possibility that it is for purposes of tax avoidance. All I am trying to say is that when business expands legitimately, or when corporations legitimately split up to expand their activities, that is all well and good. There is ample law to protect that situation. That is a legitimate function of American corporate enterprise. But when a spin-off corporation does not stay in business long enough to produce a product or render any service, it is patent that it amounts to a tax avoidance scheme to obtain treatment as capital gains, at a 25-percent rate, rather than as earned income at a rate of 50 percent.

I remind the Senator that these spin-offs are the result of the use of the bonds, assets, and undistributed profits of a corporation which could have been distributed in dividends to the original stockholders, and would have been subject to high individual income tax rates. Instead, we find a situation in which undistributed dividends are put into a new corporation. A new series of stock shares is issued and distributed to the original stockholders of the parent corporation, thus permitting the stock to be sold not on the basis of dividends, but on the basis of a capital-gains transaction, subject to capital-gains tax treatment.

I know that this is a technical subject. I do not suppose that it has any great appeal to the average citizen. But these are the kind of devices which are used to avoid proper payment of taxes. I submit that when we are raising tax rates it is important to plug any potential loophole. There is not a great deal of disagreement between the Senator from Georgia and myself.

Mr. LEHMAN. I thank the Senator from Minnesota. I am in full agreement with him.

Mr. CAIN. Mr. President, will the Senator yield?

The PRESIDING OFFICER. The time of the Senator from Minnesota has expired.

Mr. CAIN. I ask unanimous consent that I be permitted to ask one question of the Senator from Minnesota.

The PRESIDING OFFICER. Is there objection?

Mr. GEORGE. Mr. President, I will yield time out of my time.

Mr. CAIN. I am very grateful.

The Senator from Minnesota has aroused my interest and curiosity by what he has referred to as a spin-off tax dodge. I wonder if the Senator can refer me to that portion of the hearings in which I can read more of the testimony on that question.

Mr. HUMPHREY. If the Senator will look up the testimony of Mr. Alvord, representing the United States Chamber of Commerce, he will find it.

Mr. CAIN. I thank the Senator.

Mr. GEORGE. Mr. President, I will say to the Senator from Washington that the testimony in the RECORD is tes-

timony in favor of the amendment, not against it.

Mr. President, this is as simple a case as it could possibly be. Let me illustrate it. A mercantile corporation located in one city in my State wanted to establish a mercantile business of the same kind in another city in my State. It could not do it. It could do it under the committee amendment by merely transferring a part of its assets to the other city, and going there and doing business.

What did it do? It had to create two new corporations outright, dissolve the old corporation, and go through an expensive court procedure in order to accomplish one single business purpose.

The Senator from Minnesota is disturbed about the capital gains aspect. Anyone who holds a share of stock in any corporation for 6 months, under present law can sell it and receive capital-gains treatment. What the Senator wants to do, apparently, is to make a person who takes a share of stock in one of the new corporations hold it for 3 years.

Mr. HUMPHREY. Mr. President, will the Senator yield to me at that point?

Mr. GEORGE. I yield. That is what the Senator's amendment would do.

Mr. HUMPHREY. It is not as though someone bought a share of stock in a corporation. What happens in connection with the corporate spin-off is that undistributed dividends are utilized to create a new corporation, and the stock of the new corporation is distributed among the stockholders of the old corporation. I submit that there is a difference. Those undistributed dividends should be taxed at the rate of earned income. Under the terms of the committee amendment they would become taxable at the rate of capital gains, as is the case when stock is held for 6 months.

Mr. GEORGE. Mr. President, there is a business reason for the committee amendment. It has passed the Congress three times, I believe. I know it has passed twice. There have been some purely technical objections to it.

The amendment which the Senator from Minnesota is now offering would probably make the section unworkable. Suppose a person who obtained a share in a new corporation died within 6 months. The stock would have to be sold. Suppose he went into bankruptcy, and the sheriff came and locked his front door. He would have to make way with his stock, or the sheriff would do it for him. So it is an unworkable provision. There is every possible safeguard in this section. Listen to this:

No gain to the distributee from the receipt of such stock shall be recognized unless it appears that (A) any corporation which is a party to such reorganization was not intended to continue the active conduct of a trade or business after such reorganization, or—

In other words, this cannot be done merely for the purpose of liquidation; this is not a liquidation provision at all—

(B) the corporation whose stock is distributed was used principally as a device for the distribution of earnings and profits to

the shareholders of any corporation a party to the reorganization.

If he cannot establish those things he cannot get the benefit of this section. He can do the same thing indirectly by creating two new corporations and dissolving the old one.

Mr. HUMPHREY. Mr. President, will the Senator yield?

Mr. GEORGE. I yield.

Mr. HUMPHREY. Is not that what is called the corporate split-up? Is that what the Senator is referring to?

Mr. GEORGE. Yes. That is the corporate split-up. That is permissible under existing law, and has been all the while.

Mr. HUMPHREY. Indeed. I make no point about that. My only point is this: Under the terms of the committee amendment it is provided that this procedure may not be followed for tax-avoidance purposes. The parties must be engaged in an active business. But there is no time element. That is what I am concerned about.

Mr. GEORGE. That is true; but why put in a time element, which would make the section unworkable? In these uncertain times we cannot foresee how long we can carry on a business, or when we may have to sell the stock. I believe that the Senator's amendment is wholly unnecessary.

I call attention to another fact. This whole question will be in conference. Every particle of the section is to be examined in conference anyway, and the House conferees will raise any question they wish to raise. Undoubtedly they will discuss the question of whether or not the safeguards in this section are adequate and sufficient to prevent tax avoidance.

I do not believe that the Senator from Minnesota would be wise to press his amendment. It is well to have it in the RECORD, so that the House conferees may raise the issue.

Mr. HUMPHREY. I appreciate the last statement of the Senator from Georgia. I want the Senator to know that my only purpose in offering the amendment is the one which the Senator from Georgia has noted, namely, that when undistributed profits are spun off—and that is what it means—into a new corporation, if the new corporation stays in business for only 1 or 2 months the new corporation could thereby get capital-gains treatment. It is possible that someone may want to do it. I know that is not the purpose of the committee amendment.

Mr. GEORGE. The person must be able to show that the business will continue.

Mr. HUMPHREY. He must show it when he initiates the business. Continuation ought to be predicated on some time element before he can liquidate the stock. I do not say that the company must stay in business.

Mr. GEORGE. He must be able to show that he did not have any purpose of that kind in mind at the time the new corporation was formed. The burden of proof is on him to show that the business will continue. There is a very

good business reason why that should be done.

I should like to read from a letter which I received from Representative EMANUEL CELLER, chairman of the Subcommittee on Study of Monopoly Power of the House Committee on the Judiciary. I do not care to put all of the letter into the RECORD. However, I should like to read a portion of it which I believe is pertinent to this discussion. He speaks of section 317:

Section 317 of the pending tax bill as it is being considered by the Senate would permit the divestiture by overly concentrated corporations of certain of their subsidiaries. While the scope of the section as presently written is extremely limited—

That is the only criticism he offers—nevertheless, I feel that it may be of importance in assisting corporations to voluntarily simplify corporate structures which evidence indicates have become vastly complicated and have pervaded many aspects of the economy. Past experience under the Public Utility Holding Company Act speaks well of the benefits to be derived from this type of approach. It is incongruous that under existing law it is possible for a complex corporation to be compelled to divest itself of its holdings because it has violated the Sherman Act and at the same time to be penalized tax-wise were it to seek to dissolve itself into competing units upon a voluntary basis.

That is the substance of Mr. CELLER's letter, and it is unquestionably a correct evaluation of what the section would do.

Mr. HUMPHREY. Mr. President, will the Senator yield for a question?

Mr. GEORGE. Gladly.

Mr. HUMPHREY. I am sure the Senator realizes that I am not objecting to what we call corporate spin-offs for legitimate corporate purposes. My fear, and the Senator's fear—which was documented by the amendment in the tax bill—is that sometimes abuses may occur from the corporate spin-off procedure.

I ask the Senator from Georgia whether he would be willing to take my amendment to conference and try to work it out in conference.

Mr. GEORGE. It will be in conference as the bill now stands. I do not want to add another condition, when the complaint already is that we are limiting the provision too stringently to make it workable. I assure the Senator that the subject will be in full conference, and we will be able to consider it in conference. I do not want to add the amendment to this section.

Mr. HUMPHREY. I hope that when the Senator from Georgia is engaged in the conference, as he will be, he will take into consideration the arguments I am making in terms of the time element involved.

Mr. GEORGE. I shall be glad to do so.

Mr. HUMPHREY. Which I believe is important.

Mr. GEORGE. Undoubtedly it is. I will say to the Senator from Minnesota that if we took the amendment to conference our hands would be tied, and we would not be able to depart from it; whereas the House would be free. Therefore I believe it would be much wiser to leave the section as it is, be-

cause unquestionably it would perform a good service, if it is a properly safeguarded section, and the House conferees will undoubtedly scrutinize it with great care.

Mr. HUMPHREY. I may say to the distinguished chairman of the committee that one of my purposes in offering the minor amendments is to get them into the RECORD, so that when the Senator goes to work on them in conference there will be at least some expression of a difference of opinion in the RECORD with respect to these provisions.

Mr. GEORGE. That is a perfectly legitimate purpose, and I welcome it. However, if we must have a roll-call vote—

Mr. HUMPHREY. There is no intention of having a roll-call vote.

Mr. GEORGE. I believe we would be embarrassed by not being able to consider something on the subject.

Mr. HUMPHREY. I may say to the Senator from Georgia that we have had a number of roll-call votes. We have not had many Senators present to listen to the arguments. All I will ask for is a voice vote, without a roll call. I shall rely upon the good judgment and the good, constructive purposes of the Senator from Georgia to carry this matter to conference. I know that he will try to improve it in conference as best it can be improved.

Mr. CAIN. Mr. President, will the Senator from Georgia yield?

Mr. GEORGE. Yes.

Mr. CAIN. I should like to say to the Senator from Georgia and the Senator from Minnesota that I do not profess to be an authority on the question of spin-offs. The Senator from Minnesota made reference to the testimony of Mr. Ellsworth C. Alvord, which begins at page 1451 of the hearings. I would draw to his attention the fact that Mr. Alvord has recommended rather strongly that the principle which was approved by each of the two Houses of Congress within the past 3 years, as it relates to spin-offs, be included as an amendment to the bill which is before the Senate.

The PRESIDING OFFICER. The time of the Senator from Georgia has expired. The question is on agreeing to the amendment offered by the Senator from Minnesota [Mr. HUMPHREY].

The amendment was rejected.

Mr. HUMPHREY. Mr. President, I send another amendment to the desk.

The PRESIDING OFFICER. The Chair would ask whether there are any other amendments to the section which has been opened up? If not, without objection, the committee amendment—

Mr. HUMPHREY. Mr. President, I must object to closing the section, unless we have a quorum call, because other Senators may have amendments to offer to it.

The PRESIDING OFFICER. The Chair is advised that there are no other amendments with reference to section 317.

Mr. GEORGE. I do not believe the section was opened up within the meaning of the agreement. An amendment was offered to it, but the amendment

was rejected. The section has been approved, subject to any amendment that may be offered to it.

Mr. CAPEHART. Mr. President, a parliamentary inquiry.

The PRESIDING OFFICER. The Senator will state it.

Mr. CAPEHART. Is that the section which has to do with excess-profits taxes?

Mr. GEORGE. Oh, no; not at all.

The PRESIDING OFFICER. Let the Chair state the point involved. The Chair has been advised that under the practice adopted the other day, when an amendment is offered to a section the section is deemed to have been opened up. It is left dangling in the air unless it is readopted. If there are no other amendments—

Mr. GEORGE. I know of no other amendments, but if an amendment is subsequently brought up, I shall be glad to have it considered.

Mr. CAPEHART. Mr. President, I shall take only 2 minutes of the Senate's time.

Mr. GEORGE. Mr. President, will the Senator from Indiana permit us to act on this section?

Mr. CAPEHART. Provided I may have the floor after the section is acted on, I ask unanimous consent that I may have the floor after the vote is taken on the question before the Senate.

The PRESIDING OFFICER. Unanimous consent is requested that the Senator from Indiana have the floor after the vote is taken. Without objection, it is so ordered.

The question on agreeing to section 317. Without objection, the section is agreed to.

Mr. HUMPHREY. Mr. President, a parliamentary inquiry.

The PRESIDING OFFICER. The Senator will state it.

Mr. HUMPHREY. The section is adopted with the limitation which the distinguished chairman of the Committee on Finance announced.

The PRESIDING OFFICER. The Chair so understands.

LEAVE OF ABSENCE

On request of Mr. CAIN, and by unanimous consent, Mr. McCARTHY was excused from attendance on the sessions of the Senate from this time until Monday of next week.

REPORT ON INCOME BY GOVERNMENT OFFICIALS

The PRESIDING OFFICER. The Senator from Indiana is recognized.

Mr. CAPEHART. Mr. President, I shall take only a few minutes.

I hold in my hand the message the President has just sent to the Congress. I have read it. I know of no possible way to cure the situation the President discusses in his message except perhaps by the enactment of some sort of legislation.

However, certainly the situation is an unfortunate one. It seems to me that this is the first time in the 175 years of the history of the United States that it has become necessary for the Congress

REVENUE ACT OF 1951

The Senate resumed the consideration of the bill (H. R. 4473) to provide revenue, and for other purposes.

Mr. IVES. Mr. President—

The PRESIDING OFFICER. The senior Senator from New York is recognized.

Mr. IVES. Mr. President, I send to the desk an amendment and ask that it be read and considered at this time.

The PRESIDING OFFICER. The clerk will state the amendment offered by the Senator from New York.

The CHIEF CLERK. On page 162, line 7, it is proposed to insert after the word "beryl" the word "garnet."

Mr. NEELY. Mr. President, will the Senator yield?

Mr. IVES. The Senator from New York has a brief statement he would like to make, and then he will be glad to yield.

The PRESIDING OFFICER. The Senator from New York declines to yield for the time being.

Mr. IVES. Mr. President, I propose this amendment because of facts brought to my attention only a few days ago. The amendment would add garnet to those minerals granted depletion allowances under section 319 (iii) of the committee bill.

Mr. James A. Barr, Chief of the Industrial Minerals Section of the Defense Minerals Administration, informed my office by phone on September 26 that the mineral called garnet was more highly strategic from the point of view of national defense than any mineral presently granted depletion allowances under the committee bill. Mr. Barr emphasized garnet's strategic importance primarily because of the very limited supply available in the United States, and the almost complete absence of stockpiled reserves.

On the basis of this information, I urge that this amendment, which would grant a 15-percent depletion allowance for garnet, be agreed to. I am particularly concerned with this problem because over 90 percent of the garnet mined in the United States comes from the State of New York, believe it or not.

At this point in my remarks, Mr. President, I ask unanimous consent to have printed in the body of the RECORD a description of the garnet industry in New York published by the New York State Department of Commerce.

There being no objection, the matter was ordered to be printed in the RECORD, as follows:

GARNET

New York has large reserves of high quality garnet ore accessible for surface mining. While competition from garnet mines situated in other States, and in foreign countries, has been negligible, the garnet industry has operated under handicaps in recent decades due to the rise of manufactured competitive products. Among the most important of these artificial abrasives are aluminum

oxide (fused alumina) and silicon carbide. There is no indication that this situation is about to change, for such products can generally be produced to meet various abrasive requirements exactly and consistently. Such all-round controls are impossible with the natural mineral. Moreover, in recent years the artificial abrasives, which were once relatively expensive, have come down to the price level of garnet abrasive (See table 17). Nevertheless, there are many uses for which garnet is superior to any artificial product. Progress has been continuous in developing new methods of ore treatment and new forms of abrasive garnet. With such progress, the garnet industry will quite probably be able to compete successfully in many fields of abrasive requirements.

The mineral, garnet, is valuable because of its physical properties. Among the high grade natural abrasives, it ranks fourth in order of hardness, namely: diamonds, corundum, emery, garnet. In Moh's old scale of hardness, it ranges from 6.5 to 7.5. In this scale, talc has a hardness of 1, quartz 7, diamond 10. The type of abrasive garnet produced by New York has a hardness of 7.5.

Grains of garnet are irregular, many-angled particles, which have numerous chisel-like cutting edges. These grains have

just enough brittleness to break under the strain of use, producing further sharp edges, rather than to wear down to a smooth surface. Furthermore, particles of garnet have enough flat surfaces to permit firm attachment to the paper or cloth backing; at the same time they expose a number of cutting edges which are practically in the same plane and therefore abrade evenly.

The bulk of the garnet output is used for the manufacture of abrasive-coated papers and cloths. The remainder is used mainly as loose grain or powder for surfacing and polishing marble, slate, soapstone, and so forth, for sandblast operations, and for surfacing plate glass. The Ford Motor Co. at one time used garnet for surfacing plate glass between the coarse sanding and the final rouge polishing.

Background of the industry. New York is the leading garnet-mining State, in fact, the most important garnet-mining area in the world. A garnet-mining industry has operated continuously in the State over many decades, and during years of acute depression the Adirondack mines have been the only ones to remain active in the United States, as is suggested in table 15. No production figures for individual States have been revealed in recent years.

TABLE 15.—Active garnet-mining States, selected years, 1908-46

	New York	New Hampshire	Vermont	North Carolina	Idaho
1908.....	Active.....	Few tons.....	Inactive.....	Few tons.....	Inactive.....
1910.....	do.....	Active.....	do.....	Active.....	Do.....
1917.....	do.....	do.....	do.....	do.....	Do.....
1920.....	do.....	do.....	do.....	Inactive.....	Do.....
1930.....	do.....	do.....	do.....	do.....	Do.....
1935.....	do.....	Inactive.....	do.....	do.....	Do.....
1940.....	do.....	do.....	Active.....	Active.....	Active.....
1946.....	do.....	do.....	Inactive.....	Inactive.....	Do.....

Source: Minerals Yearbook.

Although New York is the leading producer of abrasive garnet, the industry is a small segment of the total mineral industry of the State, contributing, generally, less than 1 percent of New York's total value of mineral production. Moreover, for the past two decades abrasive garnet has had to meet the keen competition of manufactured abrasives, like silicon carbide and fused-alumina. Output of garnet declined from a peak attained in the 5-year period 1924-29 (table 16), and recovery from the low output in the period 1930-34 was at a much slower rate than the recovery of manufactured abrasives which were becoming less and less expensive (table 17). However, gains have been substantial and steady within the past 10 years, production in 1946 exceeding the previous peak in 1924-29.

TABLE 16.—Abrasive garnet sold or used by producers, United States, 1900-1947

	Annual average	Annual average
	Short tons	
1900-1904.....	3,872	\$132,895
1905-09.....	4,345	136,743
1910-14.....	4,475	145,498
1915-19.....	5,021	221,011
1920-24.....	6,575	524,908
1925-29.....	6,868	540,996
1930-34.....	3,057	218,805
1935-39.....	3,852	292,160
1940-43 ¹	5,127	340,030
1945.....	6,306	375,198
1946.....	7,743	570,186
1947.....	8,722	614,071

¹ 1944 figures not available.

Source: Minerals Yearbook.

TABLE 17.—Garnet, silicon carbide, and fused-alumina abrasives, average value per ton, selected years, 1920-46

	1920	1930	1940	1946
Abrasive garnet ¹	\$79.33	\$62.79	\$54.99	\$73.64
Silicon carbide ²	190.16	93.02	71.44	85.48
Fused-alumina ²	181.10	87.53	55.46	63.34

¹ Average value of output sold or used by producers in the United States.

² Average value of output sold, shipped or used, from manufacturing plants in the United States and Canada. No figures available for United States only.

Source: Minerals Yearbook.

The production of silicon carbide and fused alumina is localized mainly in the Niagara Falls area of the United States and Canada. The head offices and finishing plants are all in New York State. The industry on both sides of the Niagara River is integrated so closely that it probably would be difficult to present production figures based on political division. In any event, the United States Bureau of Mines has to keep the figures for New York concealed and publishes only the combined figures for Canada and the United States. Now that power has been made available at low rates in other parts of the country, there is, of course, no assurance that the Niagara area will be able to retain its dominating position in silicon carbide and fused-alumina abrasives. Electric energy cost is a larger part of the total production cost of silicon carbide than it is of the total cost of any other electroprocess chemical product, which means that adequate and low-rate power is quite probably

the primary factor in the location of this industry.

The garnet mining enterprises and ore deposits: Garnet-bearing rocks occur over a wide area in Warren, Essex, and Hamilton Counties, and especially in the district adjacent to the intersection of the boundaries of these counties, as shown by figure 12. No other section of the country can match the deposits of the Adirondacks. In recent years two companies have mined garnet ore in the area. The Barton Mines Corp., North Creek, Warren County, has been a steady producer. The Warren County Garnet Mills, Wevertown, N. Y., has produced intermittently. The approximate locations of several known deposits are indicated in figure 12.

Barton garnet deposit, Gore Mountain: This deposit is located about two-thirds of a mile north of the summit of Gore Mountain, and extends 4,000 feet in an east-west direction, with a surface width ranging from 50 to 300 feet, and garnet content of 10 to 12 percent. The garnet occurs as imperfect crystals which average 4 to 5 inches in diameter. Frequently crystals are found which measure a foot in diameter and individual crystals 3 feet in diameter have been taken out. The uniformity of the distribution of crystals, their large size, the comparatively high garnet content, and the surface occurrence of the garnet ore have caused it to be the most desirable and most productive deposit in recent years. In 1924, the Barton Corp. placed in operation a modern concentration plant and since then mining has been continuous. During the war, substantial additions were made to the plant facilities, including the most modern fine milling equipment. The extent and depth of the unmined portion of the ore body is not known, but reserves appear to be ample for an extended period of operation.

Casey Mountain deposit: This deposit at one time was worked extensively by the American Glue Co. The garnet occurs as small crystals, one-half to 3 inches in diameter and forms from 4 to 8 percent of the rock. Considerable underground mining was necessary at high cost.

Ruby Mountain deposit: This deposit consists of a series of bands of garnet-rich rock on the southwest slopes of Ruby Mountain. No mining has ever taken place. The deposit has been surveyed by the North River Garnet Co. and it is claimed that the reserves are comparable in quantity to those of the Barton deposit, Gore Mountain.

Peaked Mountain deposit: The deposit northwest of Peaked Mountain extends for a distance of 1 mile, is at least 40 feet thick throughout most of its length, and has a garnet content of 5 to 6 percent distributed uniformly throughout the ore. The deposit southwest of Peaked Mountain can be traced for a distance of one-half mile, is no more than 30 feet in thickness, and has a garnet content slightly below 5 percent. The deposits of Peaked Mountain have never been worked. They are no better in quality than those of Ruby Mountain and are more inaccessible.

Thirteenth Lake deposit: This deposit is located 1 mile east of the north end of Thirteenth Lake. It was worked for about 20 years, prior to 1928, by the North River Garnet Co. The deposit has a garnet content of 4 to 8 percent with crystals ranging from one-half to 3 inches in diameter. It appears that the richest parts of the ore body have been mined.

Gore Mountain deposit. Located a mile and a half north of the Barton Mine, a continuous band of garnet-bearing rock stretches to the northeast for about 2 miles. The band averages about 100 feet in width and has a garnet content of about 5 percent disseminated in the form of small to medium crystals, with an apparent maximum diameter of 3 to 4 inches one-fourth

mile north of the Barton mine. Gore Mountain is a thin band of garnet-bearing rock, which contains garnet crystals up to 4 inches in diameter. It is otherwise similar to the more northern deposit.

The Oven Mountain and Rexford deposits carry garnet in large crystals. They have not been worked since 1900. No detailed information concerning the reserves and quality of the garnet ore is available.

Wevertown and Johnsburg deposits. A number of small scattered deposits near Wevertown and Johnsburg have been worked intermittently in recent decades by the Warren County Garnet Mills. The garnet often occurs in great aggregates, and in places it constitutes nearly the whole of the rock mass, but these rich deposits are very small, so that it quite probably would be uneconomical to install machinery for mining.

Panther Mountain and Twin Lakes Mountain deposits: On the west flank of Panther Mountain and on the south side of Twin Lakes Mountain (see Piseco Lake Quadrangle) are lenses of garnet-rich rock, with a garnet content, gaged by rough estimate, of 10 percent in places, and with crystal sizes ranging from a fraction to 3 inches in diameter.

Summary: The account of the individual garnet deposits confirms the point that garnet ore reserves in the Adirondacks are very large and that they are of good quality. The forces that limit exploitation of these deposits are mainly those of supply and demand. Existing operations can take care of present needs and could probably be expanded to fill much larger requirements, if they existed, more economically than new operations could be set up. The competition of artificial abrasives for many uses will limit, to some extent, any increase in the demand for natural garnet in the future.

Mr. IVES. Mr. President, in support of this amendment I should like to bring only three points to the attention of the Senate: first, that garnet is vital to national defense; second, that it conforms to the criteria for granting of depletion allowance; and third, that the estimated tax loss is almost negligible.

Garnet is vitally important from the point of view of national defense. Its most strategic use is in the process of grinding optical lenses. It has been estimated that almost 50 percent of all optical lenses manufactured in this country, Canada, and free Europe combined are fine-ground with abrasive powders supplied by American garnet mines. Moreover, almost 70 percent of the optical lenses used for gun sights, range finders, cameras, periscopes, binoculars, and bomb sights are ground with garnet abrasives. In this regard it should be noted that the only other mineral which can be used for quality fine-grinding is corundum. However, corundum comes from South Africa, which—in time of war—would pose a critical transportation problem.

In addition to garnet's use in lense-grinding, over 85 percent of all hypodermic syringes manufactured in this country are ground with garnet. The Becton-Dickinson Co.—by far the major hypodermic syringe producer in the country—uses garnet exclusively for grinding its syringes.

Other major industrial uses for garnet are the making of plate glass and the manufacture of coated abrasives, such as sandpaper. Plate glass is used in military vehicles, planes and ships, and over one-third of all plate glass made

in this country is ground with garnet. Coated abrasives also play a vital role in the production of innumerable manufactured items.

This brief description of the military uses of garnet clearly documents its critical nature in this time of national emergency.

In addition to its critical nature, garnet conforms to the criteria generally established for the granting of depletion allowances. Garnet represents a depletable mineral asset, and it is in the national interest to encourage its replacement through discovery of new deposits. Most important is the fact that no new garnet deposit of acceptable quality has been located for over 20 years. With this in mind, funds must be supplied—through the granting of depletion allowances—for stepped-up exploration projects.

Finally, the estimated revenue loss stemming from adoption of this amendment would be less than \$25,000 per year. This loss is almost negligible in light of the importance of stimulating discovery of new garnet deposits.

I urge that my Senate colleagues give most serious consideration to the adoption of this amendment and I request the distinguished chairman of the Finance Committee kindly to accept it in order that it may be taken to conference.

Mr. KERR. Mr. President, the committee has no objection to accepting the amendment offered by the Senator from New York.

The PRESIDING OFFICER. The question is on agreeing to the amendment offered by the Senator from New York [Mr. Ives].

The amendment was agreed to.

Mr. IVES. I thank the Senator from Oklahoma.

The PRESIDING OFFICER. The bill is open to further amendment.

Mr. KEFAUVER. Mr. President, I offer the amendment, which I send to the desk and ask to have stated.

The PRESIDING OFFICER. The clerk will state the amendment offered by the Senator from Tennessee.

The CHIEF CLERK. At the proper place in the bill it is proposed to insert the following:

That section 421 of the Internal Revenue Code is amended by adding at the end thereof the following: "The provisions of this section shall apply to irrevocable trusts to the extent that the income is owned by any individual who dies on or after December 7, 1941, while in active service as a member of the military or naval forces of the United States or of any of the other United Nations and prior to January 1, 1948."

The PRESIDING OFFICER. The Chair will state the parliamentary situation. Section 319 was opened by the presentation and adoption of the Ives amendment. Are there any other amendments to section 319? If not, the question is on the adoption of section 319, as amended by the Ives amendment. Without objection, that section as amended, is agreed to.

The question now on agreeing to the amendment offered by the Senator from Tennessee [Mr. KEFAUVER].

Is there any request for a limitation of time with reference to this amendment?

Mr. KEFAUVER. Mr. President, I have a very brief statement in connection with it.

Under the internal revenue code, the family of a man in the armed services who loses his life in the service is not charged any income tax during the time he was in the service. My amendment would apply a similar rule. I have talked with the chairman of the committee [Mr. GEORGE] and with the Senator from Colorado [Mr. MILLIKIN] and I have also conferred with Representative COOPER, a member of the House Ways and Means Committee. Mr. COOPER feels that the principle of the amendment is entirely proper, and I am advised that the Senator from Georgia and the Senator from Colorado have no objection to the amendment.

Mr. KERR. Mr. President, speaking for myself and expressing what I believe to be the attitude of the chairman of the committee and of the distinguished Senator from Colorado [Mr. MILLIKIN], I have no objection.

The PRESIDING OFFICER. The question is on agreeing to the amendment offered by the Senator from Tennessee [Mr. KEFAUVER].

The amendment was agreed to.

Mr. KERR. Mr. President, did the Kefauver amendment open up a section?

The PRESIDING OFFICER. It was not to any particular section, the Chair is advised.

Mr. ECTON. Mr. President, I call up my amendment "9-20-51-C," and ask that it be stated.

The PRESIDING OFFICER. The clerk will state the amendment offered by the Senator from Montana.

The CHIEF CLERK. On page 128, beginning with line 2, it is proposed to strike out all through line 8 on page 129 and in lieu thereof insert the following:

(a) Amendment of section 23 (x): Section 23 (x) (relating to medical, dental, and so forth, expenses) is hereby amended by striking out in the first sentence thereof "to the extent that such expenses exceed 5 percent of the adjusted gross income."

Mr. ECTON. Mr. President, this amendment is very brief and it will not take very much time to state to the Senate why I have proposed it.

Under the present law, medical expenses and doctor's bills are deductible from individual income-tax returns, provided the amount of such expenses and bills exceeds 5 percent of the adjusted income. It seems to me that in fairness to the individual worker, producer, and taxpayer he should be permitted to deduct doctor's bills and medical expenses from his income before he pay taxes to his Government.

We permit allowance to be made for repairs, expenses, depreciation on every conceivable kind of machinery, tools, and place of business. But the individual, the man, the producer, the worker, the laborer, the farmer does not have the right to deduct his medical expenses. We permit a deduction in connection with machinery, tools, and places of

business, but we do not permit them when it comes to the human element. It is the human element that makes the machinery and tools and the industrial plants efficient, and makes them prosperous enough so that taxes can be paid to the Federal Government.

Mr. President, it seems to me that the amendment involves simply a matter of sheer justice to the taxpayers of the country, so as to permit them to make medical deductions before they pay Federal income taxes.

Let us consider a man in the lower income brackets. Maybe he has from \$1,500 to \$2,000 a year net income. Let us say he has three or four children. They need eyeglasses. They need medical attention through the year. But unless the amount of medical expense is a very sizable sum, so that it will exceed more than 5 percent of his adjusted income, he cannot deduct any of it from his income taxes before he has to pay them.

All of us who have had any experience with hospital bills, nurses' bills, doctors' bills, bills for operations, or for anything pertaining to health, know that such things are very expensive in these days. A little minor appendectomy costs approximately \$250. Such items should be deductible, in my opinion.

Mr. EASTLAND. Mr. President, will the Senator yield?

Mr. ECTON. I yield.

Mr. EASTLAND. What will the Senator's amendment cost?

Mr. ECTON. I have been told that the Treasury estimated the cost to be around \$15,000,000. I do not know if that is correct or not. Perhaps the chairman of the Finance Committee may inform us on that point. I submitted the amendment to the committee when the bill was under consideration there, in order to give its members fair warning that I intended to pursue the matter on the Senate floor, if necessary.

Mr. KERR. Mr. President, will the Senator yield?

Mr. ECTON. I yield.

Mr. KERR. As a matter of information in respect to the question asked by the Senator from Montana, the staff of the Senate Finance Committee advised me that the estimate of revenue which would be lost by adoption of the amendment is approximately \$700,000,000 a year.

Mr. ECTON. That is considerably more than the figure given to me. I understand the amount to be around \$15,000,000. But, be that as it may, Mr. President, the amount of money the Treasury would not receive on account of my amendment, to me is immaterial. I think we lose sight of the fact that the income tax takes income away from the citizens of this country who have earned the money, and we should not be so much concerned with how much the Federal Treasury is going to be deprived of by some of the amendments which are offered. We should be more concerned as to how much we are taking away from the individual American citizen. When we talk about health, and making the individual pay income taxes on money he has paid out in fees of

various kinds, medical expenses, doctor's bills, hospital bills, which he pays out in order to maintain his health and the health of his family, it is immaterial whether the amount which the Federal Treasury loses is \$15,000,000 or \$700,000,000, so far as I am concerned. The tax is wrong in principle. We permit businessmen and business institutions and all kinds of enterprises to deduct their operation expenses. They can deduct all their repair bills. I should like to ask why it is that the individual citizen, the producer of taxes, is not permitted to deduct what he pays out for repairs on himself and his family which makes it possible for him to continue paying taxes.

Mr. HUNT. Mr. President, will the Senator yield?

Mr. ECTON. I yield.

Mr. HUNT. I should like to ask the distinguished Senator from Montana if he does not feel that medical, hospital, and dental bills are absolutely necessary expenditures?

Mr. ECTON. They certainly are. If the human being is not kept in trim and kept well, he is not able to produce so as to pay taxes to the Federal Government.

Mr. HUNT. Mr. President, may I ask the distinguished Senator another question?

Mr. ECTON. I am glad to yield.

Mr. HUNT. Does not the Senator from Montana consider that expenditures made to maintain one's health, such as hospital, medical, and dental expenditures, are far more essential, and that with respect to them the taxpayer certainly should receive the same treatment as that received by the businessman, who is traveling around the country, supposedly in the interest of his business, but entertaining, staying at luxurious hotels, buying liquor, and throwing money around? The businessman is allowed to deduct those charges. He is exempt from paying taxes on them. I ask the Senator: Would it not be far more just and fair to allow individual taxpayers exemptions on the bills they have to pay to keep body and soul together?

Mr. ECTON. I certainly agree with the Senator from Wyoming, and I appreciate the comments he has made. I agree with him 100 percent. That is the only reason I have offered the amendment. I have thought about the matter for a long time, and I know many others have done so. People throughout the country are interested in the proposal. They have asked me personally, and I know they have asked all other Senators personally why it is that an individual taxpayer cannot deduct his medical expenses and list them as legitimate expenses, which they certainly are, in order to keep himself fit so he can work and produce and pay taxes.

Mr. HUNT. Mr. President, will the Senator yield further?

Mr. ECTON. I yield.

Mr. HUNT. May I ask the Senator what particular group of people it is that this law, as it now stands, most adversely affects?

Mr. ECTON. It adversely affects, I would say, all of those in the lower-income groups, especially those who receive below \$5,000 a year.

Mr. HUNT. Mr. President, will the Senator yield for one more question?

Mr. ECTON. I yield to the Senator from Wyoming.

Mr. HUNT. In every way possible, in designing this bill and considering the tax matter, does not the Senator from Montana feel that that is the group of people it is our duty here to try to help in every way we can?

Mr. ECTON. I thank the Senator. I agree with him. After all, we can have all our industries, all our wonderful plants and tools, and all the complicated machinery; but unless we have the individual worker to manage and operate them and to apply the mechanical power, we have nothing. During the days of national preparedness, when our productivity is one of our strongest and foremost lines of defense, it behooves each and every one of us to do everything possible to keep the production line going. Unless we make it possible for the individual to help to take care of himself, the human element in the production line, all the billions we spend for preparedness will go for naught.

Mr. CASE. Mr. President, will the Senator yield?

Mr. ECTON. I am glad to yield to the Senator from South Dakota.

Mr. CASE. I feel that the distinguished Senator from Montana has brought up a very interesting and worthwhile point in the debate on the tax bill. The Senator from Montana has had a great deal of experience in farming and ranching in the West. I should like to ask him if it is not true that when a rancher or farmer has to call a veterinarian to treat a sick horse or a sick cow, that expense is deductible as a part of the cost of operating the farm or ranch.

Mr. ECTON. The Senator from South Dakota is absolutely correct. As a rancher and farmer I have many times called the veterinarian for a sick cow or a sick horse. Such cost is deductible. But if one of my children should become ill and I should have to call a doctor in the middle of the night, that cost would not be deductible.

Mr. CASE. If the Senator had to repair a fence or a machine, the cost of such repair would be deductible.

Mr. ECTON. The Senator is correct. All repairs are deductible.

Mr. CASE. On everything except the human body.

Mr. ECTON. On everything except the human body, which is the main connecting link in this whole process. Without the human element, it makes no difference how many hogs, cows, or horses we have, or how much machinery we have, or how many industrial plants we have. We must have the individual, and the individual must be well and fit and able to manage and use the tools.

Mr. CASE. Let me say to the Senator that I express the hope that the committee will accept his amendment. It seems to me that the repair of the taxpayer so that he can function and produce and pay taxes is just as logical and

sound as the repair of a machine on the farm, which the taxpayer uses.

Mr. ECTON. I thank the Senator from South Dakota. Let me say further that I believe this would be the greatest investment this country could make at this time. The suggestion is made that the Government would lose \$700,000,000 in revenue. Let me say to the distinguished Senator from Oklahoma, who is handling the bill on the floor at the moment, that even if my amendment did bar the Federal Treasury from receiving \$700,000,000 during the next fiscal year, I can say in all honesty and sincerity that I believe that would be the greatest investment we could make in behalf of the American people. If we keep the individual citizen of this country well and healthy—and he will do it himself if we only leave him enough money to do it—he can produce 10 times that amount in actual taxes through his labors and his productivity.

One further word, and I shall be through. I repeat that this amendment seems to me to be fair and just and necessary in order to enable the individual citizen to meet his responsibilities by keeping himself fit and keeping his family fit during these very trying times. I sincerely hope that the chairman of the Finance Committee will be willing to accept this amendment.

Mr. HUNT. Mr. President, has the time of the Senator from Montana expired?

The PRESIDING OFFICER. There is no time limitation.

Mr. HUNT. I should like to ask the distinguished Senator one further question, if I may.

The PRESIDING OFFICER (Mr. CLEMENTS in the chair). Does the Senator from Montana yield to the Senator from Wyoming?

Mr. ECTON. I am glad to yield to the Senator from Wyoming.

Mr. HUNT. I think the Senator from Montana is aware of the fact that today some 50,000,000 people in the United States carry health- and hospital-insurance policies. I ask the Senator from Montana whether premium payments on such policies are exempt under our present income-tax law.

Mr. ECTON. I do not believe they are, unless the total of such premiums plus the doctor's bills exceeds 5 percent of the adjusted income.

Mr. HUNT. The only way they would be exempt would be under the present exemption of \$1,200 applicable to all taxpayers before the income tax is effective.

Mr. ECTON. Yes.

Mr. HUNT. The point I am attempting to make is that in order to maintain health, to take care of catastrophic illness, or ordinary illness, hospital bills, and bills for operations, 50,000,000 of our people today, realizing the great cost of medical service, carry that type of insurance. My point is that that insurance, for which we pay a premium every month, should be exempt from income tax.

Mr. ECTON. It certainly should. I agree with the distinguished Senator from Wyoming. Fire-insurance premiums on barns, industrial plants, and

business institutions are deductible, but when it comes to a little health insurance on the individual producer himself the cost of such insurance is not deductible.

Mr. HUNT. Here again we have the situation which we so often find in legislation, both on the State level and the national level. Every consideration is given to livestock. We think nothing of providing from \$30,000,000 to \$50,000,000 for the eradication of the hoof-and-mouth disease. But when it comes to doing something for the health of the people such a program does not receive the consideration to which it is entitled. As the Senator from Montana has pointed out, fire-insurance premiums on barns or automobiles or stores are exempt, but the cost of insuring the human body or the health of the individual is not exempt.

Mr. ECTON. I appreciate the contribution which the Senator from Wyoming has made to this discussion. I merely wish to say that in the present tax law we are not giving the individual any consideration whatever. We are not increasing his \$600 exemption. That is left as it is. It seems to me that with a low exemption, even though it is \$100 more now than it was a few years ago, it is almost a necessity that we give the individual taxpayer a little benefit in this bill. This is a good way to do it.

In connection with what the Senator from Wyoming has stated, if we leave to the worker and the producer and everyone else enough to take care of his own health he will do it himself, without the Government having to do it for him at some time.

Mr. HUNT. Mr. President, will the Senator yield?

Mr. ECTON. Yes.

Mr. HUNT. I may say that the huge corporations today almost without exception maintain health plans for their employees, under which the employees are afforded, partially at least, medical services and hospitalization. Does the Senator know that corporations are allowed to use such expense as a cost of business and to charge it in such a way that they do not have to pay a tax on it?

Mr. ECTON. Yes.

Mr. HUNT. Why should not the same principle apply to an individual taxpayer?

Mr. ECTON. It should, I will say to the distinguished Senator from Wyoming. That is my point. There is nothing wrong with the amendment. It is fair. It is just. It is reasonable. So far as the amount of money is concerned, whatever it may be, of which the Treasury would be deprived, I say to the Senator from Wyoming that eventually it would bring additional revenue into the Federal Treasury. It would be the best and greatest investment we have ever made.

Mr. CASE. Mr. President, will the Senator yield?

Mr. ECTON. Yes.

Mr. CASE. With respect to the question asked by the Senator from Wyoming about the payment of insurance premiums, I believe the answer, which

the Senator from Montana gave was correct. Further on in the committee amendment, at the bottom of page 128, I read:

The term "medical care," as used in this subsection, shall include amounts paid for the diagnosis, cure, mitigation, treatment, or prevention of disease, or for the purpose of affecting any structure or function of the body (including amounts paid for accident or health insurance).

As I recall the answer which the distinguished Senator from Montana gave to the question posed by the distinguished Senator from Wyoming, it was that the expense for health and accident insurance would be deductible to the extent that such expense, with other expenses, exceeded 5 percent of income.

Mr. ECTON. That was my impression.

Mr. CASE. I believe that is correct, because the language does say: "including amounts paid for accident or health insurance."

However, it means that the total paid for that insurance, plus other amounts, must exceed 5 percent of adjusted net income before any credit is given.

Mr. ECTON. Yes. I will say further that corporations and institutions which carry group insurance can deduct the expense as a part of operating expenses. They are not concerned with the 5 percent. I believe that the individual person in this country is entitled to the same kind of consideration, especially tax consideration, which is given to a corporation or business. Again, Mr. President, I hope that the amendment will be agreed to.

The PRESIDING OFFICER. The question is on agreeing to the amendment offered by the Senator from Montana [Mr. ECTON].

Mr. KERR. Mr. President, the committee considered the amendment at considerable length and came to the conclusion that it could not be agreed to. I am sure the Senator from Montana is aware of the fact that all medical expenses were taken into account in arriving at the basis or the figure for the individual exemption. The committee bill makes provision for the extraordinary medical expenses of the taxpayer. At any time that they exceed 5 percent of the taxpayer's income, they become a deductible item, up to a reasonable amount, which, under the bill, may be a very considerable amount.

In addition to that, with reference to citizens of 65 years of age and older, although the estimated loss of revenue was \$30,000,000 to \$35,000,000, the committee bill provides that the medical expenses are a deductible item regardless of whether they may amount to 5 percent of the net income.

The distinguished Senator from Montana made a very persuasive argument, that medical expenses are necessary in maintaining the health of an individual. So is food, and so is shelter. So is clothing. So are all the other items which were taken into account in arriving at the figure which is in the law as an exemption for each individual, and which is not taxable.

Certainly it would be marvelous if the revenue needs of our country would per-

mit the acceptance of this amendment. Certainly it would be marvelous if the exemption could be a thousand dollars for each individual. If that were the case it would do a great deal of damage to the tax structure from the standpoint of the efficiency in the procurement of revenue.

Mr. ECTON. Mr. President, will the Senator yield?

Mr. KERR. I am glad to yield to my good friend from Montana.

Mr. ECTON. Is it not true that there is a depletion allowance so far as certain mineral resources are concerned, and has it not been stated on the floor that the Treasury is losing approximately \$750,000,000 annually because of the depletion allowance? Is it not fair, may I ask the Senator from Oklahoma, for the Federal Treasury to do without \$700,000,000 as a depletion allowance on the human element, the individual citizen and producer, as it is to lose to the Federal Treasury \$750,000,000 annually on depletion allowance in the case of some of our mineral resources?

Mr. KERR. I remind the Senator from Montana that there is a depletion allowance in the present revenue structure of \$600 in the form of an exemption for each individual. I remind the Senator with reference to the individual expenses for medical service, hospitalization, and insurance against such expenses, that if an individual's expenses in that regard exceed 5 percent of his income, it becomes a deductible item. I remind the Senate that there is a depletion allowance in the bill of a very low rate of taxation on the first few thousand dollars of the individual's income.

Those items have been taken into consideration in the formulation of the tax structure, in arriving at the point where we now are with reference to individual exemptions, and with reference to the very low tax rate applicable to the first few thousand dollars of the income of an individual taxpayer.

Mr. ECTON. Mr. President, will the Senator yield?

Mr. KERR. I am glad to yield for a question.

Mr. ECTON. Does not the Senator from Oklahoma believe that the so-called \$600 depletion allowance would just about be taken up in the process of paying for the food and meeting the cost of living, which the Senator from Oklahoma mentioned a short time ago?

Mr. KERR. The Senator from Oklahoma is aware of the high cost of living, and the Senator from Oklahoma is aware of the fact that one of the highest elements in the cost of living is what it now costs for medical expenses, and so forth.

If the Senator from Montana were to have his way, I say to him that the cost for that element of the expenses of the taxpayer would become a great deal higher very quickly. I believe the Senator knows that to be a fact. I do not believe that we would be justified in sacrificing \$700,000,000 of revenue for this item, no matter how worthy we may regard it to be.

The PRESIDING OFFICER. The question is on agreeing to the amend-

ment offered by the Senator from Montana [Mr. ECTON].

Mr. McCLELLAN. Mr. President, I have just returned to the floor. I have been occupied in committee meetings all morning, and shall soon return to a meeting. I should like to ask the author of the amendment, the distinguished Senator from Montana, whether his amendment provides any limit as to the percentage of income, in the case of the deduction which may be made for medical expenses or the expense of medical services?

Mr. ECTON. No; under my amendment there is no such limitation.

Mr. McCLELLAN. Is there a percentage limit—for instance, up to 5 percent or up to 10 percent of taxable income?

Mr. ECTON. No.

Mr. McCLELLAN. Does not the Senator from Montana believe that in order to prevent flagrant abuse in connection with such a deduction, there should be a limitation which would be of practical application in the average case?

Mr. ECTON. It might be all right to have that.

Under the present law I believe there is a \$2,500 limitation, over and above the 5-percent limitation, as to the amount which may be deducted. A while ago it was brought out that in view of the present limitation, only those in the very high income groups can ever avail themselves of these deductions.

Mr. KERR. Mr. President, will the Senator from Montana yield for a question?

Mr. ECTON. I yield.

Mr. KERR. Is it not a fact that, rather than being available only to the very high income groups, the exemption is available to the low-income groups because if the expense exceeds 5 percent of the taxable income, the expense becomes a deductible item? In that case, the smaller the income of the taxpayer, the sooner his medical expenses will exceed 5 percent of his taxable income.

Mr. ECTON. I agree with the Senator in that respect; but I most humbly call his attention to the fact that in the case of operations, hospital rooms, the services of nurses, the services of doctors, and so forth, the cost is about the same, regardless of whether one's income is \$2,000 or \$10,000 a year.

Mr. KERR. There is no question of that; but it does not take very long for that expense to exceed 5 percent of the taxable income of a man who has a salary of \$2,000, does it?

Mr. ECTON. Let us consider those in even a lower income group.

Mr. KERR. In the case of a man who has an income of \$1,000, any amount of medical expenses in excess of \$50 will exceed 5 percent of his income.

Mr. ECTON. In the case of a man who earns \$1,500 a year, under the 5-percent provision he will have to spend more than \$75 a year for medical expenses before he can even begin to have a deduction for his medical expenses.

Mr. KERR. That is not true in the case of a man of high income, is it?

Mr. ECTON. If several of that man's children have to be examined during the

year, and if the cost of each examination is \$25, why should not that expense be deductible?

Mr. KERR. The taxpayer has a \$500 exemption for each of his children, does he not?

Mr. ECTON. I beg the Senator's pardon?

Mr. KERR. Are not children looked upon in many ways as delightful, and so on, but is there not also included in the picture the aspect of children's being a subject of a tax exemption or deduction?

Mr. ECTON. Mr. President, as was so ably stated by the distinguished Senator from Wyoming, it seems to me that we should be willing to treat our own citizens as well as we treat our livestock and our business institutions.

Mr. McCLELLAN. Mr. President, as I explained a moment ago, because of committee duties I have been unable to be on the floor very much to hear the debate. So I have to miss much of the debate on amendments which are submitted.

Fortunately—and I am very thankful for it—the health of myself and my family has not been such as to necessitate any heavy expenses on my part for medical treatment. However, I should like to see included in the law a provision, in particular, which would give persons and families of small incomes a deduction for necessary medical expenses. Our citizens who are in that category of income suffer illnesses and are compelled to have operations and extraordinary medical expenses which they simply cannot afford; they are unable to meet those expenses. If we continue constantly to increase their taxes, as we feel we are obliged to do in the present emergency, I do not know what provision can be made to help them in that connection; but I do know that there is a need for relief of this character. So long as such relief is reasonable and necessary, I believe that the money those in the low-income groups spend to relieve suffering in their families or for the preservation of the health of members of their families should constitute a proper deduction in connection with their income tax, and should not be subject to taxation.

Mr. HUNT. Mr. President, I should like to address a question to the Senator from Oklahoma. As I understood him a few moments ago, I believe he said that the amendment of the Senator from Montana would cause a loss of revenue in the amount of approximately \$700,000,000. Is that correct?

Mr. KERR. Yes; that is the estimate of the staff of the Finance Committee.

Mr. HUNT. That is the estimate of the staff of the Finance Committee?

Mr. KERR. Yes.

Mr. HUNT. Does the Senator from Oklahoma feel that that is anywhere near a correct estimate?

Mr. KERR. I think it is a conservative estimate of the revenue loss which would occur as a result of the adoption of this amendment.

Mr. HUNT. That is three-quarters of a billion dollars.

Mr. KERR. That is very true. The Senator from Wyoming would be among

those who would know about the income of doctors and dentists and nurses and hospitals and the life-insurance programs. The effect of this amendment would be to make all those expenses tax-deductible items. The Senator from Wyoming knows better than I do how many billions of dollars a year are spent in the United States for those purposes.

The effect of this amendment would be to make those expenses in their entirety deductible from the income of taxpayers before their taxable incomes could be determined.

Mr. McCLELLAN. Mr. President, will the Senator from Wyoming yield to me, to permit me to ask a question?

Mr. HUNT. I yield.

Mr. McCLELLAN. I wish to ask the distinguished member of the Finance Committee, the able Senator from Oklahoma [Mr. KERR], whether consideration has been given by the committee to working out an exemption or an allowable deduction for medical services, relating to the amount of the taxable income of the taxpayer?

Mr. KERR. Yes; that has been done, and these exemptions are presently in the law and in the bill: first, any medical expense up to \$2,500 for a single person or \$5,000 for a married couple, if it is in excess of 5 percent of their income, is deductible under the present law.

Mr. McCLELLAN. If it is in excess of 5 percent of their income, it is deductible?

Mr. KERR. That is correct.

Mr. McCLELLAN. Are such medical expenses in excess of 5 percent of the taxable income deductible in the case of all persons? In other words, a taxpayer cannot begin to take such a deduction until he has expended 5 percent of his income for that purpose; is that correct?

Mr. KERR. That is true at this time, with reference to all taxpayers.

The committee version of the bill contains a provision which gives to those who are 65 years of age or older the privilege of deducting as expenses whatever their medical expenses may be, without regard to the 5-percent limitation, but with regard to the \$2,500 and the \$5,000 limitation. So that under the law at the present time, and if the committee bill is approved, any citizen over 65 years of age may deduct expenses for medical, dental, hospital, and other health services.

Mr. McCLELLAN. Is that true of those under 65 years of age?

Mr. KERR. Under 65, they may deduct their expenses to the extent that they exceed 5 percent of their taxable income.

Mr. McCLELLAN. In other words, after they have expended 5 percent of their income for medical services, any amount expended over and above that becomes deductible, up to \$2,500?

Mr. KERR. For the individual, or \$5,000 for the couple. That is in the law now, so that a citizen with \$2,000 taxable income pays the first \$100, and what is above that is a deductible item. The citizen with \$5,000 taxable income pays the first \$250 without tax deduction, and whatever he is required to spend above that, up to \$2,500, is deductible under the law at this time.

Mr. McCLELLAN. I wish to thank the able Senator from Oklahoma, because I think we ought to make the matter very clear in the record, and I feel that relief should be given to certain small-income groups for any extraordinary expense they may have.

Mr. KERR. I may say to the Senator that the small-income groups do not pay any taxes now.

Mr. McCLELLAN. I would think that many of the small-income groups pay a great deal in the way of taxes.

Mr. KERR. It depends on what the Senator means by small-income groups. The Senator knows the exemption allowed to the family, I am sure.

Mr. MILLIKIN. Mr. President, will the Senator yield?

Mr. HUNT. Mr. President, I have the floor. I desire to make a very brief statement, after which I shall yield to the Senator from Colorado.

I think the Senator from Oklahoma knows, as he said to me, the terrific expense of a family nowadays. A family must have hospitalization and medical care. There can be no question about that. The expense is terrific today, and it constitutes a great hardship, especially on the low-income groups. Does not the Senator feel that if they were allowed a deduction for medical, hospital, and dental care, more opportunity would be given and better care of one's health would be taken, especially in the low-income group, if they realized that that was a deductible item? In other words, we would be contributing something to the building of the health of the people.

Mr. KERR. Mr. President, I cannot agree with the Senator. He himself has just said that many thousands of Americans at this time participate in a health program. The Senator is very well aware of the fact that health programs are available at reasonable cost, and he is always aware of the fact that the cost of the health program is a deductible item for anyone 65 years of age or over, and that, to the extent that it and all other medical expenses exceed 5 percent of the taxpayers' income, it is now a deductible item in all cases.

Mr. HUNT. It is not deductible for anyone under 65. My contention is—and I wish the Senator agreed with me—that voluntary health insurance plans are available, that 50,000,000 of our people are taking advantage of them, and that certainly the payments made in connection with those programs should be deductible. Unfortunately they are not.

I should like to ask one more question. What is the situation with reference to the man under 65 years of age who is totally and permanently disabled?

Mr. KERR. To begin with, I would say he is in a mighty bad fix. [Laughter.]

Mr. HUNT. I would say he is practically helpless.

Mr. GEORGE. Mr. President, let me say that if he is a veteran he is taken care of, and if he is under any pension system such as is found in nearly every industry, he is taken care of.

Mr. HUNT. Yes, and if he is on welfare, he is taken care of.

Mr. GEORGE. That is correct.

Mr. HUNT. But there is still a large group who are in none of the three classes. I think that about 23,000,000 of our people now are receiving some sort of medical care from the State; but there is still a large group of people who are not.

Mr. GEORGE. I do not know where they are, but what the committee did was to say that every person who had reached the age of 65, or his spouse, even though she had not reached the age of 65, who received medical or dental care, would now be allowed to deduct the total of the expense, without regard to the 5-percent figure, but maintaining the maximum limit, because there are still some rich people who become ill. There are not too many of them left, but those who are left become ill and finally die.

Mr. ECTON rose.

Mr. HUNT. Mr. President, would the distinguished chairmen of the committee be willing to accept an amendment including permanently and totally disabled persons?

Mr. GEORGE. That is a social-security problem, not a tax problem.

Mr. ECTON. It would be.

Mr. HUNT. But a great many people do not like to depend on public-welfare organizations merely because they may be permanently and totally disabled.

Mr. GEORGE. I should dislike to see such a provision as that adopted. When this bill goes to conference we shall have many other features to consider. We think it will be very liberal. I should like to exempt not only the expense of medical care, but even the grocery bills, of people who reach a certain age, and also I should like to exempt expenditures for heat and light and everything else, but obviously that would result in a serious loss of revenue, at a time when we are trying to raise a great deal of money. I should like to see many of these exemptions made if we could reach a point where it would be possible to readjust taxes downward, which I had fercently hoped might be the case within my lifetime, though I have about abandoned hope, I may say to the Senator. But at the present time I think it must be agreed we have given liberal treatment in this bill. We have provided that any person 65 years of age, or whose spouse is 65 years of age or under, may have a total deduction of all medical, hospital, and dental expenditures up to \$2,500, and, for the two, as I understand, practically up to \$3,750. But, at any rate, we had to keep the upper limit on the deduction, and we could not at this time be justified in saying that every person would have a total deduction for all medical expenditures, without bearing a part of it himself.

That is the situation. Of course, morally, I grant that one can justify the complete elimination, the complete deduction of hospital and medical expenditures; and I devoutly hope that it may come, but it is not here now, if we are to raise much revenue. It would cost the Government too much.

Mr. MILLIKIN, Mr. ECTON, and Mr. JOHNSON of Colorado addressed the Chair.

The PRESIDING OFFICER. Does the Senator from Wyoming yield, and if so to whom?

Mr. HUNT. The Senator from Wyoming would like to yield first to the senior Senator from Colorado, who has been on his feet for quite a long while.

Mr. JOHNSON of Colorado. Mr. President, I merely wanted to call attention to the adjusted or standard deductions which are permitted to all taxpayers. If they make out the short form, they may take 10 percent for standard deductions without itemizing them at all. If above \$5,000, and if they make out the 1040 form, they may deduct 10 percent for standard deductions, which in many cases would cover the medical needs of the family.

For example, if a family with a gross income of \$5,000, let us say, makes out the short form, the family would be permitted a standard deduction of \$500; if they had \$4,000, they would have a standard deduction of \$400, and if they had \$10,000 they could have a standard deduction of \$1,000, without itemizing it at all, and it would cover such things.

Mr. HUNT. Of course, the Senator knows that that cannot apply and is not all applied to medical, hospital and dental care.

Mr. JOHNSON of Colorado. Oh, no.

Mr. HUNT. And it represents about 1 week's expenses nowadays if one is in the hospital and receiving medical care.

Mr. President, I yield the floor.

Mr. MILLIKIN. Mr. President, I wonder where I might offer a friendly and I hope a constructive suggestion to the distinguished Senator from Montana, who I believe has sounded a very human and constructive proposal.

Mr. ECTON. I shall be happy to hear what the distinguished Senator has to say.

Mr. MILLIKIN. I believe that if the question raised by the distinguished Senator were put to a vote, considering that a \$700,000,000-a-year loss of revenue is involved, it would probably not prevail. I am wondering if there is not some place in between to give recognition to the undoubted appeal of the Senator's proposal, reminding the distinguished Senator that there are many ways by which we may go to heaven, but we cannot take them all in one jump. What I am suggesting is this: Why does not the Senator get together with the staff members and ascertain what revenue would be involved in raising the \$2,500 limit to \$3,000, as an illustration, or some raise which would give recognition to the principle for which the Senator is fighting and which, at the same time, would not unduly burden the revenues at this time? Some day we may reach the happy period when we can start to reduce taxes. I believe we will; I do not quite share all the pessimism of the distinguished Senator from Georgia on the subject. Heretofore when we have reduced taxes we have enlarged exemptions, and it may be that later on we can enlarge the exemptions and go considerably further.

All I am suggesting is that if we cannot go the whole way, perhaps we can take to conference a more modest ap-

proach. It is my recollection that the senior Senator from Michigan [Mr. FERGUSON] has an amendment along that line, and it might be advisable to get in touch with him, and possibly a proposal can be worked out which might be taken to conference.

Mr. ECTON. I should like to state that there is a difference between what I believe the Treasury will lose under my amendment and what has been stated by the Finance Committee. My understanding was that the loss would be about \$15,000,000. The Senator from Oklahoma stated the loss would be approximately \$700,000,000.

Mr. MILLIKIN. If the Senator will let me interrupt him, I talked with the chief of the Joint Committee on Revenue Taxation, and he personally gave me an estimate. He personally thought the loss of revenue would be approximately \$700,000,000.

Mr. ECTON. Was that in connection with the \$2,500 limitation?

Mr. MILLIKIN. No. He was talking about what the Senator's amendment would cost.

Mr. ECTON. My amendment does disturb the \$2,500 limitation.

Mr. MILLIKIN. I am suggesting that the Senator discuss with some of the members of the staff what a \$5,000 raise in the limitation would do to the revenue.

Mr. ECTON. That is not what I am getting at, if I may say so to the Senator.

Mr. MILLIKIN. Pardon me.

Mr. ECTON. I am objecting to the fact only the portion of medical expenses can be deducted which exceeds 5 percent of the income of the taxpayer. I contend that that is wrong, that when we take from 20 to 25 percent of his income through withholding, immediately, out of his pay check, we should not penalize him that extra 5 percent merely because he happens to have a doctor's bill, and make him pay income tax on it.

Mr. MILLIKIN. I understood the Senator's argument. I am not arguing against it. I have great sympathy for what he is saying, but I have a realization of what can and cannot be done; and I want to save something out of the fine things the Senator is proposing.

Mr. ECTON. I am very grateful to the very able Senator from Colorado, but I was not interested in raising the \$2,500 limitation, and I do not believe my amendment affects the limitation of \$2,500 at all. All it does is to strike out the 5-percent limitation, so as to permit all medical and doctors' bills to be deducted as legitimate deductions in computing income tax.

Every individual has to pay all medical expenses without deduction except for the portion which is above 5 percent of his adjusted gross income; and with only a \$600 exemption allowed and the tax rate as high as it is, I contend that it is grossly unfair.

The PRESIDING OFFICER. The question is on agreeing to the amendment offered by the Senator from Montana [Mr. ECTON]. [Putting the question.]

Mr. ECTON. I ask for a division.

Mr. GEORGE. Mr. President, this amendment is so important that I regret having to suggest the absence of a quorum. The Senator's amendment would probably mean a loss to the Treasury of from \$1,000,000,000 to \$2,000,000,000. The average medical expenses during the year will run about \$100 to a family. When that is taken into consideration it can be seen that the Government would lose a large amount of revenue. We have dealt fairly with the people so far as medical expenses are concerned. It is true that there is a just reason for giving them a credit, but we cannot do what the Senator from Montana suggests so long as we are going to carry on an expensive Government such as the one we have, and when we have to come somewhere within striking distance of the budget. We have given a straight statutory deduction of 10 percent to everyone in the lower-income bracket, and we have said that when a person reaches the age of 65 he will have a total exemption as to medical expenses. That is as liberal as we can be if we are going to protect the revenues at all.

I am willing to have a division, but I should like to have a sufficient number of Senators present so that we can ascertain the will of the Senate. I would not want to take the amendment to conference and struggle with it without having more than a mere handful of Senators on the floor.

Mr. ECTON. Mr. President, will the Senator yield?

Mr. GEORGE. I yield.

Mr. ECTON. Would the distinguished chairman of the Finance Committee be willing to accept a change to 3 percent from 5 percent?

Mr. GEORGE. I did not understand the Senator's suggestion.

Mr. ECTON. Would the Senator be willing to permit deductions for medical expenses which exceed 3 percent of the taxpayer's income?

Mr. GEORGE. Mr. President, on an income of \$2,000 all the taxpayer is paying is \$100 for his own medical expenses. On an income of \$3,000 the amount would be \$150. I know it is heavy, but in the younger years of life medical expenses generally are not too heavy for the average American to bear. It is only when they reach advanced years that medical expenses become particularly burdensome to most persons.

I earnestly hope the time will come when substantially what the Senator from Montana is suggesting can be brought about either through an increase of general exemptions or through a total deduction of all medical expenses. I am afraid the Senator's proposal would cost so much that we could not justify it under present conditions. I had hoped that what we had done would be accepted as a reasonable solution of the problem at the present moment. If we were at a point where we could begin to reduce taxes, then the Senator's proposal would be altogether reasonable, right, and equitable. It certainly would appeal to everyone. But at this time it is very difficult to see how it can be justified.

Mr. ECTON. Mr. President, I appreciate the strenuous labors through which

the chairman and the members of the Finance Committee have gone in the past several months. I know what a difficult job they have had, but, nevertheless, Mr. President, in these difficult times there are many young people, as well as persons over 65 years of age, who are finding it most difficult to meet the expenses of living and to take care of their children. It seemed to me that this was one way to give them most just and reasonable relief in view of increased taxation.

Mr. GEORGE. What the Senator has said is true. Mr. President, I am willing to have a division on the question.

The PRESIDING OFFICER. The question is on the amendment of the Senator from Montana [Mr. ECTON]. A division is requested.

On a division the amendment was rejected.

The PRESIDING OFFICER. Without objection, the committee amendment, section 307, is agreed to.

MESSAGE FROM THE HOUSE

A message from the House of Representatives, by Mr. Maurer, one of its reading clerks, announced that the House had agreed to the report of the committee of conference on the disagreeing votes of the two Houses on the amendments of the House to the bill (S. 11) to provide for the appointment of conservators to conserve the assets of persons of advanced age, mental weakness, not amounting to unsoundness of mind, or physical incapacity.

The message also announced that the House had passed a joint resolution (H. J. Res. 335) amending an act making temporary appropriations for the fiscal year 1952, and for other purposes, in which it requested the concurrence of the Senate.

TEMPORARY APPROPRIATIONS FOR 1952

Mr. McKELLAR. Mr. President, I ask the Chair to lay before the Senate House Joint Resolution 335.

The PRESIDING OFFICER (Mr. CLEMENTS in the chair) laid before the Senate the joint resolution (H. J. Res. 335) amending an act making temporary appropriations for the fiscal year 1952, and for other purposes, which was read twice by its title.

Mr. McKELLAR. Mr. President, I ask unanimous consent for the immediate consideration of the joint resolution. I will say to the Senate that the joint resolution is one which is necessary to have passed.

The PRESIDING OFFICER. Is there objection to the present consideration of the joint resolution?

Mr. CORDON. Mr. President, reserving the right to object, may I inquire whether the resolution simply extends for a specific period of time the provisions of existing resolutions?

Mr. McKELLAR. That is exactly what it does.

The PRESIDING OFFICER. Is there objection to the present consideration of the joint resolution?

There being no objection, the joint resolution (H. J. Res. 335) amending an act making temporary appropriations

for the fiscal year 1952, and for other purposes, was considered, ordered to a third reading, read the third time, and passed, as follows:

Resolved, etc., That clause (c) of section 4 of the joint resolution of July 1, 1951 (Public Law 70), as amended, is hereby amended by striking out "September 30, 1951" and inserting in lieu thereof "October 31, 1951."

REVENUE ACT OF 1951

The Senate resumed the consideration of the bill (H. R. 4473) to provide revenue, and for other purposes.

The PRESIDING OFFICER. The bill is open to further amendment.

Mr. JOHNSTON of South Carolina. Mr. President, I call up my amendment 9-26-51-B.

The PRESIDING OFFICER. The amendment will be stated.

The LEGISLATIVE CLERK. At the proper place in the bill it is proposed to insert the following:

Sec. —. Retirement annuities and pensions of Government employees.

(a) Exclusion from gross income. Section 22 (b) (2) (relating to exclusion from gross income of amounts received as annuities, etc.) is amended by adding at the end thereof a new subparagraph as follows:

"(C) Retirement annuities and pensions of Government employees.—In the case of amounts received as a retirement annuity, retirement pay, or pension provided by the United States, any State or any political subdivision thereof, or any agency or instrumentality of any of the foregoing, so much of such annuity, pay, or pension received during the taxable years as—

"(i) does not exceed \$1,500, and

"(ii) does not, without the application of this subparagraph, cause the gross income to exceed \$4,000,

shall be excluded from gross income. For the purposes of the second sentence of subparagraph (A) of this paragraph the amounts received as an annuity which are excluded from gross income under this subparagraph shall not be considered in computing the amount 'received as an annuity', or the 'amount received in the taxable year', or the 'aggregate amount excluded from gross income under this chapter'."

(b) Effective date: The amendment made by this section shall be applicable only with respect to taxable years ending after the date of the enactment of this act.

Mr. JOHNSTON of South Carolina. Mr. President, it will noted that the amendment gives an exemption on pensions and annuities to those who are connected with the United States Government, with State or political subdivisions, and who at the present time are drawing annuity pay or pensions. There are many reasons for the amendment. One reason is that today people who have been placed on annuities are are being paid with a dollar that is really worth approximately only 54 cents as compared with what it was worth in 1939. The bill under consideration will increase taxes. To show that we, who represent the Federal Government, think that something should be done for those who are on pensions, a few years ago we increased the amount of the annuities to either \$300 per annum or 25 percent, whichever was the lesser of the two. The amendment, in effect, takes care of those people, though not by so large an amount. There is nothing like that amount involved.

Mr. President, I listened to the argument in the Senate concerning a somewhat similar amendment a few years ago. Objection at that time was made because some men or women who had thousands of dollars worth of property, who were receiving incomes of \$40,000 or \$50,000 annually, would be benefited by the amendment which was then under consideration. If one reads my amendment carefully it will be noted that any person who receives a gross income in excess of \$4,000 will not be benefited by the terms of the amendment.

Mr. President, one only has to talk to some of those who are now retired, and drawing annuities, who are trying to live on the small amounts of annuities they are receiving, to realize why the amendment should be adopted. We are expending billions of dollars, which is causing the value of the dollar to decrease. The purchasing value of the present dollar represents only about 54 percent of the value of the dollar in 1939. My amendment covers only the little man. The large income taxpayer is not benefited by the amendment.

The statement may be made, however, that retired persons above the age of 65 receive double exemptions now. That is true, but that is not an exemption given under the pending bill. That exemption has been provided under previous laws. In the pending bill an additional tax is added on those who are subject to taxation.

Mr. President, thousands of persons who are on retirement pay at the present time are under 65 years of age, many of them not more than 55 or 60 years of age. Some of them are totally disabled. That is the reason they have retired. When the tax on the retirement pay of such persons is added up it will not be found to be large, for a great many of them, because of other exemptions which are provided by law, are already out from under taxation. My amendment cares for a need which we are facing at the present time. We have not done what I think we should have done; that is, increase the amount of annuities for retired Federal Government employees.

Mr. President, it will be found that some of those who are on retirement pay retired on the basis of the 1939 salaries, which means that in some instances they are on retirement pay which is not half the amount of retirement pay on which employees retire today. We are trying to help those who need to be helped. We have discussed this question in my committee. We feel that something should be done for those who are on annuities at the present time, because the value of the dollar has depreciated.

Mr. President, I hope the Senate will act favorably on this amendment.

The PRESIDING OFFICER. The question is on agreeing to the amendment offered by the Senator from South Carolina [Mr. JOHNSTON].

Mr. GEORGE. Mr. President, I must oppose this amendment. I regret to say this, but there is no good reason, morally or otherwise, why an income of \$2,000

should not be taxable, whether it is paid in a pension by the United States Government or earned by a man who earns his daily livelihood by the sweat of his brow. We cannot justify such treatment. We have done the best we could. Every Government official who is retired because of disability does not include that allowance in his income. He does not compute it. If he has reached the age of 65, he is entitled to a double deduction of \$1,200 before his income is touched. If his wife is 65, they have a total deduction of \$2,400.

But I prefer to base my argument on the broad ground. There is no reason morally why an income paid by the Federal Government should any more be exempt from taxation than an income earned by a person in like circumstances who works for his living in private life.

If this process continues, and special privileges are constantly urged for those who are working for the Government, the time will come when there will be a revulsion of feeling. They are being treated fairly, and there is no need to press such proposals. Yesterday we voted on an amendment after long debate denying the exemption of \$1,440. Now the exemption is \$1,500, but there is an outside limitation of \$5,000. That means people who are receiving retirement benefits up to \$5,000. It means men who are retired from the Army, Navy, or the Marine Corps. It means Government employees. When they retire at 65 they have a double exemption. What more do our people want? How unwise it is to press for special privileges for the classes who are receiving something from the Government.

I sincerely hope that the amendment will be defeated.

The PRESIDING OFFICER. The question is on agreeing to the amendment offered by the Senator from South Carolina [Mr. JOHNSTON].

Mr. IVES. Mr. President, I was not present to hear all the statements which have been made on this amendment by the junior Senator from South Carolina. However, after listening to the latter portion of the remarks of the distinguished Senator from Georgia, it seems to me the amendment we have before us is a vast improvement over the amendment on which we voted yesterday. It may not be perfect. I dare say that it would be almost impossible at this time—or perhaps initially at any time—to write a perfect provision dealing with this question. However, the proposal before us does contain certain restrictive provisions which were lacking in the amendment that was under consideration yesterday.

For this reason I strongly favor this particular proposal, and I trust that it may be possible to bring it to an aye-and-nay vote, so that those of us who desire to be recorded in its favor may have an opportunity to be recorded. Therefore, I suggest the absence of a quorum, because I do not think there are enough Senators present to order the yeas and nays.

Mr. GEORGE. Mr. President, I want a quorum on this amendment. I want to know whether the Senate wishes to

give to Government employees a special privilege. If so, Senators will have an opportunity to vote for it. That is stating it frankly, but that is what this amendment would do.

Mr. IVES. In that connection, however—and I do not like to take issue with my distinguished colleague—I wish to point out that one of the chief criticisms raised with regard to the amendment considered yesterday was that it was all-embracing. In this particular amendment the Senator from South Carolina has endeavored to restrict its provisions within more moderate limitations, so that from this point on we can move forward and have an all-embracing measure at some time in the future—presumably as soon as possible.

The PRESIDING OFFICER. The absence of a quorum is suggested. The clerk will call the roll.

The Chief Clerk called the roll, and the following Senators answered to their names:

Aiken	Hennings	Monroney
Bennett	Hickenlooper	Moody
Benton	Hill	Morse
Brewster	Hoey	Mundt
Bricker	Holland	Murray
Bridges	Humphrey	Neely
Butler, Md.	Hunt	Nixon
Butler, Nebr.	Ives	O'Connor
Cain	Jenner	O'Mahoney
Capehart	Johnson, Colo.	Pastore
Carlson	Johnson, Tex.	Robertson
Case	Johnston, S. C.	Russell
Clements	Kefauver	Saltonstall
Connally	Kem	Schoeppel
Cordon	Kerr	Smathers
Dirksen	Kilgore	Smith, Maine
Douglas	Knowland	Smith, N. J.
Duff	Langer	Smith, N. C.
Dworshak	Lehman	Sparkman
Eastland	Lodge	Stennis
Eaton	Long	Taft
Ellender	Magnuson	Thye
Ferguson	Martin	Underwood
Flanders	Maybank	Watkins
Fulbright	McCarran	Welker
George	McClellan	Wiley
Gillette	McFarland	Williams
Green	McKellar	Young
Hayden	McMahon	
Hendrickson	Millikin	

The PRESIDING OFFICER. A quorum is present.

Mr. IVES. Mr. President, I ask for the yeas and nays.

The PRESIDING OFFICER. Is the request for the yeas and nays sufficiently seconded?

Mr. GEORGE. I hope that the yeas and nays will be ordered. I do not believe I have exhausted all of my time for debate.

The PRESIDING OFFICER. There is no time limitation on the amendment.

Mr. GEORGE. I hope the yeas and nays will be ordered because the question is a straight test on whether we are to give special privileges to only Federal and State employees who have retired on pension.

The PRESIDING OFFICER. Is the request for the yeas and nays sufficiently seconded?

The yeas and nays were ordered, and the Chief Clerk called the roll.

Mr. JOHNSON of Texas. I announce that the Senator from New Mexico [Mr. ANDERSON] is absent by leave of the Senate.

The Senator from Virginia [Mr. BYRD] is absent because of illness in his family, and if present would vote "nay."

The Senator from New Mexico [Mr. CHAVEZ] and the Senator from Delaware [Mr. FREAR] are absent on official business, and if present would vote "nay."

Mr. SALTONSTALL. I announce that the Senator from Nevada [Mr. MALONE] is absent on official business.

The Senator from New Hampshire [Mr. TOBEY] and the Senator from Nebraska [Mr. WHERRY] are necessarily absent.

The Senator from Wisconsin [Mr. McCARTHY] is absent by leave of the Senate.

The result was announced—yeas 18, nays 70, as follows:

YEAS—18

Cain	Johnston, S. C.	Murray
Eaton	Kern	Nixon
Ferguson	Knowland	O'Connor
Gillette	Langer	Schoeppel
Hendrickson	Lehman	Thye
Ives	Magnuson	Underwood

NAYS—70

Aiken	Hayden	Monroney
Bennett	Hennings	Moody
Benton	Hickenlooper	Morse
Brewster	Hill	Mundt
Bricker	Hoey	Neely
Bridges	Holland	O'Mahoney
Butler, Md.	Humphrey	Pastore
Butler, Nebr.	Hunt	Robertson
Capehart	Jenner	Russell
Carlson	Johnson, Colo.	Saltonstall
Case	Johnson, Tex.	Smathers
Clements	Kefauver	Smith, Maine
Connally	Kerr	Smith, N. J.
Cordon	Kilgore	Smith, N. C.
Dirksen	Lodge	Sparkman
Douglas	Long	Stennis
Duff	Martin	Tamm
Dworshak	Maybank	Watkins
Eastland	McCarran	Welker
Ellender	McClellan	Wiley
Flanders	McFarland	Williams
Fulbright	McKellar	Young
George	McMahon	
Green	Millikin	

NOT VOTING—8

Anderson	Frear	Tobey
Byrd	Malone	Wherry
Chavez	McCarthy	

So the amendment of Mr. JOHNSTON of South Carolina was rejected.

The PRESIDING OFFICER. The bill is open to further amendment.

Mr. KEFAUVER obtained the floor.

Mr. McFARLAND. Mr. President, will the Senator from Tennessee yield?

Mr. KEFAUVER. I yield.

Mr. McFARLAND. I have been asked by numerous Senators whether we would finish this bill tomorrow, or whether we would have a session on Saturday. I feel confident that if we can arrive at a unanimous-consent agreement regarding the further consideration of the bill, we can complete action on the bill tomorrow.

Mr. GEORGE. Why not tonight?

Mr. McFARLAND. I would hope we could do so tonight, but I do not think we shall be able to do so, to be frank about it.

Mr. President, I ask unanimous consent that in connection with the consideration of all future amendments, debate on the amendments be limited to 30 minutes, or 15 minutes to each side, to be controlled, respectively, by the proponent of the amendment and the Senator from Georgia [Mr. GEORGE].

Mr. DOUGLAS. Mr. President, reserving the right to object—

Mr. McFARLAND. What is it?

Mr. DOUGLAS. Has the Senator from Arizona finished his statement?

Mr. McFARLAND. No, I have not yet finished it.

Mr. DOUGLAS. I am sorry.

Mr. McFARLAND. I further ask that all amendments to the committee amendments be required to be germane, and that the time on such amendments to committee amendments be controlled, respectively, by the proponent of the amendment and the Senator from Georgia [Mr. GEORGE] or, if the Senator from Georgia favors the amendment, then by the acting minority leader, the Senator from Massachusetts [Mr. SALTONSTALL] or any Senator whom he may designate.

Mr. President, there are certain exceptions to be made to that proposed agreement, one of them being the capital gains amendment and another being the amendment in regard to depletion allowances.

Let me inquire how much time the Senator from Minnesota wishes to have available for debate on that amendment.

Mr. HUMPHREY. So far as I am concerned, one hour would be adequate; but I have just been informed that some other Senator wishes to have one hour and one-half allowed.

Mr. McFARLAND. The Senator from Nevada wished to have at least 1½ hours allowed on the amendment, or 45 minutes for each side.

Mr. KERR. Mr. President, will the Senator from Arizona yield?

Mr. McFARLAND. I yield.

Mr. KERR. The Senator from Nevada wished to have 1½ hours for each side, on that amendment.

Mr. McFARLAND. Is the Senator from Oklahoma sure about that?

Mr. KERR. I am positive of it.

Mr. McFARLAND. Of course, that would be a long time.

Mr. KERR. The Senator from Minnesota had requested 1 hour for each side.

Mr. McFARLAND. I thought the Senator from Minnesota wished to have 1 hour available altogether.

Mr. HUMPHREY. Mr. President, we originally requested 1 hour for each side; but, at the second request of the majority leader and in order to expedite action, we reduced that, to half an hour for each side.

Mr. KERR. I am positive that the request of the Senator from Nevada was for 1½ hours for each side.

Mr. McFARLAND. One hour and one-half for each side?

Mr. KERR. Yes.

Mr. McFARLAND. Well, we shall have to take what we can get; so I make that exception.

Mr. DOUGLAS. Mr. President, reserving the right to object, let me say that we have a capital-gains amendment which I do not think can be discussed adequately in 15 minutes by each side. In the case of that amendment, I should like to have a total of 1 hour allowed, or half an hour for each side.

Mr. McFARLAND. The Senator requests 30 minutes for each side in the case of that amendment, does he?

Mr. DOUGLAS. Yes.

Mr. McFARLAND. Then I further request that in the case of the capital-

gains amendment, the limitation be 1 hour, or 30 minutes for each side.

I further request that in the case of any amendments to those two amendments, the debate be limited to 30 minutes, with the same provisions as to germaneness and control of the time.

The PRESIDING OFFICER. Will the Senator from Arizona restate his unanimous-consent request?

Mr. McFARLAND. I shall try to do so.

Mr. McCARRAN. Mr. President, will the Senator from Arizona yield to me?

Mr. McFARLAND. Mr. President, first, I yield to the Senator from Nevada.

Mr. McCARRAN. Mr. President, I apologize for not being on the floor to hear the entire colloquy.

Mr. McFARLAND. Let me restate my request. I ask unanimous consent that it be ordered that the limitation of debate on all amendments be 30 minutes, 15 minutes to a side, the time to be controlled by the proponent of any amendment offered and the Senator from Georgia, in the event he opposes the amendment; and in the event he favors the amendment, then by the acting minority leader or by any Senator whom he may designate; that there be an exception as to two amendments, namely, that the time for debate on the depletion amendment be limited to 1 hour and 30 minutes on each side, the time to be controlled by the proponent of the amendment and the Senator from Georgia, and that all amendments to that amendment must be germane; that debate on amendments to amendments to be limited to 30 minutes, 15 minutes to a side; that as to the capital gains amendment, the time for debate be limited to 1 hour, 30 minutes to a side, and that all amendments to the bill and to the amendments must be germane.

Mr. HUMPHREY. Mr. President, will the Senator yield?

Mr. McFARLAND. I yield.

Mr. HUMPHREY. There is still a further amendment, the 12½ percent income tax amendment, on which we would like a half hour to a side.

Mr. McFARLAND. I make the same request in regard to the 12½ percent income-tax amendment.

The PRESIDING OFFICER. Is there objection?

Mr. McCLELLAN. Reserving the right to object, will the Senator yield for a question?

Mr. McFARLAND. I yield.

Mr. McCLELLAN. I understand that an amendment will be offered to repeal the split-income or community-property principle which was written into the tax law in 1948, I believe. Under the proposed agreement as stated by the distinguished majority leader, how much time would be allotted to each side on that amendment?

Mr. McFARLAND. There would be 30 minutes.

Mr. McCLELLAN. Fifteen minutes to each side?

Mr. McFARLAND. No, 30 minutes to a side. I should like to inquire whether any Senator intends to offer such an amendment.

Mr. HUMPHREY. It is my intention to do so, and I prefer that it shall be included in this unanimous-consent agreement. I had thought that would be a part of the general agreement.

Mr. McCLELLAN. I asked the question because I thought there was a misunderstanding, I may say to the Senator from Minnesota.

Mr. McFARLAND. How much time does the Senator from Arkansas suggest?

Mr. McCLELLAN. Fifteen minutes to a side would be satisfactory to me, but I thought the Senator's understanding was that it was to be 30 minutes to a side.

Mr. HUMPHREY. It was. That was our original request, but I am trying to cooperate with the majority leader in order to cut the time down, in order that we may get down to business.

The PRESIDING OFFICER. Is there objection?

Mr. KEFAUVER. Reserving the right to object, I wonder if the majority leader would include also the amendment I am going to offer to the wagering section. It is very important.

Mr. McFARLAND. Mr. President, I cannot hear the Senator's request.

The PRESIDING OFFICER. The Senate will please be in order.

Mr. KEFAUVER. I wonder whether the majority leader would make an exception in the case of the amendment I am going to offer in connection with the wagering section. It will bring up a great many questions, and it would be very difficult to present the pros and cons if debate were limited to 15 minutes to each side. Could we not make it 30 minutes to a side?

Mr. McFARLAND. If the Senator insists on it, I will make an exception in regard to that one amendment. But let me call the Senator's attention to the fact that we have been in session on this bill for several days. We are now in the second week of debate upon the bill. The Senate is becoming tired of listening to debate, and I feel that we would accomplish more by cutting down our remarks. But I will make an exception in the case of the Senator's amendment to the wagering section.

Mr. President, I also request that debate on the bill be limited to 1 hour to a side, the time for the proponents to be controlled by the Senator from Georgia—

Mr. HOLLAND. Mr. President, reserving the right to object, the Senator from Florida had understood, from a reply to a question which he addressed to the Senator from Minnesota on the first day of the consideration of the bill, that there was not to be an amendment proposed to the split-income provision of the bill.

Apparently the Senator from Florida was mistaken in that understanding, and he would like to know now exactly what allotment of time is permitted under the unanimous-consent request for that particular amendment.

Mr. HUMPHREY. Mr. President, may the Senator from Minnesota be permitted to reply?

The PRESIDING OFFICER. The request is that time for debate on the

split-income amendment be limited to 30 minutes to a side.

Mr. HUMPHREY. Mr. President, I did say to the Senator from Florida that I was in doubt whether we would offer such an amendment, but I feel now that we shall offer the amendment, in view of certain action which has taken place.

I have just been asked by one of my colleagues to request that the time on this amendment, instead of being 15 minutes to a side, be 30 minutes, because there seem to be Senators who wish to have something to say about it, and I have no objection to that. I know the Senator from Arkansas is interested in the amendment, the Senator from Florida is interested in it, and 30 minutes to a side would be very reasonable. I would not need more than 15 minutes, myself.

Mr. McFARLAND. I make an exception on that amendment by asking that 30 minutes to a side be allowed for debate.

Mr. HUMPHREY. Thirty minutes to a side?

Mr. McFARLAND. Yes, on this amendment.

The PRESIDING OFFICER. Is there objection?

Mr. MILLIKIN rose.

Mr. LEHMAN. Reserving the right to object—

The PRESIDING OFFICER. The Senator from Colorado.

Mr. MILLIKIN. Mr. President, may I ask the distinguished majority leader what time has been set aside for what I understand will be an amendment directed toward mining exploration and development?

Mr. McFARLAND. An hour and a half to a side.

Mr. HUMPHREY. No, no, not on that amendment. The time is 15 minutes to a side on that particular amendment.

Mr. McCARRAN. We had an agreement to an hour and a half to a side on that amendment.

Mr. HUMPHREY. That was on the depletion allowance amendment.

Mr. McFARLAND. That is what I am talking about. That was the understanding. But if it can be set aside, and the time reduced, I shall not object.

Mr. HUMPHREY. I should be glad to accept an hour to a side, as far as I am concerned.

Mr. MILLIKIN. I do not care to object. However, it is a very important subject.

The PRESIDING OFFICER. Does the Senator from Arizona include that amendment in his request?

Mr. McFARLAND. Yes; I accept the suggestion. I hope we may be able to get through with our consideration of the bill by the middle of next week.

Mr. LEHMAN. Mr. President, reserving the right to object, may I have the attention of the distinguished majority leader. In connection with the split-income amendment, do I correctly understand that the time is 30 minutes to each side?

Mr. McFARLAND. Fifteen minutes to a side.

Mr. LEHMAN. I should be obliged to object, unless we could have 30 minutes to a side on that amendment.

Mr. HOLLAND. Reserving the right to object, the Senator from Florida was just assured by the majority leader that there would be 30 minutes to a side.

Mr. McFARLAND. Very well.

The PRESIDING OFFICER. The unanimous-consent request included 30 minutes to each side on the split-income amendment.

Mr. GEORGE. This subject has been discussed in the Senate for many, many years, but I have no doubt that since the amendment was last suggested, new ideas have entered the minds of proponents, so I think there ought to be 30 minutes to a side.

The PRESIDING OFFICER. The Chair would advise the Senator from New York that included in the unanimous-consent request of the majority leader was a request for 30 minutes to each side for debate on that amendment.

Mr. LEHMAN. Reserving the right to object, and simply for the sake of clarity, may I request a statement definitely setting forth the amendments on which time for debate in excess of 15 minutes to a side has been agreed to?

Mr. McFARLAND. There was one, the depletion amendment, on which there was an hour and thirty minutes to a side. On the capital-gains amendment the agreement calls for 1 hour, 30 minutes to a side.

Mr. HUMPHREY. That is correct.

Mr. GEORGE. That is a new subject, too, Mr. President. There should be at least a half hour to each side.

Mr. McFARLAND. We had an agreement regarding the split income amendment of 1 hour, 30 minutes to a side.

Mr. HUMPHREY. That is correct.

Mr. McFARLAND. We had another agreement with respect to the development and exploration provision, which was 30 minutes to a side.

Mr. HUMPHREY. To each side?

Mr. McFARLAND. To each side, yes.

Mr. HUMPHREY. And then the 12½ percent income-tax amendment.

Mr. McFARLAND. On that the time is to be 30 minutes to a side.

Mr. HUMPHREY. That is correct. And on the capital-gains amendment, a half hour to a side?

Mr. McFARLAND. That is correct.

The PRESIDING OFFICER. The Senator from Arizona might advise the Senate that there was a request for 30 minutes for each side on the wagering amendment.

Mr. McFARLAND. That is correct.

Mr. KNOWLAND. May I inquire of the Senator from Minnesota if his amendment proposing to do away with split incomes will also deprive the community property States of the privilege of the split-income provision?

Mr. HUMPHREY. It is not doing away with the benefits of the split income; it applies to every area of the country.

Mr. SALTONSTALL. As I understand, on the capital gains tax provision an hour has been assigned, 30 minutes to each side; on depletion, 3 hours, or an

hour and a half to each side; on development and exploration, 1 hour to each side; the 12½ percent income tax provision, 1 hour to each side; on wagering, an hour to each side; on the split-income provision, an hour to each side, and on all other amendments half an hour, and on the bill itself 2 hours. Am I correct?

Mr. KERR. Mr. President, I understand the depletion amendment is a general amendment which refers to the depletion feature.

The PRESIDING OFFICER. To that amendment an hour and a half to each side is assigned.

Mr. SALTONSTALL. Mr. President, I should appreciate a statement by the Chair as to his understanding of all the suggestions.

The PRESIDING OFFICER. The time agreed to for debate on the amendments is as follows: On depletion, an hour and a half to each side; on capital gains, 30 minutes to each side; on the wagering amendment, 30 minutes to each side; on split incomes, 30 minutes to a side; on development and exploration, 30 minutes to a side, and as to any other amendments, 30 minutes, or 15 minutes to each side.

Mr. SALTONSTALL. How about the 12½-percent income tax amendment?

The PRESIDING OFFICER. The time agreed upon is 30 minutes to each side.

Mr. SALTONSTALL. And as to all other amendments, 15 minutes to a side?

The PRESIDING OFFICER. Yes, and 2 hours on the bill.

Mr. SALTONSTALL. All amendments must be germane; and appeals and motions are included in the request, are they not?

The PRESIDING OFFICER. That is correct.

Mr. CAPEHART. Mr. President, I received unanimous consent on yesterday to offer an amendment to the excise-profits-tax section. What time will be allowed for debate on that subject?

The PRESIDING OFFICER. Fifteen minutes to a side.

Mr. CAPEHART. I have no objection to that.

Mr. LANGER. Mr. President, I should like to see the consideration of the bill concluded. Many amendments are offered, and there will be amendments offered to the amendments. I should like to have the majority leader set the time for a vote on the bill at 12 o'clock next Monday. There will be all kinds of arguments on Friday and Saturday, and if we set the time to vote on the bill at 12 o'clock on Monday we will know that we have to complete action on all the amendments by that time.

Mr. McFARLAND. Mr. President, I do not know whether we can get through with all the amendments by 12 o'clock on Monday. I could not agree to Tuesday. We will work all tomorrow night and all Saturday night before I will make it Tuesday. I am willing to say that in the event action on the amendments is completed the vote on the bill itself may be postponed until Monday at 12 o'clock and the Senate may proceed to vote on the bill immediately at

12 o'clock noon on Monday. All the amendments would have to be disposed of before that time. In the event the amendments were not disposed of before that time, the vote on the bill would have to take its regular course.

Mr. SALTONSTALL. Mr. President, I rise to propound a parliamentary inquiry.

The PRESIDING OFFICER. The Senator will state it.

Mr. SALTONSTALL. What is the effect of the agreement? The majority leader suggests 12 o'clock on Monday for a vote on the bill, but if action on the amendments is not completed there would be an indefinite date for a vote on the bill.

The PRESIDING OFFICER. There is to be a vote on the bill at 12 o'clock on Monday following a quorum call, if action on all the amendments is completed. If the amendments have not been acted on the bill will take its regular course.

Mr. GEORGE. Mr. President, if we have a session tonight and a session tomorrow night and on the next night, if necessary, we will finish the bill. I have listened carefully to the amendments. There are only approximately two or three that will not be squarely in conference, but the distinguished Senators who have organized to make a fight on the committee bill are not willing to allow a free conference upon all the amendments, with only about two exceptions. The issues are drawn, and they have to be fought out in conference. Every month of delay is costing \$106,000,000 in excise taxes alone. It is not possible to put excise taxes into effect the day after the bill is passed; it takes some time.

We are just killing time. There is no purpose here except a purely political purpose. That is all there is to it. The issues will be fought out on amendments which will be in conference, with the exception of only two or three of the amendments. I would much rather have no unanimous consent agreement, if the Senate will be content to remain in session. I am able to sit here continuously until the bill is disposed of. I have been patient, I have been indulgent; but there is no point in further indulgence—none whatever. I hope very much that the Senator from Arizona will withdraw his request for a unanimous-consent agreement. Such an agreement as is now proposed would carry the debate over into the middle of next week, unless night sessions were held.

Mr. McFARLAND. Mr. President, I give notice that we are going to hold night sessions after tonight. We shall begin at 10 o'clock in the morning, and we will have night sessions on Friday and Saturday nights. Altogether too much time has been allowed. If the Senator from Georgia wants me to withdraw my request, I am willing to withdraw it. I leave it as it is, and if any Senator wants to object, I will let it go.

Mr. HUMPHREY. Mr. President, I feel obliged to make a brief comment on the remarks which have been made—

The PRESIDING OFFICER. The Senator from Tennessee [Mr. KEFAUVER]

has the floor. He yielded to the majority leader to make a unanimous-consent request.

Does the Senator from Tennessee yield to the Senator from Minnesota?

Mr. McFARLAND. Mr. President, if any Senator wants to object to the unanimous-consent request, it is all right with me.

The PRESIDING OFFICER. Is there objection to the request of the Senator from Arizona?

Mr. LANGER. I object.

The PRESIDING OFFICER. Objection is heard.

Mr. HUMPHREY. Mr. President, will the Senator from Tennessee yield?

Mr. KEFAUVER. I yield to the Senator from Minnesota for a question.

Mr. HUMPHREY. There has been a desire on the part of the junior Senator from Minnesota and those associated with him to make progress on this bill. There has been a desire to limit debate ever since Saturday of last week. There has been a desire to limit the debate to a half hour, with the exception of four amendments which were offered as of Saturday of last week.

Mr. President, I personally take exception to the comment that the effort is one of politics, because I will say that the politics in this bill is not on the side of those who are proposing this amendment, because it is not politics to ask the American people to pay more taxes; and that is what we are doing. What we are putting up a fight for is to see that some of those who are not paying their fair share of the taxes pay it, and we are also putting up a fight to meet, for the first time, the requirement that many have asked for, that is, the requirement of a balanced budget. We have heard a great deal of loose talk about balancing the budget, but when someone makes a determined effort to balance the budget someone else objects to it.

I take sharp exception to what has been said. We are fighting about billions of dollars of revenue. We lost \$500,000,000 yesterday because we did not adopt an amendment which would put the effective date of the corporation tax back to January 1. I think that was something worth fighting for. I insist that we proceed according to the general outline of the majority leader; that we proceed to make progress on this bill, in which effort we shall cooperate.

Mr. McFARLAND. Mr. President, will the Senator from Tennessee yield?

Mr. KEFAUVER. I yield.

Mr. McFARLAND. I certainly desire to make progress with the bill, but I could not see very much progress made with the unanimous-consent agreement I proposed, so we will go ahead as we are.

May I ask the Senator from Tennessee a question?

The PRESIDING OFFICER. Does the Senator from Tennessee yield to the Senator from Arizona?

Mr. KEFAUVER. Yes; I yield.

Mr. McFARLAND. Will the Senator agree to a limitation of debate on his amendment?

Mr. KEFAUVER. I will agree to 45 minutes to a side.

Mr. GEORGE. Mr. President, that is so unreasonable that I would have to object. Let the Senator proceed.

Mr. LEHMAN. Mr. President, will the Senator from Tennessee yield?

The PRESIDING OFFICER. Does the Senator from Tennessee yield to the Senator from New York?

Mr. KEFAUVER. Yes.

Mr. LEHMAN. I want to join my distinguished colleague from Minnesota in saying that I take personal exception to the remarks of the distinguished chairman of the Finance Committee, greatly as I respect and admire the work he has done on this bill, his high motives and the industry which he has shown in this instance, as in every other instance with which I have been familiar since I came to the Senate 2 years ago. But for him to impute political motives is, I think, unreasonable and unfair. My associates and I are fighting to make this bill productive, and in the interest of all the people of the United States. There is no doubt that we are facing a deficit of from \$10,000,000,000 to \$15,000,000,000. All the bill as it now stands will raise during the current year—and I am now quoting from the statements made on the floor by members of the Finance Committee—all that will be raised during this current year will be less than \$3,000,000,000, leaving a deficit of somewhere between \$10,000,000,000 and \$12,000,000,000.

Mr. GEORGE. Mr. President, may I remind the Senator—

Mr. LEHMAN. The Senator from New York has not yielded.

The PRESIDING OFFICER. Does the Senator yield?

Mr. GEORGE. Let us finish the bill or we will not raise anything during this current year.

Mr. LEHMAN. The Senator from New York has not finished and does not yield.

The PRESIDING OFFICER. Let the Senate be in order.

Mr. LEHMAN. I say that I believe the bill, as it now stands, favors men of high incomes, corporations, and others, and discriminates against the man of small and moderate income.

Mr. GEORGE. Mr. President, I resent that statement, and no man worthy of a seat in this Senate will make that statement. [Manifestations of disorder in the galleries.]

The PRESIDING OFFICER. The Senate will be in order and also occupants of the galleries.

Mr. GEORGE. And I am willing to go to the American people on it.

Mr. LEHMAN. The Senator from New York has not yielded and I say that the Senator from New York does not withdraw—

The PRESIDING OFFICER. The Senator will suspend. Let the Chair admonish the occupants of the galleries that they are the guests of the Senate, and they must preserve order.

Mr. LEHMAN. If the Senator from New York and his colleagues were not convinced that we are fighting for an equitable bill, a bill that would come at least within hailing distance of a bal-

anced budget, do you think for a moment that we would be standing on the floor of the Senate battling with all our hearts, with all our power, with all our might for the achievement of that end?

As the Senator from Minnesota has said, to fight for higher taxes, for higher revenue, is an unpopular thing, not a popular thing. That is why we are justified in resenting the implication and the imputation that we are seeking to debate and to fight for our principles in this matter for political reasons, for political advantage. The only thing we can achieve in this matter is, first, loyally to serve the interest of the people of the United States; second, to serve the people of the United States by bringing the revenues at least within hailing distance of the appropriations, all of which have been voted on by substantially every Member of the Senate, and to which we are obligated.

The third thing we are fighting for is equity and fairness to all the people of the United States, rich and poor alike. I hope that that will be understood, and that the implication that was stated here 15 minutes ago shall not stand unchallenged. I am unwilling, as was my colleague from Minnesota, to allow it to stand unchallenged.

Mr. KEFAUVER. I send to the desk my amendment numbered 24.

Mr. McFARLAND. Will the Senator yield for a question?

Mr. KEFAUVER. Yes, I yield.

Mr. McFARLAND. Mr. President, I plead with all the Members of the Senate to get down to consideration of this bill seriously, as we have throughout the previous days of its consideration. I am sure that long debate on the bill is not going to accomplish very much. I call attention to the fact that we have promised to recess by 6 o'clock this evening to accommodate our friends on the other side of the aisle.

I gave notice of an all-day session tomorrow and a session tomorrow night, and an all-day session Saturday and a session on Saturday night. I know it is going to be hard on the Senate to meet that call. It is not necessary to do that. Not only do Senators jeopardize the health of the Members of the Senate, but they jeopardize their amendments when they prolong the debate. I hope the Senator from Tennessee will limit himself to a half hour to his side, on his amendment. I plead with him to do that in order that we may conclude for today by 6 o'clock.

Mr. KEFAUVER. Mr. President, I have no desire to talk at any length, but the amendment provides for an entire section, and the Senator from Maryland [Mr. O'CONOR], the Senator from Wisconsin [Mr. WILEY], the Senator from Wyoming [Mr. HUNT], and the Senator from New Hampshire [Mr. TOBEY] join with me in sponsoring the amendment.

Mr. McFARLAND. Very well. I will not ask the Senator to limit himself.

Mr. KEFAUVER. Mr. President, I send to the desk amendment designated 9-22-51-24, offered by me on behalf of myself, the Senator from Maryland

[Mr. O'CONOR], the Senator from Wisconsin [Mr. WILEY], the Senator from Wyoming [Mr. HUNT], and the Senator from New Hampshire [Mr. TOBEY].

The PRESIDING OFFICER. Does the Senator desire the amendment read, or does he ask that it be printed in the RECORD?

Mr. KEFAUVER. I ask that the amendment be printed in the RECORD at this point.

The PRESIDING OFFICER. Without objection it is so ordered.

The amendment offered by Mr. KEFAUVER for himself and other Senators is as follows:

On page 251, beginning with line 4, strike out all through line 6 on page 259.

At the proper place insert the following:

"SEC. —. Illegal businesses.

"(a) Illegal wagering.

"(1) Disallowance of business expenses: Section 23 (a) (relating to deductions from gross income) is amended by adding at the end thereof the following new paragraph:

"(3) Illegal wagering: No deduction shall be allowable under paragraph (1) or (2) to a taxpayer for any expense paid or incurred in or as a result of illegal wagering."

"(b) Special records and returns: Section 54 (relating to records and special returns) is amended by adding at the end thereof the following new subsection:

"(g) Wagering houses.

"(1) Additional records: Every person liable to any tax imposed by this chapter who operates a wagering house shall file an annual return, which shall contain or be verified by a written declaration that it is made under the penalties of perjury, listing records of net daily gains and losses resulting from wagering transactions during the taxable year and shall, in addition to such other records as may be prescribed to be made under subsection (a), keep such records, render under oath such statements, make such other returns, and comply with such rules and regulations as the Secretary may from time to time prescribe.

"(2) Illegal wagering: Every person liable to any tax imposed by this chapter who operates a wagering house illegally shall, in addition to such other records as may be prescribed to be made under this chapter, keep records of every wagering transaction, the amount wagered, the name and address of every person participating in the wagering transaction, and the date of such wagering transaction.

"(3) Inspection: All books and records of wagering houses shall be open to inspection at all times by agents of the Bureau of Internal Revenue upon identification and request.

"(4) Definition: As used in this subsection the term "wagering house" means any room, building, vehicle, vessel, or other place in which wagering transactions are carried on as a business.

"(5) Penalty: Any person required under this subsection, or required by law or regulation made under authority thereof, to make a return, keep any records, or supply any information, who willfully fails to make such return, keep such records, or supply such information, at the time or times required by law or regulations, shall, in addition to other penalties provided by law, be guilty of a felony and, upon conviction thereof, be fined not more than \$10,000, or imprisoned for not more than 2 years, or both, together with the costs of prosecution."

"(c) Individuals engaged in illegal businesses: Section 54 (relating to records and special returns) is further amended by adding at the end thereof a new subsection as follows:

"(h) Net worth statements by certain individuals: Every individual who has, during the taxable year or during any of the 5 years preceding the taxable year, received gross income in excess of \$10,000 from one or more unlawful trades or businesses, shall file with his return for the taxable year, in such form and in such detail as the Secretary may by regulations prescribe, a statement of net worth showing, as of the close of the taxable year, each asset and liability of such individual, of such individual and his spouse jointly, and, in the case of a joint return by an individual and his spouse, each asset and liability of such spouse. Such statement shall contain or be verified by a written declaration that it is made under the penalties of perjury."

"(d) Preservation of records: Section 54 (relating to records and special returns) is further amended by adding at the end thereof the following new subsection:

"(i) Preservation of records: Every person required to keep records pursuant to the provisions of this section or pursuant to regulations issued under the authority thereof shall retain such records for a period of 7 years after the time of the transactions to which they relate."

"(e) Effective date: The amendments made by this section shall be applicable only with respect to taxable years ending after the date of enactment of this act."

Mr. KEFAUVER. Mr. President, the amendment is offered on behalf of the members of the former Senate Crime Investigating Committee. I think it is important first to examine part VI of the bill, which has to do with wagering.

This provision provides for a special tax of 10 percent of the amounts bet in an organized lottery, where the people are not all present at the time the lottery is operated. It provides also for a tax of 10 percent of the amount which may be bet with bookmakers, provided, however, that if a bookmaker lays off any part of a bet with a so-called lay-off man, he may claim credit for the amount so laid off, and the person to whom it is laid off will have to pay the tax. The interpretation and explanation would apply to the policy business or the numbers racket which is prevalent in so many large cities.

The bill also provides for an occupational tax of \$50 for each person who is engaged in wagering. That means that any person who is operating a lottery or any person who is engaged in the numbers business or who may be an agent operating for someone else, will have to pay an occupational tax of \$50 in order to carry on his business. It is calculated that this tax would raise \$400,000,000 a year.

I wish to show—and the other members of the committee join with me in the idea—that this tax would not raise such an amount of revenue. If the laws against gambling are strictly enforced, and if the income tax laws are amended as we propose in the substitute amendment, a great deal more money will be recovered that way. Moreover, a great deal more money will be forced into the legitimate channels of commerce, where the State and Federal Governments will receive taxation.

I realize that the Committee on Finance has been hard put to find methods of raising revenue. However, it is our opinion that this is the wrong approach, and that the ill results would be much

worse than would be justified by the amount of revenue which might result from the amendment.

Mr. KERR. Mr. President, will the Senator yield for a question?

Mr. KEFAUVER. Let me speak for a few minutes, and then I shall be glad to yield.

The proposal to impose a tax on wagering is morally offensive. It cannot be enforced, and it will not raise a substantial amount of revenue. It will drive bookies underground, and will discourage local and State officials from enforcing their laws against gambling.

Let it be pointed out that this provision does not apply to the operators of casinos. It does not apply to roulette, organized club games, and other types of gambling. It applies only to the three specified types of gambling.

First. A Federal tax such as proposed in this measure would put the stamp of United States Government approval on gambling outlawed in 47 out of 48 States. It is true that the United States has never made a distinction between taxing sources of income—whether legal or illegal. But what we are asked to do here is to impose a special levy on gambling applicable to professional gamblers and paid by them. It is far different from merely saying to all taxpayers—whatever their incomes and whatever their occupations—that they must pay a tax on all their earnings equally—whether obtained from their labor, dividends, gifts, or their ill-gotten gains.

I say that this tax is not in keeping with the best instincts of our people. It purports to accept the existence of an evil, and accept it as a way of life. By authorizing the United States to take its cut out of the illegal gambling, in effect we make Uncle Sam a partner with "Greasy Thumb" Guzik, Jimmy Carroll, Tony Accardo, and the Capone mob. It would put the cloak of respectability on the activities of the bookies, the policy-number operators, and their accompanying criminal activities.

I ask, What is the purpose of this tax? If it is to raise revenue—and I will show later that the Federal Government would collect far less than estimated—why not tax the gambling casinos which still flourish in our great cities, the organized crap games, roulette, draw poker, blackjack, noncharity bingos, and other games that mulct our people of huge sums each year? And why stop at gambling? Why not tax the profits of other organized criminal activities such as prostitution, moonshining, narcotics trade, and extortion and shake-down rackets?

But if the purpose is to suppress gambling, root out the racketeers, curb crime, and expose corruption, let us attack the problem directly. The Crime Investigating Committee has made many legislative recommendations for dealing with organized gambling and other criminal activities. These proposals—which have been carefully drawn after many months of hearings—place upon the local communities the final responsibility for ridding themselves of gangster elements. Let us not attempt to use the Federal tax authority to do a job

which it cannot do and is not designed to do. Let us not convert the Internal Revenue Bureau into a crime-control agency.

Let us consider for a moment what would have to be done in order to enforce this tax. In the city of Chicago it was found that there were 26 large policy wheels operating at one time. The net take was estimated to be \$150,000,000 or more annually. The associate counsel of our committee estimated that 5,000 or 8,000 runners, or perhaps more, were operating the policy wheels. In the city of Philadelphia alone it was estimated that there were two or three thousand persons engaged in the numbers racket. How many revenue agents would it take to go out and find out who those persons are and make each of them pay a \$50 tax in order to operate? The policy wheels operate first in one house and then in another.

We cannot have successful law enforcement unless the local people have the responsibility. This provision would put a veritable army of tax men into the local law enforcement field, in everybody's back yard, and change our traditional method of law enforcement, which places the primary responsibility upon the local people.

Furthermore, if crime still continues in the lottery, bookmaking, and policy businesses, the local people are going to be writing to Members of Congress and asking us why we do not do something about it. The local people are going to be discouraged in their efforts, and made to feel that it is the Federal Government's responsibility. Or if the Federal Government cannot find anyone on whom to impose an occupational tax, the local people will naturally say, "There are no bookies or policy runners in this particular city, because the Federal Government cannot find them."

Second. The 10-percent gambling tax cannot be effectively enforced. Traditionally under our system, payment of taxes has been voluntary. The Bureau of Internal Revenue relies largely upon the cooperation of citizens for compliance with the tax regulations. The method of collecting the gambling tax would follow the same pattern if the plan proposed, requiring books to be kept, were followed. If forms are sent to the taxpayers and they do not put in the proper information, the forms can be sent back, or they can be required to furnish full statistics. But it is another thing to send a veritable army of internal revenue agents into every city in the country, when such agents are not available, and try to track down a particular bookie, who is operating on a transitory basis, in order to try to collect a tax from him.

Under this proposal, bookmakers and the numbers operators, their agents and runners would register with the Internal Revenue Bureau and pay an occupational tax of \$50 a year. As part of his registration, a professional gambler would have to identify those persons receiving wagers on his behalf and in addition disclose the identity of those persons for whom he may be acting as agent.

The operators would be required to keep books, including a daily record of

the amount of wagers received. The 10-percent tax on the wager proper would be paid by the horse-race bookie or the lottery operators, or by any other person conducting the pool as principal. Monthly returns of tax would be required.

Of course, what would happen would be that the bookie, if he paid a tax, would merely pass the tax on to the unfortunate customer. By this process the victim, who apparently would be encouraged to bet, would have to pay the tax.

Is there anyone naive enough to believe that the racketeers who control commercialized gambling in this country will admit that they are bookies and pay the tax?

Is it realistic to expect gamblers to sign their own death warrant by registration? Will Costello, Joe Adonis, Meyer Lansky, the Morettis, Guzik, Sam Beard or Nig Rosen oblige the Government and keep records of the amounts of wagers placed with them and voluntarily declare the amount of levies due the Treasury?

Will men who have flouted income-tax regulations for years, who fail to report their true earnings, who refuse to itemize their income or expenses now come clean because the United States Government needs new revenues?

Enforcement will be one of the most formidable tasks ever undertaken by Internal Revenue Bureau. It will require thousands of agents trained in criminal investigation to bring out compliance and collection of taxes.

Mr. Dunlap, the newly appointed Commissioner of Internal Revenue, appeared before the committee, and I made inquiry of some Treasury officials. They are not prepared to enforce this tax. If they are not able to enforce it, as will be the case, they will be held up to ridicule, and thus there will be a lessening of respect for this great department of our Government. Furthermore, they will be blamed for the continuation of this type of gambling.

Enforcement will be one of the most formidable tasks ever undertaken by the Internal Revenue Bureau. As I said, it will require thousands of agents trained in criminal investigation to bring about compliance and collection of taxes. It may involve tracing hundreds of transactions through dummy corporations, agents, subagents, and runners, and penetrating the hundreds of artful devices to conceal the identity of those liable for payment.

In brief, the registration requirements and the tax will drive the bookies underground.

Professional gamblers are crafty men. They will devise new methods of evading payment and new tricks of deception to thwart the Internal Revenue Bureau.

Investigation on the part of the Bureau aimed at determining whether the returns and supporting records of these individuals are false or fraudulent so as to sustain a charge of criminal tax evasion, is frequently a long, difficult and time-consuming process, Bureau officials report.

I think that the Treasury experience with the collection of income taxes from

the gamblers and racketeers belies any hope that the Government will get considerable revenues from this source.

The Treasury each year is defrauded of huge sums of money in taxes by those engaged in organized gambling activities. Their returns, for the most part, are fraudulent; their incomes are grossly understated. The amount of tax they pay has no relation to their gross earnings or taxable income.

Mr. O'CONOR. Mr. President, will the Senator yield, or does he prefer to finish his statement?

Mr. KEFAUVER. I should like to finish my statement, if I may.

Lastly, Mr. President, a Federal gambling tax would hurt, not help, enforcement of antigambling laws at the local level.

Most States have outlawed offtrack betting, gambling casinos, number lotteries, and other commercial gambling activities.

Registration of their occupation by gamblers with a Federal agency, is an integral part of the gambling tax, and will be misunderstood by our citizens. They will look upon it as Government sanction of their activities. The underworld will be heartened. The consequences for local crime enforcement will be grave. Public apathy toward the existence of commercialized gambling and attendant gangster activities will increase. This will result in discouraging those local and State enforcement officials who have been earnestly and zealously trying to control crime. There will be a natural tendency to rely upon Treasury agents to rid local communities of crime. As Federal investigators project themselves directly into the domain of local police authorities, responsibility of State officials will be weakened. Internal Revenue agents may become crime busters instead of tax collectors.

As the Wall Street Journal said, if ever there was a plan to burn down city hall to get rid of rats, this is it.

Mr. President, it is not a question of revenue or no revenue. The substitute carries with it provisions which would keep the law as it is and encourage the local communities to go ahead with their efforts, in which they are making real headway, to drive out the racketeers and gamblers and to stop gambling, instead of discouraging them by giving gangsters quasi sanction through the imposition of a special kind of tax by the Federal Government. That is what the provision in the bill could be interpreted as doing.

In the case of slot machines many racketeers say that it is not too bad to have slot machines, because the Federal Government charges a tax on them. Many enforcement officers say, "Well, if it is all right for the Federal Government, it ought to be all right with us."

I do not approve particularly of a slot-machine tax, but there is quite a difference between a special tax on an instrument like a slot machine and a tax on a method of life or doing business. It would be interpreted as giving a sanction to the methods of gamblers, and it would discourage local law-enforcement officers. Furthermore, it would pass the responsibility for enforcement onto the

Federal Government, and the Federal Government would not get any substantial amount of money, certainly not so much money as would be provided by the amendments which are offered in the nature of a substitute.

What are these amendments? First, we have found that many persons operating gambling casinos charge off good will. In Florida it is called ice. It is the payment which is made to enforcement officers. In California it is called juice. They charge it off as a part of operating expenses. They charge off a tremendous amount. Of course, they keep their books dishonestly, in the first place. So the first amendment would prevent the charging off of expenses paid or incurred as a result of illegal wagering.

Many States, including California, have passed laws of this kind. From such laws they have obtained a great deal of money. A great amount of revenue money would be brought into the Federal Treasury by the adoption of the first part of the substitute. Much more money would be collected than by giving quasi sanction to the operations of these people.

The second part of the first amendment would require gambling houses to keep daily records.

By reason of the way in which gambling houses do business it is not possible to know how much money they actually make. In my opinion, they defraud the Government of millions of dollars a year. In other words, they have a bankroll, and at the end of the season, after keeping it in a pocket or a drawer, they merely state what they owe the United States Government. Frequently they keep the amount in their heads. We have heard witness after witness testify that he keeps the amount of the bankroll in his head. At the end of the season a gambler tells his auditor what the amount of the bankroll is. He may keep the amount on a piece of paper. After he tells the auditor what the amount is, and the tax is figured, the paper is torn up. There is no record left of the amount.

The second part of the substitute provides that persons who are engaged in illegal wagering must keep detailed records of each wagering transaction. The books must be kept open for inspection. A real penalty is provided in the bill for failure to keep records. A penalty is now provided, but it is not enforced by the Internal Revenue Bureau. The amendment provides a real penalty for failure to keep records.

The amendment requires the keeping of records for 7 years. Those who do not keep them for that period of time will be guilty of a felony. That provision is proposed because the statute of limitations in particular cases runs after the passage of 6 years.

The last part of the amendment provides that if during a given year anyone earns more than \$10,000 on an illegal transaction or in an unlawful trade or business, he must file a statement of net worth with his income-tax return.

The field agents of the Bureau of Internal Revenue were unanimous in say-

ing that the one thing which would help them in getting after the racketeers and gamblers would be to require them to file statements of net worth, so that it would be possible to have a beginning point to use in connection with trying to make out a case against them.

Practically all the cases which are made against racketeers—for instance, the cases which have been made against Mickey Cohen, Guzik, Sam Beard, or any of the others—can be made only after many, many years of building up what are called net-worth cases, in connection with which it is necessary to determine what funds or other assets such persons have at a given time; and perhaps in that connection it is necessary to go back to a time when that person was in bankruptcy, and then reconstitute his entire economic life from that point up to a certain more-recent time, in order to prove that he has made more money than he has reported in his income-tax returns. If it is possible to establish a beginning point in connection with the participation by any person in a big-time, unlawful activity, the making of a case against him is greatly facilitated.

I know that I was impressed by the testimony of some revenue agents in California who were working on the case of a big-time gambler who recently has been indicted, a man named "Bones" Remmer. Those agents said they had quite a large squad working over a period of 6 years in studying that man's activities for the past 20 years. They were trying to find out what he had received and what he had spent. They were endeavoring to make a case against him.

Mr. President, today the people are taking a real interest in the enforcement of the laws against gambling. This is no time to give the people a set-back, by creating the impression that in the eyes of the Federal Government it is all right for this sort of thing to go on. This is no time to give such activities a quasi sanction.

In many editorials in many of the outstanding newspapers, such as the Wall Street Journal and the Washington Star, and in many editorials in magazines the position is taken that a refusal by Congress to adopt the amendment we are proposing would constitute an invasion of the field of law enforcement and would be a discouragement to enforcement officers.

Furthermore, Mr. President, every one of the amendments contained in the substitute was considered by the American Bar Association's Commission on Organized Crime. That commission is headed by Judge Robert Patterson, an outstanding lawyer; and eight other distinguished members of the American Bar Association serve on the commission. They unanimously recommend every one of the amendments contained in the substitute. It was submitted to the house of delegates of the American Bar Association, at the meeting last week in New York; and each of the amendments was approved by the members of the house of delegates.

Mr. President, I ask unanimous consent to have printed in the RECORD at this point the findings of the special

committee of the American Bar Association which were approved by the house of delegates of that association, approving the four items which were submitted today as a substitute, and which will be offered again tomorrow.

There being no objection, the findings referred to were ordered to be printed in the RECORD, as follows:

The tax bills designed to assure collection of lawful taxes from gamblers and persons who operate illegitimate enterprises—S. 1529, S. 1531, S. 1532, S. 1660, Eighty-second Congress—approved.

In its second and third interim reports, the Senate Committee pointed out that the Federal Government was losing huge sums in tax revenue because of the failure of gamblers, gangsters, and underworld characters to make adequate tax returns on their incomes. Accordingly, the Senate Committee introduced four bills which are designed to make it possible for the Federal Government to compel such individuals to pay their lawful taxes. S. 1529 would add a new section to the Internal Revenue Code, requiring gambling houses to keep daily records of gains and losses resulting from wagering transactions, during the taxable year. In every State in which gambling houses are illegal, moreover, persons operating gambling houses must keep records of every wagering transaction, the amount wagered, the name and address of every person participating in the wagering transaction and the date of such transaction. These books and records must be open to inspection at all times by agents of Internal Revenue. Failure to keep the records required or to make proper returns is punishable by a 2-year imprisonment, a \$10,000 fine, or both.

The cash "take" from gambling casinos is fantastic in amount. The present controls over the tax returns of such casinos are completely inadequate. They are inadequate in a State like Nevada where the gambling casino is legal and are practically non-existent in States like Florida and Louisiana, where such casinos operate openly in violation of State law. This bill requires gambling casinos in places where they are legal to keep daily records of wagering transactions. In addition in States where gambling casinos are illegal the individual gambling transaction itself must be recorded. It is obvious that this proposed statute makes it possible to keep some check on the returns of the gambling casinos. In addition it gives the Federal Government some means of dealing with the owners of the casinos who cheat on their tax returns. Since the operation of gambling casinos is largely in the hands of underworld characters and of crime syndicates, this bill is approved.

S. 1531 would add a new subsection to Section 54 of the Internal Revenue Code and require taxpayers to retain income-tax records for a period of 7 years after the time of the transactions to which they relate.

At the present time 54 (a) of the Internal Revenue Code requires taxpayers to keep such records as the Commissioner of Internal Revenue may from time to time prescribe. But this section does not state how long such records must be kept. Under present Treasury Department regulations, taxpayers may be required to keep income tax records for as long as 6 years.

In the investigations of alleged income tax frauds on the part of gangsters, gamblers, and racketeers, investigators have been confronted over and over again with the statement that the records on the basis of which the returns were made, were destroyed shortly after the returns were filed. This type of evasion becomes more difficult under the instant bill, since it requires records to be kept for a period of 7 years. If the taxpayer claims the records have been destroyed,

he subjects himself to the penalties provided in the Internal Revenue Act.

The bill is approved.

S. 1532 would add a new section to section 23 of the Internal Revenue Code, which would make it clear that no deductions shall be allowable in computing net income for tax purposes "for any expense paid or incurred in or as a result of illegal wagering." At the present time, there is nothing to prevent the expenses paid or incurred in the conduct of illegal gambling enterprises from being deducted from gross income tax purposes.

Section 23 of the Internal Revenue Code contains a provision that losses from wagering transactions can be deducted annually "to the extent of the gains from such transactions," in computing income for the purposes of taxation. The bill strikes out this proviso. It provides that there shall be no allowance for losses from illegal wagering transactions.

The practice of permitting racketeers and criminals to deduct the operating expenses of illegitimate enterprises from their gross incomes for the purpose of taxation is thoroughly undesirable. If a man makes money out of crime, he should pay income taxes like everyone else. However, the tax should be paid on the "gross take" and not on the "take" minus "expenses." Only too frequently these expenses include protection for law enforcement officials. Moreover, there is absolutely no way of checking the amount of such expenses. Only too frequently the returns of racketeers and criminals have listed an arbitrary figure for expenses of carrying on their enterprises, so that as little income tax as possible is paid. Gamblers are also inclined to state that their losses exceed their gains so that they do not have to pay any taxes at all. This bill forbids the deduction of such losses and requires gamblers to pay income taxes on their entire reported gains.

The bill is approved.

S. 1660 would add a new section to the Internal Revenue Code and require every individual who for any one of five preceding years received a gross income in excess of \$2,500 from unlawful trades, businesses, or transactions, to file with his tax return a statement of net worth showing "each asset and liability of such individual." This statement must be verified "under the penalty of perjury."

Assistant Attorney General Caudle made a statement to the Senate committee in which he pointed out how necessary it was to have net-worth statements in connection with investigations of the income-tax returns of persons engaged in criminal activities. He stated that "Cases involving racketeers are difficult to prove. Gamblers and gangsters do not keep books to show their receipt of income. Therefore, it is usually necessary for the Government to rely on their year-by-year increases in net worth and their known expenditures. To make this type proof stick in court we must establish a beginning point from which to figure annual increases in wealth. And because these characters must hide their activities it is always difficult and sometimes impossible to establish a starting net worth which excludes the possibility of other hidden wealth."

Had the requirement of the proposed bill been written into the law some years ago, the investigations by the Senate committee into the activities of such characters as Frank Costello, Frank Erickson, Sheriff "King" Clancy in Louisiana, and Sheriff James Sullivan and Walter Clark in Florida, and Chief Investigator Gilbert, of Cook County, would have been considerably facilitated. The requirements of the proposed bill would give the Government an essential point of reference for the income-tax investigations of persons engaged in illegitimate enterprises or of faithless public officials who

receive graft payments from criminals and gangsters.

Accordingly, Senate 1660 is approved.

The Treasury Department has in recent months taken steps to set up special squads and organize special procedures for checking upon the income-tax returns of known or suspected gamblers, gangsters, and racketeers. The four above-mentioned bills facilitate the task of checking upon the returns of such characters. They make it possible for the Government to obtain a larger share of the illicit returns of gamblers, racketeers, and criminals. All of the aforementioned bills should therefore be approved, since they assist Treasury agents to compel individuals to pay lawful taxes on illicit income.

One other method of taxing illegal enterprises should be called to the attention of the Senate Committee and of the Congress of the United States. We recommend that all persons, firms, or corporations which are in the business of taking bets or wagers, operating gambling pools, manufacturing or selling slot machines, punchboards, or other gambling devices or operating lotteries, policy games, or gambling rooms, should be required to register with the Treasury Department, and to disclose the names of all persons who have a beneficial interest in their operations. In addition, such persons, firms, or corporations should be required to pay a \$500-a-year excise tax as part of the mandatory registration. All registration statements should be public records and thus available for inspection by law-enforcement agencies. Failure to register should be subject to penalty.

In addition we recommend that Congress pass the provisions contained in chapter 27A of revenue bill H. R. 4473. This chapter would make every person "who is engaged in the business of accepting wagers" liable for an excise tax of 10 percent on any wager with respect to a sports event, wagering pool, lottery, or "numbers" game.

The advantages of the aforementioned proposals are that they compel the operators of gambling enterprises to come out into the open and register, or face Federal prosecution for refusing to do so. In addition the Federal tax authorities may reach 10 percent of the gross amount which has been bet or wagered, and whether lost or won.

Mr. KEFAUVER. Mr. President, if the substitute is rejected, it will be our intention to offer, first, an amendment to strike out the wagering section of the bill; and then we shall offer, one by one, the amendments which we have prepared, which will require the keeping of books to prevent "charge offs." Such amendments will result in bringing into the Federal Treasury a tremendous amount of revenue—in fact, much more revenue than will be provided by the bill as it now stands.

Furthermore, Mr. President, the adoption of the amendments we propose will avoid a reversal of our traditional method of law enforcement, and will avoid the sanctioning of wagering and gambling activities.

Mr. O'CONOR. Mr. President, will the Senator from Tennessee yield?

The PRESIDING OFFICER (Mr. Mooney in the chair). Does the Senator from Tennessee yield to the Senator from Maryland?

Mr. KEFAUVER. Yes. In fact, I am ready to yield the floor.

Mr. O'CONOR. Mr. President, I should like very much to have the opin-

ion of the able Senator from Tennessee, for the RECORD.

In preface to the questions which I should like to ask him, I say that it is the considered opinion of those of us who served with him that he has done a remarkable work and has made a distinct contribution to the entire cause of law enforcement, in bringing to light conditions which heretofore have not been exposed.

Because of the experience the Senator from Tennessee has had, it occurs to us that he is in the best position to give advice in regard to conditions existing in the country today.

Particularly, Mr. President, I should like to ask the Senator from Tennessee regarding certain deductions of alleged expenses which are being allowed and which in the past have been allowed by the Bureau of Internal Revenue in the case of the tax returns of known gamblers and other persons who have been active in illegal wagering.

I should like to ask the Senator from Tennessee whether, in addition to the items to which he has referred, which I understand are known as "ice" and "juice"—in other words, protection money—other items have come to the attention of the committee in the course of the investigation. I refer to items which apparently have been allowed by the Bureau of Internal Revenue as deductions, items which are classified as "good will," but which really are of a highly questionable nature.

Does not the Senator from Tennessee feel that the deductions which have been allowed in connection with the tax returns of a number of persons engaged in gambling activities are improper deductions and would not be allowed if these amendments were adopted?

Mr. KEFAUVER. Mr. President, I appreciate the question the Senator from Maryland has asked. Undoubtedly it is true, as was brought out in the course of the hearings when the Senator from Maryland was chairman of the committee, that all kinds of deductions are taken by such persons in connection with their income-tax returns, although such deductions are not proper. Among them are so-called contributions and so-called good-will items, to which the Senator has referred, which we showed actually were paid as protection money. Among them was money paid in an effort to purchase the editorial page of a newspaper, for the purpose of publishing advertisements.

If the part of the substitute which relates to such items is adopted, in my opinion it would result in the collection of a great deal more than \$100,000,000 in additional taxes. That would be the result if we would simply prevent the taking of such improper deductions.

Mr. O'CONOR. Mr. President, will the Senator from Tennessee yield for a further question?

Mr. KEFAUVER. I yield.

Mr. O'CONOR. From the report the Senator from Tennessee made to the Senator some time ago—I refer to the

third interim report of the Special Committee To Investigate Organized Crime in Interstate Commerce—I now shall read, at page 83. I shall not mention the names of the persons there referred to; instead, I shall read this portion of the report in order to point out a typical case.

After describing the conditions which were found to exist, for example, in the State of Louisiana, it was reported that one of the men said that—

On occasions when deputy sheriff—

I omit the name—

came into the club, one of the managers would instruct him to withdraw sums of over \$1,000 for "ice" or protection.

Has the Senator from Tennessee found that on many occasions situations of that sort have existed, and that money for protection was not only asked for by certain law-enforcement officers, in connection with illegal wagering activities, but was allowed as a deductible expense in connection with the income-tax returns?

Mr. KEFAUVER. Yes, it is true that such testimony was given by certain witnesses in Louisiana; and similar testimony has been received from witnesses in practically every section of the country, namely, that 10 percent or even a larger amount of the funds received from such wagering activities would be paid for "protection," and then the amount remaining would be reported in the income-tax return.

Regardless of whether such persons had the effrontery to state in their income-tax returns that such amounts had been paid to law-enforcement officers for "protection," at least it is true that substantial deductions have been taken for such "protection."

Mr. O'CONOR. I recall a case in which the Senator from Tennessee exposed a situation in which a gambling house actually spent approximately \$26,000 a month for the transmission of information, and I recall testimony that between 500 and 1,000 telegrams a day were sent.

Mr. KEFAUVER. That is correct.

Mr. O'CONOR. In regard to the proposed requirement—which would be in the law if the Senator's amendment were adopted—that a statement of net worth be filed, does the Senator from Tennessee recall the statement by the Assistant Attorney General, Mr. Caudle, which I have before me? I shall read from page 13 of the report the Senator from Tennessee made to the Senate a quotation from Mr. Caudle's statement, which I think may be of particular interest in emphasizing the need for a requirement similar to the one the Senator from Tennessee has proposed regarding the submission of a statement of net worth. I read now from Mr. Caudle's statement:

Cases involving racketeers are difficult to prove. Gamblers and gangsters do not keep books to show their receipt of income. Therefore it is usually necessary for the Government to rely on their year-by-year increases in net worth and their known expenditures. To make this type of proof stick in court we must establish a beginning point from which to figure annual increases in

wealth. And because these characters must hide their activities, it is always difficult and sometimes impossible to establish a starting net worth which excludes the possibility of other hidden wealth.

I should like to ask the Senator from Tennessee whether that does not, in his opinion, bear out the contention that some such requirement as is embodied in his proposed amendment is absolutely necessary.

Mr. KEFAUVER. That is undoubtedly true, and the Government has hundreds of agents who are tediously working, trying to turn time back to some point perhaps 20 or 30 years ago when the racketeer filed a statement, or when he tried to reconstruct his way of life to prove a net-worth case. In that connection let me say that practically every one of these racketeers testified in a way that is typical of all their evidence. I have here the record showing George Robinson questioning Ralph Capone, a brother of Al Capone, who is now a big racketeer in Chicago. Says Mr. Robinson:

Mr. ROBINSON. Do you give him a record of your speculation?

He is speaking about what Capone gives to his income-tax man.

Mr. CAPONE. No, sir.

Mr. ROBINSON. It is not broken down or itemized?

Mr. CAPONE. No, sir.

Mr. ROBINSON. You just give him one lump sum to insert in your return: Is that correct?

Mr. CAPONE. That is right.

Mr. ROBINSON. How do you arrive at that lump sum?

Mr. CAPONE. Well, I just keep track of it.

Mr. ROBINSON. How do you keep track of it?

Mr. CAPONE. I keep track of it from day to day.

Mr. ROBINSON. Do you put it down in a book?

Mr. CAPONE. Well, if I win any money today, and I win the next day, I forget about the first day and just keep track of the total balance.

Mr. ROBINSON. How do you keep track of the total balance?

Mr. CAPONE. In my mind.

So he merely keeps it in his head, or on one little piece of paper. That is the way he keeps it.

Mr. O'CONOR. Mr. President, will the Senator from Tennessee yield?

Mr. KEFAUVER. I yield to the Senator from Maryland.

Mr. O'CONOR. The Senator from Tennessee has just made the statement that there has been intensified effort of late to circumvent the activities of criminals, and I should like to ask him with respect to the demonstrated need for some further tightening up of the Internal Revenue laws, as he has proposed. Is it not true that following the disclosures by the Senator from Tennessee, the racket squad at the Treasury Department was augmented.

Mr. KEFAUVER. It was following the disclosures of the committee of which the Senator acted as chairman, a great deal of the time.

Mr. O'CONOR. If I may follow it a step further, I have before me a press release from the United States Treasury Department dated September 11, this

month, and it shows that as the result of the work of only 3 months, with, of course, the additional force which the Commissioner, John B. Dunlap, has so ably used, additional assessments have been made against racketeers and criminals against whom the authorities have been concentrating, which assessments aggregate a grand total of \$5,627,345.34, according to the Treasury Department figures. He enumerates the number of cases, in this and other press releases, and indicates that 27,148 cases were remaining at the end of July, 19,740 having been assigned to racket squads, and of that number 6,175 are already under actual investigation. The question I should like to ask the Senator is whether he does not feel that that indicates there has been need for a tightening up, so that there would not have been necessary such intensified effort as was made at the last minute to thwart efforts to circumvent the law.

Mr. KEFAUVER. The Senator is exactly right. The Internal Revenue Department was not doing what it should to require the keeping of books or to collect taxes from the racketeers and gangsters, and in some cases, as the Senator from Maryland so well knows, some members of the Internal Revenue squad themselves were playing footsy with the racketeers. We particularly found that situation in California. I think it is very fine that the Treasury did follow the recommendation of our committee and set up a special racket squad, which is dealing with income-tax returns of big-time racketeers and gamblers. They have brought in many millions of dollars, and assessments of many millions of dollars more have been made. They are going after these people vigorously at the present time; and that is true all the way down the line. The local authorities are taking a great deal of interest and pride in true local law enforcement, and they resent, at a time when they need encouragement, the Federal Government's coming along and practically recognizing, or in the eyes of the world recognizing, the respectability, at least, of those who are carrying on the sort of thing they are trying to eliminate.

Mr. KERR. Mr. President, will the Senator from Tennessee yield?

Mr. KEFAUVER. I yield.

Mr. KERR. Does any part of the State of Tennessee have local option or prohibition under the local-option provision of the constitution of the State?

Mr. KEFAUVER. Yes.

Mr. KERR. What part of the State has prohibition under that local-option provision?

Mr. KEFAUVER. I think about two-thirds of the counties have prohibition, and the others are open.

Mr. KERR. Is the Senator aware of the fact that the Federal Government issues licenses for liquor dealers in those prohibition counties of his State which are operating under the local-option provision of the State constitution?

Mr. KEFAUVER. Yes; I am aware of that.

Mr. KERR. Is the result of it a feeling on the part of the officials, or on the

part of the people, that the Federal Government is thereby either approving the sale of the liquor or disapproving the local action which has declared it to be prohibition territory?

Mr. KEFAUVER. There are some people, frankly, who feel that it has a bad influence on the enforcement of the prohibition laws for the Federal Government to charge for the stamp. But I dare say the Senator wanted to bring up also the slot-machine matter.

Mr. KERR. I was going to ask the Senator about that in a moment.

Mr. KEFAUVER. Yes, I think some of the local citizens do disapprove; but I believe the situation is different from what might be imagined, as I shall explain.

Mr. KERR. Does not the Federal Government charge a tax on slot machines in about 47 of the 48 States, although it is against the law for them to operate?

Mr. KEFAUVER. Yes, that is true.

Mr. KERR. Does the Senator think the Federal Government should cease to charge a license fee or impose a tax on slot machines in such States, or tax a liquor dealer in dry territory?

Mr. KEFAUVER. Frankly, since the Senator asks me about it, I think it was a bad thing to start. I think it has been discouraging to local law enforcement officials, and many of the law-breakers have been able to build up their business on the theory that they were partially sanctioned by the Federal Government. But there is still a difference between slot machines and the matter under discussion.

Mr. KERR. Does the Senator say, then, that the practice I have mentioned is a bad one?

Mr. KEFAUVER. If I had to vote on it again, I would not vote for it.

Mr. KERR. If the Senator had to vote on it now, would he change his vote?

Mr. KEFAUVER. Yes, I would.

Mr. KERR. The Senator says he thinks it makes things difficult for the local law enforcement authorities.

Mr. KEFAUVER. I think it discourages them, and gives the operators respectability.

Mr. KERR. Does the Senator think it discourages the local enforcement official to have the Federal Government identify the law violator and tell who he is, and where he is, where he is operating, and what he is doing? Is that what discourages the local official? Is it the fact that someone is making it public that the law violator is there?

Mr. KEFAUVER. No. Many officers have told us that they did not think much about slot machines, they did not think they were particularly iniquitous, because the Federal Government licensed them. Of course, it did not license them, but it recognized them for the purpose of collecting a special tax.

Mr. KERR. What does the Senator think about a local official who declines to enforce a local law because there is not also a Federal law applying and takes the position that maybe an operation is not so bad if the Federal Government charges a tax on it?

Mr. KEFAUVER. Of course, local officials are supposed to enforce local laws, but many of them have the feeling that if the Federal Government charges a special tax on certain transactions, the Federal Government must think they are not so bad. It causes discouragement to the local law enforcement officials.

Mr. KERR. The Senator has been a part of a crime investigating committee, has he not?

Mr. KEFAUVER. I have been a small part of one.

Mr. KERR. Does the Senator think he discouraged the local law enforcement officials by pointing out who the local violators were and how they were operating, where they operated, and why they were doing it?

Mr. KEFAUVER. No; I think they were encouraged by it.

Mr. KERR. Does the Senator think they would be discouraged by what the Treasury Department would do in a somewhat similar situation?

Mr. KEFAUVER. I do not think the situations are similar.

Mr. KERR. The Federal Government discloses their identity, their location, and what they are doing. That is at least similar to what the Senator and his committee were doing. Is there not that similarity?

Mr. KEFAUVER. It is an entirely different matter.

Mr. KERR. Is there that similarity in the situation? Will the Senator answer that question?

Mr. KEFAUVER. They are being asked to disclose their identity so that the Internal Revenue Department can collect the tax. Some persons think the Department wants to get as much revenue as possible, and, therefore, it wants to encourage—

Mr. KERR. Is there anything in this bill that says the Federal Government wants to encourage gambling?

Mr. KEFAUVER. When there is a tax on something, the natural assumption is it wants to encourage the operation.

Mr. KERR. Does the Senator put that in by his own thought processes or by some language in the bill?

Mr. KEFAUVER. It is by my own thought processes.

Mr. HUNT. Mr. President, will the Senator from Tennessee yield?

Mr. KEFAUVER. I shall be very happy to yield the floor.

Mr. HUNT. I do not especially care to have the floor; I should like to address a question to the Senator from Tennessee.

Mr. KEFAUVER. I yield.

Mr. HUNT. My question is along the line of that about which the Senator from Oklahoma was just speaking. I do not think there is an ex-Governor in the United States Senate but will say that when the Federal Government comes into a State and says to a slot machine operator, "Give me \$100, and then go your way and operate as you please," it makes a law enforcement problem for the local officials. The representatives of the Federal Government do not identify the machines, for the reason that the local officials know where the machines are. They do not say to the local offi-

cials, "In such and such a place there is a slot machine." They already know that. But the Federal Government collects \$100, so that many people think it is all right to operate a slot machine. There will be violations in the community and in the State simply because the Federal Government encourages them. That is just what this provision of the bill will do.

The Federal Government does exactly the same thing with reference to liquor. I think the Federal Government is responsible for a great deal of the illicit liquor traffic in the United States especially in connection with what we call the bootleggers. Officials of the Federal Government go into a community and say to a man, "Give us \$25 and we will give you a permit to sell liquor. It makes no difference what the State or local law may be; just pay the Federal Government \$25, and you can sell liquor." So the result is that the local law enforcement officials feel that if the Federal Government thinks it is all right, why should they bother themselves.

Mr. JOHNSON of Colorado. Mr. President, will the Senator yield?

Mr. KEFAUVER. I yield.

Mr. JOHNSON of Colorado. In that kind of a case there is a list of the special taxpayers. The law provides that upon written request of any person a certified copy of the names of any or all persons will be furnished who may be listed in their respective collection districts as special taxpayers, under section 3230, upon payment of a fee of \$1 for each 100 of such names or fractions thereof upon said copy as requested. That is a point which the Senator is completely overlooking. That is a very material and substantial aid to a local law enforcement officer if he wants to avail himself of it.

Mr. HUNT. I think the Senator is quite right, if the local law enforcement officer wants to avail himself of it. But after the Federal Government makes a \$25 collection, the local officer feels that the activity has the blessing of the Government.

Mr. JOHNSON of Colorado. I should like to comment very briefly on that statement. If the local enforcement officer does not want to enforce the law, if he is looking for an alibi or an easy way out, what the Senator from Wyoming says is true. But that is no reason for condemning the Federal Government for the action which it has taken.

Mr. HUNT. In view of the small amount of money the Federal Government gets from its \$25 liquor permits and its \$150 slot-machine permits, I think the encouragement it gives a law violator is very detrimental.

Mr. KERR. As I understood the distinguished Senator from Wyoming, he stated that the Federal Government taxes the slot machine, locates it, and makes the information available to the local enforcement officers, but that does not help the local enforcement officers because they already know the machine is operating.

Mr. HUNT. That is correct.

Mr. KERR. If he already knew about it, why did not the local law enforce-

ment officer stop it before the Federal Government identified the machine and told him it was there? The Senator says this bill would give an alibi to a local official who did not want to enforce the law, anyway. I do not see how we can compel a local official to enforce a law if he does not want to, but I do not see how by any interpretation we could say that the action of the Government discouraged local law enforcement.

Mr. HUNT. Does not the Senator agree with me that if the Federal Government collects \$150 for a slot machine or \$25 for a liquor permit, it is putting its blessing on the transaction?

Mr. KERR. Not at all; quite to the contrary. If the local official does not want to enforce the law and no one catches him winking at the law, he may keep on winking at it, but when the Federal Government identifies a law violator and the local newspaper gets hold of it and the local church organizations get hold of it and the people who do want the law enforced get hold of it, they say, "Mr. Sheriff, what about it? We understand that there is a place down here licensed to sell liquor." He says, "Is that so? I will put him out of business." The people say, "We understand there are slot machines operating, and there is a record of where they are." The people who want the law enforced can put pressure on the local officials.

But, if on the other hand, there is no such information available to the general public, if the local official wants to wink at the violation of the law, he does so, and it is not a situation about which the general public knows. The Senator is aware, as I am, that many a local official has been run out of office and defeated for reelection because the people themselves knew that the local law was being violated and that the official in office was winking at it. When that happens the good people will run that official out of office.

Mr. HUNT. Mr. President, I should like to ask the Senator from Tennessee a question, if I may. I note on page 251, paragraph (b) of section 3285 the following language:

For the purposes of this chapter—

(1) The term "wager" means (A) any wager with respect to a sports event or a contest placed with a person engaged in the business of accepting such wagers.

The question I wish to ask my distinguished colleague is this: Does he interpret that to mean that there is going to be a record made of every wager that ever takes place in the United States?

Mr. KEFAUVER. I must confess I do not know how anybody is ever going to enforce such a provision. I do not think the Internal Revenue officials know, either. Apparently that is what is contemplated, if a lottery is operated for profit. One very strange thing about this provision is that it does not apply to the ordinary horse room where the most vicious type of wagering is going on, because it is provided that if the bets are not paid off, the provision does not apply. It applies to policy running on the idea that it is conducted in some stabilized place. But that is a wrong assumption. The policy runners can

pull their numbers anywhere they want to. They do not have any established place of business.

Mr. HUNT. Let me ask the Senator about subsection (c) on page 252:

(c) Amount of wager: In determining the amount of any wager for the purposes of this subchapter, all charges incident to the placing of such wager shall be included; except that if the taxpayer establishes, in accordance with regulations prescribed by the Secretary, that an amount equal to the tax imposed by this subchapter has been collected as a separate charge from the person placing such wager, the amount so collected shall be excluded.

I ask the distinguished Senator from Tennessee: Does that mean that on each wager there is going to be a sort of sales tax collected and remitted over and above the amount of wager placed? I can see no other way that it could be handled.

Mr. KEFAUVER. There is a provision somewhere in the bill that it does not apply in the case of parimutuels. I do not think this is a provision having to do with parimutuels. I assume that what the Senator has asked is what the provision means.

Mr. HUNT. One more question. I refer to paragraph (d), the next subsection:

(d) Persons liable for tax: Each person who is engaged in the business of accepting wagers shall be liable for and shall pay the tax under this subchapter on all wagers placed with him. Each person who conducts any wagering pool or lottery shall be liable for and shall pay the tax under this subchapter on all wagers placed in such pool or lottery.

What I want to know is how it will be possible to get all these gamblers registered in 47 of the 48 States where it is illegal for them to gamble.

Mr. KEFAUVER. Undoubtedly it will simply drive them underground. They are not going to sign a death warrant voluntarily. This would be the first time I know that the Federal tax-collecting system is taken off a voluntary basis and it becomes necessary for Treasury agents to find 3,000 policy runners in a particular city or 7,000 in another city, chase them down, get them to pay their \$50 occupational tax, and then see that they pay 10 percent of the amount of money they take in. In my opinion, the provision is impossible of enforcement.

Mr. HUNT. One more question, if I may. I read from paragraph (b) on page 254, as follows:

(b) Where any taxpayer lays off part or all of a wager with another person who is liable for tax under this subchapter on the amount so laid off, a credit against the tax imposed by this subchapter shall be allowed, or a refund shall be made to, the taxpayer laying off such amount.

The Senator from Tennessee knows from his splendid work in the committee he so ably headed that every day thousands upon thousands of lay-off bets are made in the United States. I should like to know how a record is going to be kept of every lay-off bet.

Mr. KEFAUVER. I would say to the Senator it would be absolutely impossible to do it. We will say that a bet is

placed with Carroll in St. Louis, where he is taking thousands of bets a day, and that he lays off 50 percent of that bet with Rosenbaum in Cincinnati, or across the river from Cincinnati, and Rosenbaum lays off a large part of it in New York. To trace transactions of that sort would be a hopeless task, and would require more revenue agents than ever could be found anywhere. I say to the Senator that it is a bad practice to put a law on the books that simply cannot be enforced. That causes, as we all know, disrespect for the Treasury Department, the Internal Revenue Bureau, and on the whole, the Federal Government. This law would simply not be enforceable.

Mr. HUNT. I should like to make a brief observation.

Mr. President, I sincerely believe that, first, this is an absolutely unenforceable title in this bill, and, secondly, I disagree with it strongly because I believe that it lends to the gambling element a respectability and license to do business, with the approval and O. K. of the Federal Government, which I do not think they should have.

Mr. KEFAUVER. Mr. President, I simply wish to say in conclusion that there is some difference between a tax imposed on an operation of a slot machine and the special tax that is imposed on doing a certain type of business. As to a slot machine, at least we have an instrument which is a physical thing, that is to be operated. But here we get away from a physical thing in being. Even a tax on liquor is a tax on something that is there, that is material. And the same thing is true of a slot machine.

Mr. KERR. Mr. President, will the Senator yield for a question?

Mr. KEFAUVER. In a moment; let me finish my thought. But when we get away from that, in this gambling tax we are taxing a thing that has no place of business and no instrument by which its operations are carried on. The tax is on an illegal way of life. To my mind, we should never have gotten into the slot machine phase by a special basis. How far are we going to go? Now we are going to tax and put, at least what is going to be considered in the eyes of the public, a blessing on the operation of a form of vice, the running of lotteries, bookmaking and policy making, the three kinds of gambling that are bleeding the people all over the country, taking money away from the housewives and factory workers. The amount that is taken away from the people in this manner is terrific. How far are we going to go? If we are going to do that, then are we going to start placing a special tax on burglary tools? Would we want to share the tax that would be collected from prostitutes in the operation of prostitution? Where is the stopping point going to be?

Mr. KERR. Mr. President, will the Senator yield for a question?

Mr. KEFAUVER. In a moment. I think we are going into the type of thing that is not proper for the Federal Government. In my opinion, we are dis-

couraging local people at a time when they need encouragement, instead of discouragement.

Every editorial I have seen, from the great press of the Nation—and they know a great deal about this problem—takes the same position. I happen to have before me editorials from two of the leading Washington newspapers. This is what the Washington Post of the other day said about it:

An attempt to force gamblers to share their gains with the Government is not only morally indefensible, but the tax itself would probably not yield a great deal of revenue.

I read the last paragraph of the same editorial:

In short, a Federal tax on gambling imposed for the sake of revenue would be no deterrent to lax enforcement of antigambling laws at the local level. On the contrary, imposition of that tax would tend to discourage local enforcement efforts by creating the impression that the Federal Government was disposed to condone illegal gambling activities in its search for more revenue.

Let me read two of the last paragraphs of the editorial in the Washington Evening Star of September 10. I read in part from the editorial:

The Bureau is said to have estimated that at least 3,000 additional agents, trained in criminal-type investigation work, would be needed to enforce the excise and occupational taxes.

Let me say at that point that in my opinion 3,000 would not be one-tenth of the number required, if we were actually to enforce the law and ferret out the transitory bookmakers who are here today and gone tomorrow. They know that if they register they will be signing their death warrants. I think it would require an army of 30,000 to 40,000 special agents. Unless we are to enforce the law, there is no use in enacting it. It would only create disrespect for the Government.

Quoting further from the Star editorial:

Such a force would be encroaching on a field hitherto reserved for local law enforcement agencies. Its job would be, first, to determine whether a suspected evader of the gambling taxes actually was engaged in gambling and, second, what his income from that source amounted to. Local police undoubtedly would welcome the invasion of Federal agents into this field, for it would tend to relieve police of a responsibility rightfully theirs.

But the Internal Revenue Bureau never was intended to become a crime-suppression agency. Congress should give this plan more study than apparently has been given to it to date. In any event, the Bureau could not possibly take on this new burden without a substantial expansion of its present force. If Congress decides to take this drastic step, it should give the Bureau the extra money and staff needed to do the job effectively. Otherwise, the gamblers will benefit from lax enforcement of a Federal law that might encourage lax enforcement of gambling laws at the local level, too.

The imposition of the amendments contained in the substitute, which prevent the charging off of items of operation, would do a great deal toward really eliminating gambling. They would

yield many times more than the amount of the proposed tax. The provision which requires the keeping of books would, in my opinion, bring in hundreds of millions of dollars heretofore escaping taxation.

If we can do anything to cut down the amount of racketeering and gambling, if we can continue to give encouragement to the local authorities in their efforts, what will be the result? The result will be to force money which would otherwise go to the professional gamblers into legitimate channels of commerce and trade. I think this point should be understood. Wherever an effort is made with any degree of success to cut down the amount of big-time gambling in any community, the sales of legitimate articles of food, clothing, and other things which the people need and which are worth while immediately go up. As the present occupant of the Chair [Mr. SMATHERS] knows, that is what happened at Miami and Miami Beach when big-time gambling was closed there.

Tests have been made in various counties in Illinois and other States. That has been the inevitable result. The Senator from Wyoming [Mr. HUNT] stated several times that when gambling was eliminated in a particular city in Wyoming—I believe it was Casper—immediately the sales-tax revenue to the State from that particular section increased. So if we can follow a sensible program instead of giving to gambling a quasi-legal status, we shall have a cleaner America. We can get more tax money for the Federal Government, and more for the State governments.

The PRESIDING OFFICER. The question is on agreeing to the amendment offered by the Senator from Tennessee [Mr. KEFAUVER].

Mr. JOHNSON of Colorado. Mr. President, the amendment proposed by the junior Senator from Tennessee [Mr. KEFAUVER] would eliminate entirely from the bill the 10-percent tax on gambling.

The Senator from Tennessee has himself estimated that the total annual gambling turn-over in the United States ranges from \$17,000,000,000 to \$30,000,000,000. Therefore, after making allowance for the exemption of pari-mutuel betting and the exemption for games such as cards and dice which are provided by the bill, the Senator's own testimony indicates that the base of the proposed gambling tax will range from about \$12,000,000,000 to about \$25,000,000,000 annually, representing a possible tax yield under the 10-percent gambling tax of from \$1,200,000,000 to \$2,500,000,000 a year. It is this very large potential source of new revenue which the Senator's amendment would strike out of the bill. The committee has estimated the yield of the proposed tax at \$400,000,000 a year. As the above figures indicate, this estimate might well prove conservative.

The main concern which has apparently led the Senator to recommend the elimination of the gambling tax is the belief that it will, in effect, sanction the carrying on of gambling activities in

violation of State and local laws. The committee did not share this view. Since its inception, the Federal income tax has been applied without distinction to income from illegal as well as legal sources, and it has never been seriously supposed that such application carried with it any implied authorization to carry on illegal activities. No exemption from the Federal liquor taxes is given to bootleg liquor sold in dry States. Moreover, the present tax on coin-operated gambling devices has been applied without regard to whether or not the operation of any particular machine is in violation of State or local law.

No evidence has been submitted which would indicate that such Federal taxation of illegal activities has in any way encouraged the violation of State or local law. The committee's bill conforms to the pattern of the taxes already referred to and imposes the wagering tax without regard to the legality or illegality of the particular transaction. I should like particularly to call to the Senator's attention that the bill specifically provides that payment of either the tax on wagering or the occupational tax on the receipt of wages shall not serve to exempt any person from any penalties provided under either State or Federal law with respect to engaging in the taxed activities.

Just as the proposed tax does not in any way give Federal authorization to illegal gambling, the bill likewise does not in any way contemplate that the Federal Government will take over the enforcement of State and local antigambling laws. The primary purpose of the committee's amendment is to raise revenue, not to encroach in a field which is fundamentally a local responsibility. We are dealing here with a tax bill, not with the criminal code.

Of course, the full, long-range effects of a new tax of this type cannot be predicted with complete accuracy at this time. Substantial compliance with the tax will bring in vast, new amounts of revenue so badly needed at this time. In this regard, it is confidently believed that there will be substantial areas of voluntary compliance with this new tax. On the other hand, where there is willful failure to comply, the Bureau of Internal Revenue will have a powerful new weapon to employ in its enforcement of the tax laws, particularly the income tax, against this racketeering fringe of our population who are thus seeking to evade their full share of the Nation's tax burden. Again, of course, substantial compliance with the tax will result in a further increase in the betting odds which are already stacked against the individual bettor. Indeed, it may be that the proposed 10 percent Federal bite out of every bet will in the long run convince many bettors that they are playing a losing game. For those who are not so convinced—and there will always be a substantial majority who will not be—the committee's bill will exact a Federal tax for their folly. Thus, it is believed that the proposed tax may represent a far more realistic approach to the gambling problem than would the proposals

which would, in effect, attempt to legislate gambling out of existence.

In conclusion, it should be pointed out that commercialized gambling is in the unique position of being a multi-billion-dollar Nation-wide business which has remained comparatively free from taxation by either the State or Federal Governments. This relative immunity from taxation has persisted in spite of the fact that gambling has many characteristics which make it particularly suitable as a subject for taxation. The committee was convinced that the continuance of this immunity is inconsistent with the present need for increased revenue, especially at a time when many consumer items of a seminecessity nature are being called upon to bear new or additional tax burdens.

The distinguished junior Senator from Tennessee has read from editorials published in various newspapers, and I understood him to say that the newspapers were uniformly in favor of his position. I wish to read an article from the Washington Post of June 27, 1951, written by Shirley Povich. It is one of the best analyses of the whole question which has ever been published. The article reads:

The House Ways and Means Committee, from which all Federal tax legislation stems, has now come up with the bright idea of slapping a 10-percent bite on the gross volume of business of the professional gamblers.

But Senator KEFAUVER, of Crime Committee fame, views it as an idea that is not quite bright despite the very practical House motive of tapping the underworld bankroll for an estimated \$400,000,000 a year.

Senator KEFAUVER's committee, dedicated to driving the professional gambler out of business and thus striking, too, at corruption of civic officials, shrinks at the House's kind of side-swipe at the gambling business. He protests that any such "occupational tax" would be endowing gambling operations with a sort of Federal license and what he calls quasi legislation.

The Ways and Means Committee's approach to the problem, however, is more direct than Mr. KEFAUVER's, if not quite as noble. Whereas the Senate Crime Committee calls for law enforcement to kill off the pro gamblers, the House's tax attack is more workable and more certain to accomplish the same end.

The Kefauver group exposed police graft in virtually every city it investigated. But the national crime picture was darker and more sinister at the end of the first phase of the committee's work, which laid bare a whole new mess of problems in connection with gambling operations.

His kind of frontal attack on the gamblers has been attempted before, if not with quite the same intensity. But the Kefauver hearings did prove an effective device in many instances when it got perjury convictions of some gamblers and some city officials. But the difficulty of convicting big shots of being mobsters by trade apparently has not eased since the Department of Justice had to settle for an income charge against the late Al Capone 20 years ago.

To the credit of the Kefauver group, its investigations served to awaken the public conscience to the vastness and realities of mobster rule and their shocking alliance with public officials. But its interim report, aside from developing names and places of crime and corruption, and calling for more honest law enforcement, outlined no effective and at the same time practical program of getting at the gamblers. The Utopia of

rigid law enforcement is still somewhere in the distance.

But the House of Representatives' tax committee, concerned primarily with developing new Federal revenue in these times of dire need for same, may have unwittingly stumbled onto a better weapon than ever occurred to the Kefauver committee. Gambling may never be law-enforced to death, but there is some basis for belief it could be taxed to death.

Gamblers and mobsters have always had great respect for the Internal Revenue sleuths. They have long been alerted to the fact that income-tax fraud conviction can hit them with the book and are easier to get than gambling or racketeering convictions, most of which are handled on a city, county, or State level anyway.

Since the Capone case, the big gamblers have been careful to be honest with the Internal Revenue Department. If they have not paid willingly out of their big profits, they have at least paid as a precaution. But to this date they have never had to contend with anything like a 10-percent tax on their volume of business.

It is the sort of a tax that, if it doesn't threaten to drive them out of business, offers the kind of temptation that could drive them into the arms of the unrelenting Internal Revenue. The chances are that only the small-fry punks would try to beat the gross-business tax, anyway. The big shots know that big-shot gamblers are easily identified, even if gambling convictions are hard to obtain. But the 10-percent volume-of-business tax would strike at the very source of their revenue, perhaps kill it off.

The bookies, unused to taking any the worst of it, would be certain to pass the tax on to the betting public, which would soon tap out under that additional burden. Right now, in baseball, football, and fight betting, the betting public is taking a beating to start with. There are no more even-money shots. The bettor must lay the bookie 6 to 5 for the privilege of taking his choice on what ordinarily would be an even-money bet.

In these days of no Federal tax on the bookie's volume, the bettor on team A must put up \$120 to win \$100 on an even-money shot. If the commissioner's book is balanced, another bettor is wagering the same sum on team B. That's \$240 in bets the bookie is handling. The 10-percent tax would come to \$24. That's deductible from the winner's return. For his \$120, he nets a profit of \$76 on an even-money shot. That figures out to 3 to 2 that he's laying. That's too much.

The bettor wouldn't be able to stand the gaff. And if it is a horse race he's betting instead of a ball game, the State and track are already taking a 16-percent cut out of his mutuel price. The Federal Government's 10 percent is an additional bite. The bookies would have trouble finding clients willing to take that much the worst of it, even in a sucker community. For the gambling business death and taxes could have a new and literal meaning.

Mr. President, with respect to the approach to the problem by the House Ways and Means Committee, I may say that the Senate Finance Committee, after struggling with this matter for several days, finally decided to take the House bill and the House proposal word for word and line for line.

Mr. McCARRAN. Mr. President, will the Senator from Colorado yield?

Mr. JOHNSON of Colorado. The majority leader is pushing me to get through, and I want to get through, if the Senator will permit me.

Mr. McCARRAN. I merely desired to ask the Senator from Colorado whether in his judgment the House language

deals with illegal gambling, and does not affect licensed gambling when a sovereign State has licensed it.

Mr. JOHNSON of Colorado. Of course, the Supreme Court decisions require that in the collection of taxes no distinction be made between legal and illegal gambling.

Mr. McCARRAN. If the Senator takes that position, I assume he is taking the position that we are going to legalize gambling out of business.

Mr. JOHNSON of Colorado. No; that is not the position of the Senator from Colorado at all. I want to make a statement in reply to the Senator from Nevada on that point.

Mr. McCARRAN. If that be the position—which I never understood it to be—certainly I must do everything in my power to defeat that part of the bill.

Mr. JOHNSON of Colorado. That is not the position. I shall read a statement which sets forth the effect of the proposed wagering tax on legalized gambling:

EFFECT OF PROPOSED WAGERING TAX ON LEGALIZED GAMBLING

The wagering taxes provided by the bill are imposed without regard to the legality or illegality of gambling under the laws of any particular State. For this reason the proposed taxes have been criticized as being destructive of the revenue now being derived by the State of Nevada from legalized gambling. In this connection it should be emphasized that the gambling taxes provided by the bill are imposed principally upon wagering with bookmakers and the so-called numbers operators. It is believed that these latter forms of gambling furnish only an extremely small part of the revenue which the State of Nevada derives from gambling generally. The bulk of the legalized gambling in that State involves the operation of slot machines, which are specifically exempt from the wagering tax imposed by the bill, and from casino-type games, such as cards and dice, which are likewise not within the scope of the proposed tax. This is because the bill, in effect, exempts in general games involving player participation. In order to make this completely clear, the committee report specifies that within the scope of this exclusion are card games such as draw poker, stud poker, and blackjack, roulette games, dice games such as craps, bingo, and keno games, and the gambling wheels frequently encountered at country fairs and charity bazaars. It is likewise made clear that this listing is not intended to be exclusive, and that any other games of similar types would also be excluded. Because it is believed that the State of Nevada derives its principal gambling revenues from the operation of these excluded games, the proposed wagering tax should have only minor, if any, effects on the overall revenue of that State. Furthermore, since bookmakers and numbers operators should in most cases be able to pass the new tax on to the bettors, it seems likely that any revenues which the State of Nevada may derive from these two sources will not in any way be affected.

Mr. President, I ask unanimous consent to insert in the RECORD as a part of my remarks a statement entitled "Comments Relating to Tax Proposals of the Crime Committee." I do not want to take the time of the Senate to go into it now. The junior Senator from Tennessee has introduced five amendments, and the statement deals with them one by one. I ask unanimous consent to have

the statement inserted in the RECORD as a part of my remarks.

There being no objection, the statement was ordered to be printed in the RECORD, as follows:

COMMENTS RELATING TO TAX PROPOSALS OF THE CRIME COMMITTEE

1. AMENDMENT TO DISALLOW THE DEDUCTION OF LOSSES AND EXPENSES INCURRED IN ILLEGAL WAGERING

Under present law, wagering losses are deductible to the extent of wagering gains. Thus, such losses cannot be used to offset income from nongambling sources. Wagering expenses are deductible if they are business expenses.

The proposed amendment would change this present treatment only with respect to losses and expenses incurred in illegal wagering. Thus, the amendment establishes a distinction for tax purposes between income from legal and illegal sources. It is believed that such a distinction may raise a serious constitutional question. The practical effect of the proposed distinction would be to tax illegal income at a rate completely disproportionate to the rate on legitimate income. For example, an individual with \$500,000 in gains from legal gambling and \$500,000 in losses from legal gambling would have no net income subject to tax. Another individual with the same amount of gains and losses but arising from illegal gambling would be taxable on the full \$500,000 gain without any deduction for his \$500,000 loss, and would owe, under present law, as a single taxpayer, \$429,274. He would owe this amount even though in fact he had no income out of which to satisfy his tax liability.

The decision in *United States v. Constantine* (296 U. S. 287), considered the validity of the imposition of a \$1,000 license tax upon illegal dealers in liquor, legal dealers being liable only for a \$25 tax. In holding the tax invalid, the Court stated (296 U. S. 287, 294, 295):

"If in reality a penalty it cannot be converted into a tax by so naming it, and we must ascribe to it the character disclosed by its purpose and operation, regardless of name. Disregarding the designation of the exaction, and viewing its substance and application, we hold that it is a penalty for the violation of State law, and as such beyond the limits of Federal powers."

"The condition of the imposition is the commission of a crime. This, together with the amount of the tax, is again significant of penal and prohibitory intent rather than the gathering of revenue. Where, in addition to the normal and ordinary tax fixed by law, an additional sum is to be collected by reason of conduct of the taxpayer violative of the law, and this additional sum is grossly disproportionate to the amount of the normal tax, the conclusion must be that the purpose is to impose a penalty, as a deterrent and punishment of unlawful conduct."

Based on that decision of the Supreme Court and other similar decisions, it appears that the proposed amendment might well be subject to successful attack in the courts on constitutional grounds.

Because the amendment makes tax treatment depend on the illegality of the particular transaction, the question arises as to what law is to be looked at in determining such illegality. There is, of course, no Federal law which prohibits gambling. Therefore, it can only be inferred that it is the laws of other jurisdictions which are to govern. Presumably, it is the law of a particular State which is to be looked at. In those States where a local option governs the legality of gambling, county and municipal ordinances will determine the tax treatment of gambling income. Furthermore, where the particular transaction occurs outside of the

United States, under this proposed amendment the law of the foreign country in which the transaction occurred would determine the status of the transaction for United States tax purposes. It is suggested that the Federal tax laws should not be made dependent upon the laws of such varied, non-Federal jurisdictions. In this same connection, it should be pointed out that the proposed treatment will extend not only to the bookmaker or other gambler who is in the business of receiving bets, but also to the incidental gambling transactions of individual bettors. In several areas, it is not illegal to place a bet although it is illegal to accept one. Thus, difficult administrative problems would arise as to the tax treatment of the same transaction between different taxpayers.

Assuming, however, that the laws of other jurisdictions can be made the basis of the application of the Federal tax laws, the question then arises as to whether a conviction for a violation of some antigambling statute will be a prerequisite to the disallowance of gambling losses and expenses, or is it intended that the Federal tax authorities are to have the power to make a conclusive and presumptive determination of the legality or illegality of any particular transaction without regard to any judicial determination? If the latter is intended to be the case, it is suggested that this is a wider and more arbitrary authority than has ever been granted in the field of tax collection. On the other hand, if a conviction of a violation of State or local law is intended to be required, then it is suggested either that the proposed amendment will be administratively impractical, or that the Bureau of Internal Revenue will have to associate itself in the enforcement of State and local laws. Furthermore, it should be pointed out that the status of illegality will frequently not be easy to determine even in one particular locality. For example, it is understood that social card games involving gambling are illegal in one jurisdiction if played after midnight. Such distinctions would obviously create many anomalies in the administration of the proposed amendment.

Finally it should be pointed out that the proposed amendment will apply not only to commercialized gambling, but also to the so-called social or friendly types of gambling which are countenanced in a great many areas.

2. AMENDMENT TO REQUIRE THE KEEPING OF SPECIAL RECORDS BY WAGERING HOUSES

Here again a distinction is made between legal and illegal wagering houses. Both types would be required to keep a daily record of gains and losses. In addition to this requirement, illegal wagering houses would be required to keep a record of each wagering transaction, including the amount of the wager, the name and address of the person making the wager, and the date of the transaction. The preparation of such records would, of course, be a practical impossibility with respect to card, dice, roulette, and similar games. The amendment provides that a willful failure to maintain such records by wagering houses (both legal and illegal) would be a felony punishable by 2 years' imprisonment and a \$10,000 fine.

It is believed that all of the purposes of this amendment can be achieved within the existing power of the Secretary of the Treasury to require the maintenance of adequate records by any taxpayer. Thus, the proposed amendment adds nothing to the Secretary's existing authority, although it does increase the existing penalties for violation of record-keeping requirements. The present law makes a willful failure to maintain records a misdemeanor punishable by 1 year's imprisonment and a \$10,000 fine.

3. AMENDMENT TO REQUIRE NET WORTH STATEMENTS BY CERTAIN INDIVIDUALS

This amendment would require an annual net worth statement from any individual who receives gross income in excess of \$2,500 from "one or more unlawful trades, businesses, or transactions." It may be that this provision aimed at the recipients of income from illegal sources will not raise any serious constitutional question of unreasonable classification. It might be assumed that income from illegal sources is apt not to be reported accurately and is more difficult to audit than income from conventional sources. Thus a requirement of a net worth statement might be considered a reasonable means of safeguarding the revenue.

However, the reference to "unlawful trades, businesses, or transactions" appears vague and uncertain, and again raises the question, Unlawful under what law? What jurisdiction is to be looked at? Is a conviction of a violation of law to be required? It should be pointed out that this provision can lead to the harassment of many honest and conscientious taxpayers. For example, an individual who once makes a fair-sized gambling gain in a jurisdiction where gambling is illegal, would be required to file a net-worth statement of all of his assets, even though he may never have indulged in gambling before and may never do so again.

It appears that the Secretary of the Treasury already has substantially equivalent powers, although questions can arise as to his power to force the divulgence of information which a taxpayer believes would be incriminating. Similar questions could well arise under the proposed amendment.

4. AMENDMENT TO REQUIRE THE PRESERVATION OF RECORDS FOR 7 YEARS

Another proposed amendment would require the keeping of records of taxable transactions for a period of 7 years. This amendment is not directed at taxpayers in illegal businesses, but is so phrased as to apply to all taxpayers generally. It is suggested that here again is a proposal which, while well motivated, could easily lead to the harassment of the great bulk of the tax-paying public. The keeping of records for such a long period of time under penalty of law for failure to do so would seem unreasonable in the great majority of cases. Under present law, the taxpayer is expected to keep records at least for the period of the statute of limitations. Under the present law the Secretary of the Treasury has the discretionary right to require the maintenance of particular records by specific taxpayers as he deems desirable. Therefore, it would seem that the Secretary has all the authority that he needs in this area, without the adoption of this provision.

5 CONCLUSION

Undoubtedly the tax proposals discussed above have been prepared with the very desirable objective of improving compliance by taxpayers who are engaging in various illegal activities, especially gambling. Your committee studied all of them carefully. However, as has been indicated, a number of these proposals require very careful examination and revision. In the case of at least one of the amendments, there is a serious constitutional question and serious questions of administrative practicality. With respect to others of the amendments, it seems that their objectives can be substantially achieved within the framework of existing administrative authority. The Senate is aware that the entire question of the enforcement of the tax laws with respect to taxpayers in unlawful businesses is now under study. Your committee was of the opinion that any proposals for the tightening up of the tax laws in this area should be deferred until the full facts have been placed

before it. It is believed that the best results can be achieved by postponing action until that time.

The PRESIDING OFFICER. The question is on agreeing to the amendment offered by the junior Senator from Tennessee [Mr. KEFAUVER].

Mr. KEFAUVER. Mr. President, I ask for the yeas and nays.

The PRESIDING OFFICER. The yeas and nays have been requested. Is the request sufficiently seconded?

Mr. GEORGE. Mr. President, do I understand correctly that the vote will be on all the amendments which the junior Senator from Tennessee has submitted, or only on the motion to strike out?

Mr. KEFAUVER. No, Mr. President; I say to the Senator that the motion is to strike out this portion of the bill and to insert as a substitute the four amendments I propose.

Mr. GEORGE. I understand that the vote will be taken on all of that, together.

Mr. KEFAUVER. Yes.

The PRESIDING OFFICER. Is the demand for the yeas and nays sufficiently seconded?

The yeas and nays were ordered.

Mr. KERR. Mr. President, I am very much surprised to discover the opposition to this proposed tax by the junior Senator from Tennessee and his associates on the Special Committee to Investigate Organized Crime in Interstate Commerce.

As I understand, the purport of the amendments submitted by the junior Senator from Tennessee is that, first, he would strike from the bill the provision which places an excise tax on gambling carried on through bookmakers, numbers racketeers, or whatever designation one may wish to give to them, and so forth; and, second, he would provide certain restrictions upon gambling.

With reference to restrictions, Mr. President, I believe the Secretary of the Treasury has complete authority to impose any or all of the restrictions which are covered by the amendments of the Senator from Tennessee. Certainly in the main the Secretary of the Treasury now has that authority.

Next, I should like to have the junior Senator from Tennessee explain what there is to the process of gambling which would make it immune to the taxation prerogatives of the Government. Gambling is the biggest business in the United States. There is no business that I know of that equals, in terms of dollars, or extent, that which the Senator's committee itself has portrayed as the gambling operations which are being carried on in the United States, and which at this time are free from taxation by the Federal Government.

As I understand, the Senator's estimate—and if I am in error about it, I want him to correct me—is that those activities amount to between \$17,000,000,000 and \$30,000,000,000 annually. Mr. President, a 10-percent tax on those activities would amount, not merely to \$400,000,000, but to anywhere from \$1,500,000,000 to \$3,000,000,000. That is

what such a tax would yield. That estimate is based upon the statement the Senator from Tennessee himself made in reference to the extent of those operations.

Mr. KEFAUVER. Mr. President, will the Senator from Oklahoma yield?

The PRESIDING OFFICER (Mr. SMITH of North Carolina in the chair). Does the Senator from Oklahoma yield to the Senator from Tennessee?

Mr. KERR. I yield for a question.

Mr. KEFAUVER. I wish to point out to the Senator from Oklahoma, in the first place, that that estimate was an estimate of the over-all amount of gambling. Of course this bill does not relate to the second most lucrative kind of gambling, namely, that at casinos, including crap games and roulette.

Mr. KERR. Mr. President, the junior Senator from Tennessee is correct in his statement of what is included. But when he appeared before the Finance Committee, I, myself, asked him how much gambling would be affected by this bill; and he said that his estimate was between \$17,000,000,000 and \$30,000,000,000.

Mr. KEFAUVER. I understood that the Senator from Oklahoma was asking what was the over-all amount of illegal gambling. However, that is aside from the point.

What I have been trying to make clear to the Senator is that such a provision would not produce anything, and therefore we wish to have it eliminated, so that the money will be used for other purposes, in legitimate channels of commerce.

Mr. President, I think the Federal Government is getting in rather bad shape if it has to rely—

Mr. KERR. Mr. President, the junior Senator from Tennessee has made his speech. I now have the floor, and I yielded to him only for a question.

Mr. KEFAUVER. Very well. I conclude by saying that I think the Federal Government is getting in rather bad shape if it has to rely for its revenue on taxes upon vice.

Mr. KERR. Mr. President, I say to the Senator from Tennessee that the tax proposed in this bill on vice will not cause the vice to grow. If the Senator from Tennessee wishes to get rid of vice—and I take it that he is sincere in the statement he has made—I remind him that this provision of the bill, placing a tax on vice, will not cause it to increase.

The Senator from Tennessee has said that the placing by the Federal Government of a tax on such activities will automatically be an approval of those activities. That is an astounding statement, Mr. President, to come from one with the wide knowledge and the great wisdom the Senator from Tennessee possesses. The Federal Government imposes a tax on liquor, but that does not constitute an endorsement of liquor. The Federal Government places a tax on tobacco, but that does not constitute an endorsement of tobacco.

The Federal Government places an excise tax on sawed-off shotguns, machine guns, opium, and marijuana, and requires the identification of the sales

of those things in every place in the United States that is licensed to sell them and is authorized to sell them; but that does not constitute approval of those things by the Federal Government.

The Government places an excise tax on pastel mink coats, but that does not constitute an approval of them by the Federal Government. The Government places a tax on the railroad ticket the murderer buys when he goes to commit his crime, and the Government places a tax on the gasoline the racketeer uses in his car, and the Government places an excise tax on the tools the burglar uses in his trade; but those taxes do not constitute approval by the Federal Government of those activities. Certainly the distinguished Senator from Tennessee knows that to be so.

The Senator from Tennessee said that the tax proposed by this portion of the bill would encourage winking by local officials at local violations. Mr. President, among all Members of the United States Senate, certainly the distinguished junior Senator from Tennessee should know whether or not there are in the United States local officials who need encouragement in order to be persuaded to wink at local violation of laws. The junior Senator from Tennessee has been engaged in a very distinguished and very successful effort, one of the purposes of which was to expose crime at the local level. The junior Senator from Tennessee was not commissioned as a sheriff to go to various places in the United States and arrest violators of local laws. He was not commissioned as a deputy collector of internal revenue to collect the income taxes owed by the violators of local laws. The junior Senator from Tennessee was commissioned, on his own motion, by the Senate to carry the power of the Senate across the length and breadth of the land, to expose violation of law at the local level, upon the understanding and the basis that to do so would encourage the enforcement of those laws at the local level.

Yet now the junior Senator from Tennessee takes the amazing and the astounding position, as he comes before the Senate, that for the Federal Government to do something which would expose and identify and locate and advertise and publicize the local operation of gambling, whether legal or illegal, would discourage any local enforcement of any local law against such an operation. I do not believe that the junior Senator from Tennessee is sincerely persuaded that such could be the case.

The junior Senator from Tennessee said there are three kinds of these operations that are bleeding the people all over this country. He has said that the take is terrific. I accept his word for it, Mr. President. However, the more such activities are bleeding the people and the greater the take, the more terrific the take, the less justification there is for taking the position that such activities should be sacred in the eyes of the tax collectors or the tax laws of the land.

Mr. President, I, for one, was not persuaded by what the Senator from Tennessee said about editorial writings. I

wish to say to the Senator from Tennessee that he can get distinguished editorial writings on every side of every subject that has ever been before the Senate since I have been a member of it. If the Senator from Tennessee begins to conform to the recommendations of all the editorial writers on all the editorial pages in the United States, he will be in worse shape than a whole flock of fleas that could not find a dog. [Laughter].

Mr. President, the question is whether we wish to have more taxes paid. We fought here for weeks to get a tax on oleomargarine. I wish to ask what there is which would justify our placing a tax on oleomargarine, and also would justify our saying that we are too nice and too virtuous to recognize the fact that there is gambling in this country, and therefore we do not want to recognize that fact.

I wish to say to the Senator from Tennessee that I am as much against gambling as he or any other living person is; but I am not in favor of exempting gambling from taxation just because I am opposed to gambling.

Mr. SALTONSTALL. Mr. President, will the Senator from Oklahoma yield for a question?

Mr. KERR. I yield.

Mr. SALTONSTALL. I want to try to understand the difference between the amendment of the Senator from Tennessee and the provision of the committee bill. Do I correctly understand that the difference in substance is that the committee amendment recognizes the fact that there is gambling going on in this country, legal or illegal?

Mr. KERR. It does not say that there is or is not. It says that if there is, it is going to be taxed. The Senator from Tennessee says it is going on.

Mr. SALTONSTALL. It is going on; but the Senator from Tennessee would not levy a tax on it?

Mr. KERR. The Senator from Tennessee would strike from this bill all provisions which tax gambling through bookies and through numbers rackets.

Mr. KEFAUVER. Mr. President, will the Senator from Oklahoma yield for a question?

Mr. KERR. I yield.

Mr. KEFAUVER. The Senator does not quite state the position of the junior Senator from Tennessee correctly, and I know he wants to state it correctly.

Mr. KERR. I certainly do. If I have not stated it correctly, then neither he nor I know what it is, because I stated it just as he stated it.

Mr. KEFAUVER. I do not think the Senator stated it as I stated it. Our position is that if gamblers are prevented from taking certain tax exemptions, which they have been getting by with, that would bring in a tremendous amount of revenue. Eliminating rents, salaries paid, protection money, and all of those things they have been charging off in their income-tax returns, and specifically saying that what they spend in the furtherance of their illegal transactions cannot be deducted, would result in the Federal Government collecting a large amount of money it does not now receive. If they were required to give

the daily accounts and records, so that—

Mr. KERR. Mr. President, a point of order.

Mr. KEFAUVER. The Senator asked me to state my position, and I think I should have the right to do so.

Mr. KERR. I will ask the Senator a question, if I may have unanimous consent to do so. Does the Senator's amendment propose to strike the taxing provisions from this bill, or not?

Mr. KEFAUVER. I will answer in my own way.

Mr. KERR. Mr. President, if the Senator does not want to answer the question "yes" or "no," then I do not yield.

Mr. KEFAUVER. The amendment would strike the taxing provision, but there are four substitutes which would bring in many times more money than the committee's quasi-legalization proposal.

Mr. KERR. Do any of the four substitutes tax the operation of gambling and the amount of money that is gambled?

Mr. KEFAUVER. They are already taxed.

Mr. KERR. Does any one of the Senator's substitutes tax the money that is gambled through bookies and through the numbers racket?

Mr. KEFAUVER. It does not recognize them as a special class.

Mr. KERR. Does it tax all of them? Can the Senator answer the question? If the Senator does not care to, then I shall continue.

Mr. KEFAUVER. It is impossible to answer any question when the Senator continues to talk and does not give one an opportunity. There is already a proposition to enforce the general tax against them as it is enforced against anyone else, making them keep books, which in our opinion will yield much more money than the provision now in question.

Mr. KERR. Mr. President, I submit that the Senator did not even try to answer the question. Certainly there is a tax on the profit which the bookmakers make, but the Senator knows there is no tax on the amount of money that is bet, and no provision to tax it. He knows that his amendment would strike from the bill the present provision for taxing the profits of gamblers and it would substitute certain provisions which he says would cause the collector of internal revenue to get more of the money which the gamblers themselves make out of their operations. The Senator said it would be an easy matter to compel the bookmakers to produce their books and show how much their expenses were, and justify their deductions with reference to what it costs them to operate their business. He says that would be an easy matter, but that it would be an impossibility to levy a tax on the amount of money which goes through their hands.

Mr. President, the Senator makes a molehill out of a mountain, and at the same time attempts to make a mountain out of a molehill.

Then he says that the provision in the bill would cause the bookies to go underground. Now, would not that be

something? I submit, Mr. President, that the Kefauver committee has stripped the cover off the bookmakers. They have been pretty well advertised. They have been pretty well identified. They have been pretty well publicized. They have even been publicized in a book written by the distinguished Senator himself.

If a senatorial committee with even doubtful authority to subpoena or to prosecute for contempt can get as much information about the gambling business in this country as the distinguished Senator and his distinguished colleagues did, he underestimates what the Bureau of Internal Revenue can do if armed with a law by the Congress which provides that the gambling operations shall be taxed, and that the failure to pay the tax will be punished by certain penalties.

I assert, Mr. President, that the bookmakers are allergic to the Bureau of Internal Revenue. If the Senator thinks that the opportunity to go to the Federal penitentiary for failure to disclose the extent of their operations under the provisions of the law will cause the bookmakers to become anonymous, he underestimates the impression that the Bureau of Internal Revenue has made upon that profession.

Mr. SMATHERS. Mr. President, will the Senator from Oklahoma yield?

Mr. KERR. I yield for a question.

Mr. SMATHERS. In order to get the point cleared up in my mind, I should like to ask two questions: Is it not true that today the gamblers pay tax money to the Federal Government through the Internal Revenue Bureau?

Mr. KERR. There is a law which says that they should pay an income tax on their profits, and once in a while one of them does.

Mr. SMATHERS. Is it not also true that in estimating their profits they are permitted to deduct payments for rent and for the croupiers, as business expenses, and that they show less profit by reason of those deductions?

Mr. KERR. I believe that is true, but the Bureau of Internal Revenue can now promulgate regulations which will limit the extent of what they can deduct, or compel them to charge off only that which represents actual expenses; and if there is any Senator who thinks that that should not be permitted, and would want such a prohibition included as an amendment to the bill, to the extent that the Bureau of Internal Revenue does not already have the authority, I certainly would not be one to object to it.

Mr. SMATHERS. Is it not true that one of the amendments which have been offered by the Senator from Tennessee is designed to disallow those expenses?

Mr. KERR. It is, but he does not propose that as an amendment to implement the tax provided in the bill. He offers it as an amendment, in lieu of the provisions of the bill, to tax the operations.

Mr. SMATHERS. Would the Senator from Oklahoma not agree that if there were a law which would disallow the charging off of such expenses, thereby

the Federal Government could claim that there was much more profit, and therefore could take a bigger tax from the gambler?

Mr. KERR. Yes. But that tax would be limited to only what the gambler himself made out of the operation; and I say to my good friend from Florida that would be peanuts compared to what there is to be had under the provisions of the bill. I say to him further that enforcement of the tax provided by the bill would be easy compared to the operation which the Senator has described.

Mr. SMATHERS. I should like to ask but one more question, for information. I do not know exactly what provisions should be adopted, but I am trying to find out. How does the Senator from Oklahoma propose to see that the tax which the committee has recommended is enforced? How is it to be enforced when it is contended there should be a tax on each wager, as I understand?

Mr. KERR. The bill requires a bookmaker to keep books exactly as it requires a manufacturer to keep books on the automobiles he sells.

Mr. SMATHERS. Yes, but the automobile manufacturer is dealing with, say, a \$1,700 item. Usually bookmakers are dealing with much larger items.

Mr. KERR. It is like a tax on a mechanical pencil that sells for \$1. There is a tax in the bill on that item.

Mr. SMATHERS. If the Senator believes he is going to be able to keep track of the bookmakers, and if we are not going to have a full and free disclosure of expenses, I do not quite follow the argument of the Senator.

Mr. KERR. The Senator from Oklahoma does not take that position. He says one would not preclude the other; one would augment the other. Under the bill which the committee has reported to the Senate, the man who takes a wager has to be licensed; he has to pay an occupation tax; he has to be identified, and he is known. Then the Internal Revenue Bureau can find out how much business he is transacting.

Mr. PASTORE. Mr. President, will the Senator from Oklahoma yield?

Mr. KERR. I yield.

Mr. PASTORE. Is it not a fact that a man engaged in bookmaking does not have to identify himself as such, but under the committee amendment he must identify himself as being in this illegal business?

Mr. KERR. It is legal business in some places. The law does not apply merely to illegal gambling, because that would be unconstitutional. It applies to gambling whether legal or illegal, just as the tax on liquor applies to liquor whether it be sold legally or by a bootlegger.

Mr. PASTORE. But the fact of the matter is that in those States where it is illegal, he would have to say that he is in that kind of business.

Mr. KERR. Certainly, as in the case of a local seller of liquor in a local operation area in the State of Tennessee where it is against the law to sell whisky.

Mr. SMATHERS. Mr. President, will the Senator yield further?

Mr. KERR. I yield.

Mr. SMATHERS. Is it not true, however, that while he may not have to reveal himself, as the Senator has stated, he is required to file an income-tax return and show on that return where his money comes from?

Mr. KERR. Yes; but he does not have to show how much betting was done in order for him to make that money.

Mr. SMATHERS. The Internal Revenue Department has a right to ask him those questions; has it not?

Mr. KERR. Not at all. It has a right to say, "How much money did you make?" Not "How much business did you do?"

Mr. President, I submit that the committee, after long deliberation in this matter, approved the action of the House and retained this provision in the bill.

I now ask unanimous consent to have printed at this point in the RECORD a statement headed "Enforcement of the wagering tax."

There being no objection, the statement was ordered to be printed in the RECORD, as follows:

ENFORCEMENT OF THE WAGERING TAX

The principal objections to the proposed taxes on gambling have been in terms of difficulty of enforcement.

It should be pointed out, in this connection, that the Bureau of Internal Revenue, as a part of its racket investigations, has already been compiling lists of bookmakers and other gamblers throughout the country. These lists are being built up and constantly revised in cooperation with local law-enforcement agencies. Thus, the Bureau now has on hand a constantly growing mass of information which will be of great assistance in identifying the most important of the individuals who will be liable to the wagering tax. Therefore, the first big step in the enforcement of this new tax—the identification of the big taxpayers—can be substantially accomplished without any undue strain upon the existing administrative organization. Identification of the small fry will, of course, take longer, but many of them can be expected to fall into line once the big gamblers are forced to comply.

The registration requirements of this tax should prove of material assistance to the racket squad investigations which are an outgrowth of the recommendations of the Senate Crime Committee. Furthermore, the new tax on wagers should make possible a more accurate audit of gamblers' income-tax returns. By knowing the gross amount of wagers placed with a bookmaker, a rough, but fairly accurate, estimate can be made of his gross income. Likewise, present income-tax information will make possible a fairly close estimate of the amount of wagers which the bookmaker has received and which are subject to the wagering tax. Therefore, the present income tax and the new wagering tax will complement each other and the existence of these two taxes side by side should improve taxpayer compliance throughout this area.

In areas where gambling is a monopoly in the hands of one group, enforcement should prove relatively easy because of the small number of taxpayers it will be necessary to deal with. In other areas, bookmaking and lottery operation is a highly competitive business, and once the wagering tax is successfully applied to a few of the larger operators in these areas these individuals can be expected to seek similar compliance from their competitors. Thus, conditions within the gambling business itself may bring about a measure of self-enforcement.

Finally, while most bookmakers and lottery operators are engaged in violating State

and local laws, very many of them undoubtedly comply substantially with the Federal tax laws. It would seem reasonable to suppose that under the new tax there will be similar areas of voluntary compliance. In other cases, a few examples of successful prosecution should go far to encourage compliance. In this connection it should be noted that the bill provides criminal penalties for noncompliance ranging up to 5 years' imprisonment.

In conclusion, it appears probable that substantial compliance with the new wagering tax can be achieved within the existing framework of the Bureau's organizational and procedural machinery.

Mr. KERR. I yield the floor.

Mr. HUNT. Mr. President, I should like to make just one observation.

We are putting the Federal Government in the business of encouraging illegal gambling by saying, "Go ahead and gamble so we can collect money." I say that it is deceitful on the part of the United States to encourage gambling which we have been trying to stamp out for the past 6 months. That provision of the bill can be effective only in one State in the Union, and that is Nevada.

Mr. FERGUSON. Mr. President, will the Senator from Wyoming yield?

Mr. HUNT. I yield.

Mr. FERGUSON. The question is whether or not the expenses paid or incurred as the result of an illegal wager include losses on some of the bets. Suppose the operators have a loss.

Mr. HUNT. Will the Senator repeat his question, please?

Mr. FERGUSON. The question is whether or not the expenses paid or incurred as the result of an illegal wager include losses which may have occurred on some of the bets.

Mr. HUNT. I assume they would certainly have to include the losses, because we cannot tax a gambler on everything he handles. Surely it is not intended to tax all the transactions that go across his board, because they run into billions of dollars. The take is estimated to be \$17,000,000,000 a year.

Mr. KEFAUVER. Mr. President, will the Senator from Wyoming yield?

Mr. HUNT. I yield for a question.

Mr. KEFAUVER. It is not intended to apply the tax to losses. It applies to rent, salaries, good will, and other things of that kind.

Mr. FERGUSON. Mr. President, the Senator from Michigan has had some experience and personal knowledge of illegal gambling as a judge on the circuit bench of Michigan where he conducted investigations which went into the field of illegal gambling, and he knows from that experience that there is a large profit in the business. He knows from his grand jury work in Detroit that the Federal Government was able to collect a large amount of money in taxes on the basis of the grand jury's revelations of illegal gambling. But he has never been of the opinion that we should do anything to foster illegal gambling. He feels that the provision now in the bill would be a tax on the business, and it would be well not to allow the deductions contained in the provision. Therefore, he feels he should vote for the amendment rather than for the provision as it appears in the bill.

MESSAGE FROM THE HOUSE—ENROLLED JOINT RESOLUTION SIGNED

A message from the House of Representatives, by Mr. Maurer, one of its reading clerks, announced that the Speaker had affixed his signature to the enrolled joint resolution (H. J. Res. 335) amending an act making temporary appropriations for the fiscal year 1952, and for other purposes, and it was signed by the President pro tempore.

SECRECY ORDER BY OFFICE OF PRICE STABILIZATION

Mr. FERGUSON obtained the floor.

Mr. AIKEN. Mr. President, will the Senator yield?

Mr. FERGUSON. I shall be glad to yield for a question.

Mr. AIKEN. Mr. President, I am reading from a United Press dispatch the statement that the OPS followed up President Truman's new security edict with an order forbidding disclosure by its employees of any information that "might cause embarrassment" to OPS.

Mr. President, I am not able to find words to describe my feelings at reading this announcement. It simply means, to me, that we have arrived at a point where other nations with whom we have recently been at war arrived some years ago. It means that our own Government can no longer point the finger of scorn at Czechoslovakia or Argentina, because this order indicates that our own Government is now adopting a policy of suppressing freedom of information itself. It indicates that the present administration will stop at nothing to keep itself in power. It is simply a question of whether a new administration can be brought into power in time to save the Government of the United States.

REVENUE ACT OF 1951

The Senate resumed the consideration of the bill (H. R. 4473) to provide revenue, and for other purposes.

Mr. McFARLAND. Mr. President, will the Senator yield?

Mr. FERGUSON. I yield.

Mr. McFARLAND. I wonder if we can get a vote on the amendment. I do not know whether Senators on the Republican side are interested in the dinner this evening, but I promised that we would recess around 6 o'clock. If we could get a vote on the amendment—

Mr. FERGUSON. The Senator from Michigan is interested in food, but he is more interested in the question which he desires to discuss. I will yield on condition that after we vote I may have the floor.

Mr. KEFAUVER. Referring to the colloquy of a few moments ago, does the Senator from Michigan know that the house of delegates of the American Bar Association takes the same position about the bill and the substitute the Senator from Michigan takes, and that a resolution to that effect was adopted at its meeting last week?

Mr. FERGUSON. I appreciate that. The Senator from Michigan did not labor that question.

Mr. GEORGE. Mr. President, I merely want to make one brief statement.

Whatever may be said about the tax levied by the House, as to the wisdom of it, or whether the provision will be fully enforced, it certainly will be partially enforced. It may be more widely enforced than some people think; and that may be the trouble. But whatever may be said about it, this tax is a levy upon betting. It is an excise tax upon the bet or wager actually made.

The amendment of the Senator from Tennessee to deny the wagering taxpayer any deduction for his business loss would be clearly unconstitutional. He wants to go back to nothing but the old income tax. But when we go back to the income tax, that is a tax on the net. If losses exceed gains, the taxpayer has not made anything, and there is nothing to tax. So what the Senator from Tennessee is proposing by way of substitute is clearly an illegal, unconstitutional proposal to deny deductions against the income of someone who has been engaged in a wagering enterprise.

The tax bill does not operate on that theory. The House tax proposal—and the Senate committee has accepted it—is based clearly upon the theory of an excise tax, and it is on the gross income.

Mr. FERGUSON. In reply to that statement, the Senator from Michigan will say he understands that the Congress has the right to determine what is deductible as an expense, and all that is proposed by the amendment is to say that certain items such as pay-offs and so forth shall not be considered deductible.

Mr. GEORGE. That is exactly correct. But then the tax would be only on the income, and if there was no income, there would be no tax.

Mr. FERGUSON. That is correct. The Senator from Michigan feels that that is a better way to do than in effect for the Federal Government to legalize illegal gambling.

Mr. GEORGE. I did not mean to interrupt the proceedings, except to make that short statement. I hope we can get a vote on the amendment.

Mr. FERGUSON. Mr. President, the Senator from Michigan will yield so that a vote may be taken on the amendment, with the understanding that he shall have the floor when the vote is completed.

SEVERAL SENATORS. Vote! Vote!

Mr. McCARRAN. Is the Senator from Tennessee offering all his amendments en bloc?

Mr. KEFAUVER. That is correct; to strike out the wagering part in the bill before us, and to offer en bloc these four amendments which have been discussed.

Mr. McCARRAN. There were five amendments offered, and there was one amendment which the Senator from Nevada made quite a study of, and with respect to which he suggested certain changes.

Mr. KEFAUVER. They have been made.

Mr. McCARRAN. Is that the amendment the Senator is now offering?

Mr. KEFAUVER. Yes.

Mr. McCARRAN. I wish to say that I shall vote for the amendment because I think it clarifies the situation and

makes the provision enforceable. It sustains the position the Senator from Nevada has been compelled to take, and does take, with reference to licensed and legalized gambling in my own State.

Mr. FERGUSON. The Senator from Michigan simply wanted to yield the floor on the condition that he would receive unanimous consent to have the floor after the vote. I make that request.

The PRESIDING OFFICER. Is there objection? The Chair hears none, and it is so ordered.

The yeas and nays have been ordered on the amendment numbered 24 offered by the Senator from Tennessee [Mr. KEFAUVER] on behalf of himself and other Senators. The clerk will call the roll.

The Chief Clerk called the roll.

Mr. JOHNSON of Texas. I announce that the Senator from New Mexico [Mr. ANDERSON] is absent by leave of the Senate.

The Senator from Virginia [Mr. BYRD] is absent because of illness in his family, and, if present, would vote "nay."

The Senator from New Mexico [Mr. CHAVEZ], the Senator from Kentucky [Mr. CLEMENTS], the Senator from Louisiana [Mr. ELLENDER], the Senator from Delaware [Mr. FREAR], the Senator from Iowa [Mr. GILLETTE], the Senator from New York [Mr. LEHMAN], and the Senator from Wyoming [Mr. O'MAHONEY] are absent on official business.

I announce further that if present and voting, the Senator from Virginia [Mr. BYRD], the Senator from New Mexico [Mr. CHAVEZ], the Senator from Louisiana [Mr. ELLENDER], and the Senator from Delaware [Mr. FREAR] would vote "nay."

Mr. SALTONSTALL. I announce that the Senator from Nevada [Mr. MALONE] is absent on official business.

The Senator from New Hampshire [Mr. TOBEY] and the Senator from Nebraska [Mr. WHERRY] are necessarily absent.

The Senator from Wisconsin [Mr. MCCARTHY] is absent by leave of the Senate.

The Senator from New Hampshire [Mr. BRIDGES], the Senator from Vermont [Mr. FLANDERS], the Senator from Missouri [Mr. KEM], the Senator from Indiana [Mr. CAPEHART], and the Senator from North Dakota [Mr. YOUNG] are detained on official business. If present and voting, the Senator from Vermont [Mr. FLANDERS] would vote "nay."

The result was announced—yeas 29, nays 49, as follows:

YEAS—29

Cain	Kilgore	Robertson
Duff	Knowland	Smathers
Eaton	Langer	Smith, N. J.
Ferguson	Lodge	Sparkman
Hendrickson	Long	Stennis
Holland	McCarran	Thye
Hunt	McClellan	Underwood
Ives	Morse	Wiley
Jenner	Nixon	Williams
Kefauver	O'Connor	

NAYS—49

Aiken	Connally	Hayden
Bennett	Cordon	Hennings
Benton	Dirksen	Hickenlooper
Brewster	Douglas	Hill
Bricker	Dworschak	Hoey
Butler, Md.	Eastland	Humphrey
Butler, Nebr.	Fulbright	Johnson, Colo.
Carlson	George	Johnson, Tex.
Casa	Green	Johnston, S. C.

Kerr
Magnuson
Martin
Maybank
McFarland
McKellar
McMahon
Millikin

Monroney
Moody
Mundt
Murray
Neely
Pastore
Russell
Saltonstall

Schoeppel
Smith, Maine
Smith, N. C.
Taft
Watkins
Welker

NOT VOTING—18

Anderson
Bridges
Byrd
Capehart
Chavez
Clements

Ellender
Flanders
Frear
Gillette
Kem
Lehman

Malone
McCarthy
O'Mahoney
Tobey
Wherry
Young

So the amendment offered by Mr. KEFAUVER for himself and other Senators was rejected.

The PRESIDING OFFICER. The Senator from Michigan [Mr. FERGUSON] has the floor.

Mr. FERGUSON. I yield to the Senator from Arizona.

Mr. GEORGE. Mr. President, may we agree to the section?

Mr. McFARLAND. I am willing to vote on the section.

Mr. FERGUSON. I yield to the Senator from Georgia.

Mr. GEORGE. Let us have a formal vote.

The PRESIDING OFFICER. Are there any further amendments?

Mr. KEFAUVER. Mr. President, I wish to offer some individual amendments, if we are to continue in session this evening.

Mr. GEORGE. Mr. President, I understood that the junior Senator from Tennessee had offered his series of amendments by way of a substitute for the bill. I asked him that specific question, and it was so understood.

Mr. McFARLAND. Mr. President, a point of order.

Mr. GEORGE. May I first clear up this matter?

Mr. McFARLAND. The Senator from Tennessee is out of order.

Mr. GEORGE. I thought so.

Mr. KEFAUVER. I stated during the course of the argument that I was offering an amendment to strike out the section in the bill, and these four amendments as substitutes.

Mr. GEORGE. That was my understanding. I asked the Senator if they should be voted on en bloc.

Mr. KEFAUVER. However, I stated that if the request were not agreed to I expected to offer the amendments singly.

Mr. GEORGE. Very well, If that is the Senator's idea of how to get along, after saying that we were voting en bloc on his substitute amendments, I hardly know how to carry on, Mr. President.

Mr. McFARLAND. Mr. President, a parliamentary inquiry.

The PRESIDING OFFICER. The Senator from Arizona will state it.

Mr. McFARLAND. Is it in order to offer one of these amendments that has been voted down?

The PRESIDING OFFICER. The Chair understands it is.

Mr. McFARLAND. Before they are offered—

The PRESIDING OFFICER. The Senator from Michigan [Mr. FERGUSON] has the floor.

Mr. McFARLAND. The Senator from Michigan has yielded to me, I believe.

Mr. FERGUSON. Yes. I yield to the Senator from Arizona, provided I do not lose the floor.

Mr. McFARLAND. Mr. President, I ask unanimous consent that beginning in the morning tomorrow there be a limitation of debate on all amendments of 30 minutes, 15 minutes to a side, to be controlled by the proponent of the amendment and by the Senator from Georgia [Mr. GEORGE]; that all amendments and amendments to amendments must be germane; and that amendments to amendments be subject to the same limitation on debate; provided, that on the depletion amendment the debate is to be limited to 1½ hours to each side, to be controlled by the proponent of the amendment and the Senator from Georgia [Mr. GEORGE]; that debate on what is known as the split-income-tax amendment be limited to 30 minutes to each side, to be controlled by the proponent of the amendment and the Senator from Georgia [Mr. GEORGE]; provided further, that all amendments must be germane; provided further, that there be a limitation of debate on the bill of not more than 2 hours, to be divided equally and controlled, respectively, by the Senator from Georgia and the acting minority leader or any Senator whom he may designate; provided further, that debate on all appeals and motions be limited to 30 minutes, 15 minutes to a side, the time to be controlled in the same manner.

The PRESIDING OFFICER. Is there objection?

Mr. HUMPHREY. Mr. President, I believe the distinguished Senator from Arizona has omitted the 12½-percent income-tax amendment.

Mr. McFARLAND. Provided further, that debate on the 12½-percent income-tax amendment be limited to 30 minutes to a side, to be controlled in the same manner.

Mr. HUMPHREY. That is correct.

Mr. GEORGE. Mr. President, I wish to ask the distinguished Senator from Minnesota if he intends to increase the tax on the little individuals in this country?

Mr. HUMPHREY. I should like to say that if we increase it only by \$28,000,000 on those who earn less than \$5,000, and by \$372,000,000 on those who earn more than \$5,000, in order to get approximately \$500,000,000 of additional revenue, it might be a fair proposal.

Mr. GEORGE. I asked the Senator whether he wished to increase it again on those who earn less than \$5,000.

Mr. HUMPHREY. The Senator from Minnesota is talking about the proposal in the House bill.

Mr. GEORGE. I know, but I am asking the Senator from Minnesota if he wants to increase the tax on the little fellows who earn less than \$5,000?

Mr. HUMPHREY. No; the Senator from Minnesota solicits the kind attention of the Chairman of the Committee

on Finance to his amendment, which would eliminate benefits of income splitting—

Mr. GEORGE. I am not talking about income splitting.

Mr. McFARLAND. Mr. President—

Mr. GEORGE. I do not blame the Senator from Minnesota for not answering the question. It is not a question that can be answered categorically.

Mr. McFARLAND. Do all Senators understand the terms of the unanimous-consent agreement?

The PRESIDING OFFICER. Is there objection?

Mr. MILLIKIN. Reserving the right to object—

Mr. McFARLAND. Mr. President, I have been requested to repeat the unanimous-consent agreement. I ask unanimous consent that debate on all amendments be limited to 30 minutes, 15 minutes to a side, with the exception of the amendments I shall enumerate, the time to be controlled by the proponents of the amendments and the Senator from Georgia [Mr. GEORGE], in the event that he opposes such amendments, and if he is not opposed to the amendments, the time in opposition to be controlled by the acting minority leader, or any Senator whom he may designate; provided, that the same limitation on debate be placed on all amendments to amendments, and on all motions and appeals; provided further, that all amendments must be germane; provided further, that there be a limitation of debate upon what is known as the development and exploitation amendment of 30 minutes to each side, to be controlled in the same manner; that debate on what is known as the depletion amendment be limited to an hour and a half to each side, to be controlled in the same manner; that debate on what is known as the capital-gains amendment be limited to 30 minutes to each side, to be controlled in the same manner; that debate on what is known as the split income-tax amendment be limited to 30 minutes to each side, to be controlled in the same manner.

The PRESIDING OFFICER (Mr. PASTORE in the chair).

Has the Senator from Arizona mentioned the 12½ percent income tax amendment?

Mr. McFARLAND. That is the split income tax amendment.

Mr. GEORGE. No. I should like to have 30 minutes of debate to a side on the amendment raising the tax on the little fellow.

Mr. McFARLAND. Very well; the 12½-percent income-tax amendment—

Mr. GEORGE. I am referring to the amendment raising the tax on the small taxpayer.

Mr. DOUGLAS. Mr. President, I protest the statement of the Senator from Georgia labeling the amendment in that fashion. The RECORD should show that the Senator from Minnesota and those of us who are supporting him are endeavoring to balance the budget, so that we will not have inflation; and secondly,

at least according to our light, it is our purpose to see to it that the tax burden is distributed according to ability to pay.

Mr. McFARLAND. Mr. President, may I have the request for the unanimous-consent agreement acted on before debate ensues? I would appreciate it if the Senator from Illinois would wait until I have finished.

Mr. FERGUSON. Mr. President, does this discussion take me from the floor?

Mr. McFARLAND. No, it does not.

Mr. MORSE. Mr. President—

Mr. McFARLAND. I have one more request, and I hope no Senator will object to it. It is that tomorrow morning the pending question be the amendment of the Senator from North Dakota [Mr. LANGER]. He may have to leave the city tomorrow. I ask unanimous consent that his amendment, known as the parimutuel amendment, be the pending question at 10 o'clock tomorrow morning when the Senate convenes.

Mr. MORSE. Mr. President—

The PRESIDING OFFICER. Does the Senator from Arizona yield to the Senator from Oregon?

Mr. McFARLAND. Yes.

Mr. MORSE. Reserving the right to object, I should like to ask the very able leader, who represents those of us who believe that the American people generally should pay higher taxes at the present time, in order to better preserve their security, whether he believes that the proposed unanimous-consent agreement reserves to us adequate time for a full discussion of those instances in which the people best able to pay are getting a tax reduction under this bill?

Mr. GEORGE. I think so, Mr. President.

Mr. MORSE. I am glad to have the view of the Senator from Georgia, but I addressed my inquiry to the Senator from Minnesota [Mr. HUMPHREY]. [Laughter.]

Mr. GEORGE. I am sorry.

Mr. MORSE. I was speaking about the leader of the group of us who believes that the tax should be increased in order better to help preserve the security of the country.

Mr. HUMPHREY. I reply to my good friend from Oregon by saying that I agree with the general content of the unanimous-consent agreement, and I hope we can consummate it and get going.

Mr. MORSE. Mr. President, with that assurance from my leader on this issue, I shall not object.

The PRESIDING OFFICER. Is there objection to the unanimous-consent agreement which has been proposed? The Chair hears none, and it is so ordered.

The unanimous-consent agreement, as reduced to writing, is as follows:

Ordered, That during the further consideration of the bill (H. R. 4473) to provide revenue, and for other purposes, debate upon any amendment or motion (including appeals) shall be limited as follows: Upon the amendment relating to depletion, not to exceed 3 hours; upon the amendments relating, respectfully, to exploration and development, capital gains and losses, split income taxes,

and individual income taxes, not to exceed 1 hour each; that upon any amendment or motion to the above-named amendments, and upon any other amendment or motion proposed to the bill, not to exceed 30 minutes each, the time in each case to be equally divided and controlled by the mover of any such amendment and Mr. GEORGE: *Provided*, That in the event Mr. GEORGE is in favor of any such amendment or motion, the time in opposition thereto shall be controlled by the acting minority leader or someone designated by him: *Provided further*, That no amendment or motion that is not germane to the subject matter of the said bill shall be received: *Provided further*, That debate upon the final passage of the bill shall be limited to not exceeding 2 hours, to be equally divided and controlled by Mr. GEORGE and the acting minority leader or someone designated by him.

Mr. McFARLAND. Mr. President, will the Senator from Michigan yield further to me?

Mr. FERGUSON. I yield.

Mr. McFARLAND. Mr. President, if I may have the attention of the Senate, I wish to make another announcement: I hope we can complete action on this bill tomorrow evening or tomorrow night. If Senators work hard on the bill, I think we can do that; but it will require the attendance of all Senators on the floor of the Senate. I hope the committees which have planned to hold meetings tomorrow will adjourn their meetings immediately after they convene them, and thus will make it possible for us to have one day during which all Senators will be present on the floor of the Senate and will be available for work on this bill, so that we may complete our action on it. Thereafter the committees can meet as much as they wish to.

Mr. SALTONSTALL. Mr. President, will the Senator from Michigan yield to me for a moment?

Mr. FERGUSON. I yield.

Mr. SALTONSTALL. I understand that the plan is to have the Senate convene at 10 o'clock tomorrow morning. Is that correct?

Mr. McFARLAND. Yes; at 10 o'clock tomorrow morning.

I plead with all Senators to be here at 10 o'clock tomorrow morning and help us complete our action on this bill tomorrow. If Senators are present promptly at 10 o'clock, it will not be necessary to take time for quorum calls. If all Senators will cooperate in that way, I think we shall be able to complete our action on the bill tomorrow, and then we shall not have to have a session on Saturday.

Mr. HUMPHREY. Mr. President, will the Senator from Michigan yield to me?

Mr. FERGUSON. I yield.

Mr. HUMPHREY. As the Senator from Arizona recalls, a statement was made of a desire to bring up early in the session tomorrow the depletion-allowance amendment. Is it the intention that that shall be done?

Mr. McFARLAND. Mr. President, I should like to have the Senator from Minnesota state his intention in that connection.

Mr. HUMPHREY. I should like to have that done, Mr. President.

Mr. McFARLAND. Very well.

Mr. SALTONSTALL. Mr. President, a parliamentary inquiry.

The PRESIDING OFFICER. The Senator from Massachusetts will state it.

Mr. SALTONSTALL. It is my understanding that part of the unanimous-consent agreement which has been entered into provides that the question before the Senate tomorrow morning shall be the amendment of the Senator from North Dakota. Is that correct?

The PRESIDING OFFICER. That is correct.

Mr. LANGER. Mr. President, I send the amendment to the desk and ask that it lie on the table.

The PRESIDING OFFICER. The amendment will be received and will lie on the table.

Mr. McFARLAND. Mr. President, I wish to express my appreciation to all the Members of the Senate for their kindness in helping us obtain the agreement which has now been reached.

Before my distinguished friend, the Senator from Michigan [Mr. FERGUSON], addresses the Senate, I also wish to express my appreciation to Senators on his side of the aisle for remaining in the chamber this long, before going to their dinner. I hope they have a delightful dinner, and that tomorrow morning when they come to the Senate Chamber they will feel fine.

Mr. WATKINS. Mr. President, I ask unanimous consent to have printed at this point in the body of the RECORD a statement I have prepared in regard to one of the amendments which were considered today.

There being no objection, the statement was ordered to be printed in the RECORD, as follows:

STATEMENT BY SENATOR WATKINS

Several hours ago I voted to tax the tax-free expense allowances of the President and Vice President of the United States and Members of Congress, including myself. I felt that it was not right that officials of the Government of the United States, be they the holders of high or low offices, should enjoy tax exemptions not enjoyed by all of our people.

I was not a Member of the Senate of the United States when the Legislative Reorganization Act of 1946 was passed, and therefore I had no hand in voting a \$2,500 tax-free expense allowance to Members of Congress. I was a member of this body on January 13, 1949, when a bill to grant the President a \$50,000 tax-free expense account was voted upon by this body. On that occasion I expressed myself as follows, and I am quoting from page 222 of the CONGRESSIONAL RECORD for January 13, 1949, Eighty-first Congress, first session:

"I should like to make an observation with reference to what the Senator from Illinois said concerning Congress voting itself expense money for which it does not need to account. I was not here at the time action was taken on that measure, and I did not vote for it. If the question were up for action today, I would not vote for such a measure. I think it is wrong in principle."

That statement was made by me in an exchange with Senator Donnell of Missouri who was urging the adoption of an amendment that the President be required to make an accounting for the \$50,000 annual expense allowance which the Senate was then preparing to authorize. I was one of 22 Senators who voted "aye" on that proposal; 61

Senators voted "nay." As a consequence the President has not been required to account for his \$50,000 annual expense allowance.

The bill which actually authorized the appropriation of \$50,000 each year to the President as a tax-free expense allowance in addition to his salary and other allowances was passed by the Senate on January 13, 1949. I was one of nine Senators who voted against that bill.

Today, more than 2½ years later, the Senate has reversed the action of 2½ years ago by adopting the so-called Williams amendment to the general tax-increase bill which is now the pending business of the Senate. I am proud to say that I was one of the cosponsors of the Williams amendment. I am equally proud to say that I was 1 of the 77 Senators who voted for the amendment. That means that I have voted not only to tax the President's annual tax-free allowance, but also to tax the allowance of Members of Congress, including my own.

On January 18, 1949, 2 days after I had voted in favor of a proposal to require the President to account for his \$50,000 annual expense allowance, I inserted an article in the CONGRESSIONAL RECORD which is even more in point today than it was in 1949. That article was as follows:

[From the Washington (D. C.) Evening Star of January 17, 1949]

TAX-FREE ALLOWANCE VOTED BY SENATE SEEN PROBLEM FOR TRUMAN—PRESIDENT CANNOT KNOW WHETHER HE'S ENTITLED TO MONEY AS PAY UNDER BILL

(By David Lawrence)

President Truman can save future Presidents much embarrassment and set an example of forbearance and dignity by requesting the House of Representatives to amend the bill just passed by the Senate that gives him a \$50,000 tax-free expense allowance. No President hereafter will ever be sure whether he can pocket that sum as a part of his income or whether he is under moral obligation to spend it only for a public purpose.

It isn't as if a President doesn't have his expenses paid by the Government. For out of the so-called budget for the White House of more than \$1,000,000 a year, he gets the following things:

1. A house with plenty of bedrooms and baths, rent free, plus servants—not a dime of which expense he has to pay. All upkeep and repair expenses are paid by Uncle Sam. The maintenance amounts to about \$260,000 a year.

2. All expenses for official entertainment.

3. A fleet of automobiles and chauffeurs for the personal use of himself and family. The Government pays for the upkeep and gasoline used.

GETS PRIVATE YACHT

4. A private yacht and crew that cost the Government a large sum annually to maintain.

5. A private airplane with luxury accommodations and maintenance crew that costs the Government quite a sum annually to maintain.

6. A \$40,000 allowance for travel which can be used for political campaigning by the simple trick of calling the trips nonpolitical.

Now it is proposed to increase the President's salary from \$75,000 to \$100,000. This item would be taxable and thus the President would be just like anybody else insofar as that sum is concerned. Last year he netted approximately \$48,000 after taxes because of the split-income rates of husband and wife and under the proposed salary he would net \$60,000 after taxes.

But when it comes to the \$50,000 expense allowance, tax free, which the Senate has just voted to the President, no businessman

has any such privilege. The Government scrutinizes closely expense accounts in business and disallows them if not spent for business purposes. Even so, when the item is ruled to be deductible, the Government bears only 38 percent, while the employer bears 62 percent of the cost of the expense item. There are no tax-free expense allowances in private business.

NO ACCOUNTING NECESSARY

The precedent in this case is also bad because the Senate voted that a President didn't have to make an accounting if he didn't want to do so. Does this mean he can add the \$50,000 to personal income? Why put a President of the United States in the embarrassing position of having to decide whether a given expenditure is one that he would or would not have made if he had not been the Chief Executive?

If the House of Representatives wishes to put the matter of a President's salary on a realistic basis, it can increase the present amount to a total of \$240,000 a year and make all of this taxable just as is any executive's salary, subject to the usual deductions. This means that at present rates his net sum after taxes would be about \$110,000, or the equivalent of a \$100,000 taxable salary and \$50,000 tax-free allowance as the Senate has proposed.

No element of tax avoidance would then be involved and the precedent would be an honorable one, though to be sure many of the so-called "little people" who are supposed to have won the election for Mr. Truman will wonder since when does "a man of the people" need so much money for personal use the moment he wins an election?

A President who cannot save money on a \$75,000 taxable salary when all his rent and servants and transportation are paid for by the Government is not setting a good example of economy or thrift. Likewise a President who accepts a tax-free allowance of any kind and asks the other citizens to pay taxes is not interpreting correctly the basic principles of Thomas Jefferson on which the Democratic Party was founded. Only kings and princes are treated on any other basis. It's a bad way to start off the Fair Deal.

MUTUAL ASSISTANCE ACT OF 1951—CONFERENCE REPORT (S. DOC. NO. 73)

Mr. CONNALLY. Mr. President, I submit a report of the committee of conference on the disagreeing votes of the two Houses on the amendment of the Senate to the bill (H. R. 5113) to maintain the security and promote the foreign policy and provide for the general welfare of the United States by furnishing assistance to friendly nations in the interest of international peace and security. I do not wish to have it considered at this time, but merely to submit the report.

The PRESIDING OFFICER. The report will be received, and printed, and will lie on the table, and will be printed in the RECORD.

The report submitted by Mr. CONNALLY is as follows:

The committee of conference on the disagreeing votes of the two Houses on the amendment of the Senate to the bill (H. R. 5113) to maintain the security and promote the foreign policy and provide for the general welfare of the United States by furnishing assistance to friendly nations in the interest of international peace and security, having met, after full and free conference, have agreed to recommend and do recommend to their respective Houses as follows:

That the House recede from its disagreement to the amendment of the Senate and agree to the same with an amendment as follows: In lieu of the matter proposed to

be inserted by the Senate amendment insert the following:

"That this Act may be cited as the 'Mutual Security Act of 1951'.

"Sec. 2. The Congress declares it to be the purpose of this Act to maintain the security and to promote the foreign policy of the United States by authorizing military, economic, and technical assistance to friendly countries to strengthen the mutual security and individual and collective defenses of the free world, to develop their resources in the interest of their security and independence and the national interest of the United States and to facilitate the effective participation of those countries in the United Nations system for collective security. The purposes of the Mutual Defense Assistance Act of 1949, as amended (22 U. S. C. 1571-1604), the Economic Cooperation Act of 1948, as amended (22 U. S. C. 1501-1522), and the Act for International Development (22 U. S. C. 1557) shall hereafter be deemed to include this purpose.

"TITLE I—EUROPE

"Sec. 101. (a) In order to support the freedom of Europe through assistance which will further the carrying out of the plans for defense of the North Atlantic area, while at the same time maintaining the economic stability of the countries of the area so that they may meet their responsibilities for defense, and to further encourage the economic unification and the political federation of Europe, there are hereby authorized to be appropriated to the President for the fiscal year 1952 for carrying out the provisions and accomplishing the policies and purpose of this Act—

"(1) not to exceed \$5,028,000,000 for assistance pursuant to the provisions of the Mutual Defense Assistance Act of 1949, as amended (22 U. S. C. 1571-1604), for countries which are parties to the North Atlantic Treaty and for any country of Europe (other than a country covered by another title of this Act), which the President determines to be of direct importance to the defense of the North Atlantic area and whose increased ability to defend itself the President determines is important to the preservation of the peace and security of the North Atlantic area and to the security of the United States (any such determination to be reported forthwith to the Committee on Foreign Relations of the Senate, the Committee on Foreign Affairs of the House of Representatives, and the Committees on Armed Services of the Senate and of the House of Representatives), and not to exceed \$100,000,000 of such appropriation for any selected persons who are residing in or escapees from the Soviet Union, Poland, Czechoslovakia, Hungary, Rumania, Bulgaria, Albania, Lithuania, Latvia, and Estonia, or the Communist dominated or Communist occupied areas of Germany and Austria, and any other countries absorbed by the Soviet Union either to form such persons into elements of the military forces supporting the North Atlantic Treaty Organization or for other purposes, when it is similarly determined by the President that such assistance will contribute to the defense of the North Atlantic area and to the security of the United States. In addition, unexpended balances of appropriations heretofore made for carrying out the purposes of the Mutual Defense Assistance Act of 1949, as amended, through assistance to any of the countries covered by this paragraph are hereby authorized to be continued available through June 30, 1952, and to be consolidated with the appropriation authorized by this paragraph. Section 408 (c) of the Mutual Defense Assistance Act of 1949, as amended (22 U. S. C. 1579), is hereby repealed.

"(2) not to exceed \$1,022,000,000 for assistance pursuant to the provisions of the Economic Cooperation Act of 1948, as amended (22 U. S. C. 1501-1522) (including assistance to further European military production),

for any country of Europe covered by paragraph (1) of this subsection and for any other country covered by section 103 (a) of the said Economic Cooperation Act of 1948, as amended. In addition, unexpended balances of appropriations heretofore made for carrying out the purposes of the Economic Cooperation Act of 1948, as amended, are hereby authorized to be continued available through June 30, 1952, and to be consolidated with the appropriation authorized by this paragraph: *Provided*, That not to exceed \$10,000,000 of the funds made available pursuant to this paragraph may be utilized to effectuate the principles set forth in section 115 (e) of the Economic Cooperation Act of 1948, as amended.

"(b) Not to exceed 10 per centum of the total of the appropriations granted pursuant to this section may be transferred, when determined by the President to be necessary for the purpose of this Act, between appropriations granted pursuant to either paragraph of subsection (a): *Provided*, That the amount herein authorized to be transferred shall be determined without reference to any balances of prior appropriations continued available pursuant to this section: *Provided further*, That, whenever the President makes any such determination, he shall forthwith notify the Committee on Foreign Relations of the Senate, the Committee on Foreign Affairs of the House of Representatives, and the Committees on Armed Services of the Senate and of the House of Representatives.

"TITLE II—NEAR EAST AND AFRICA

"Sec. 201. In order to further the purpose of this Act by continuing to provide military assistance to Greece, Turkey, and Iran, there are hereby authorized to be appropriated to the President for the fiscal year 1952, not to exceed \$396,250,000 for furnishing assistance to Greece and Turkey pursuant to the provisions of the Act of May 22, 1947, as amended (22 U. S. C. 1401-1410), and for furnishing assistance to Iran pursuant to the provisions of the Mutual Defense Assistance Act of 1949, as amended (22 U. S. C. 1571-1604). In addition, unexpended balances of appropriations heretofore made for assistance to Greece and Turkey, available for the fiscal year 1951, pursuant to the Act of May 22, 1947, as amended, and for assistance to Iran pursuant to the Mutual Defense Assistance Act of 1949, as amended, are hereby authorized to be continued available through June 30, 1952, and to be consolidated with the appropriation authorized by this section.

"Sec. 202. Whenever the President determines that such action is essential for the purpose of this Act, he may provide assistance, pursuant to the provisions of the Mutual Defense Assistance Act of 1949, as amended, to any country of the Near East area (other than those covered by section 201) and may utilize not to exceed 10 per centum of the amount made available (excluding balances of prior appropriations continued available) pursuant to section 201 of this Act: *Provided*, That any such assistance may be furnished only upon determination by the President that (1) the strategic location of the recipient country makes it of direct importance to the defense of the Near East area, (2) such assistance is of critical importance to the defense of the free nations, and (3) the immediately increased ability of the recipient country to defend itself is important to the preservation of the peace and security of the area and to the security of the United States.

"Sec. 203. In order to further the purpose of this Act in Africa and the Near East, there are hereby authorized to be appropriated to the President, for the fiscal year 1952, not to exceed \$160,000,000 for economic and technical assistance in Africa and the Near East in areas other than those covered by section 103 (a) of the Economic Cooperation Act of 1948, as amended (22

Calendar No. 737

82D CONGRESS
1ST SESSION

H. R. 4473

IN THE SENATE OF THE UNITED STATES

SEPTEMBER 20 (legislative day, SEPTEMBER 19), 1951

Ordered to lie on the table and to be printed

AMENDMENT

Intended to be proposed by Mr. WILLIAMS (for himself, Mr. FREAR, Mr. WATKINS, Mr. FERGUSON, Mr. GILLETTE, Mr. IVES, Mr. BENNETT, Mr. SCHOEPPPEL, Mr. BYRD, Mr. CAIN, Mr. BRICKER, Mr. BUTLER of Maryland, Mr. HENDRICKSON, Mr. JENNER, Mr. BREWSTER, Mr. MARTIN, Mr. KEM, and Mr. MORSE) to the bill (H. R. 4473) to provide revenue, and for other purposes, viz: At the proper place in the bill insert the following new section:

1 SEC. . (a) COMPENSATION OF THE PRESIDENT.—

2 (1) Effective as of November 1, 1951, section 102 of
3 title 3 of the United States Code is amended by striking out
4 the words “no tax liability shall accrue and for which”.

5 (2) Effective at noon on January 20, 1953, section 102
6 of title 3 of the United States Code is amended to read as
7 follows:

1 “COMPENSATION OF THE PRESIDENT

2 “SEC. 102. The President shall receive in full for his
3 services during the term for which he shall have been
4 elected compensation in the aggregate amount of \$150,000
5 a year, to be paid monthly. He shall be entitled also to
6 the use of the furniture and other effects belonging to the
7 United States and kept in the Executive Mansion.”

8 (b) COMPENSATION OF THE VICE PRESIDENT.—

9 (1) Section 104 of title 3 of the United States Code
10 (relating to salary of the Vice President) is amended by
11 striking out “\$30,000” and inserting in lieu thereof
12 “\$40,000”.

13 (2) Section 111 of title 3 of the United States Code
14 (relating to an expense allowance for the Vice President)
15 is repealed.

16 (c) SALARIES OF MEMBERS OF CONGRESS AND OF
17 THE SPEAKER OF THE HOUSE.—

18 (1) Section 601 (a) of the Legislative Reorganiza-
19 tion Act of 1946 (relating to salaries of Members of Con-
20 gress and of the Speaker of the House) is amended—

21 (A) by striking out “\$12,500” and inserting in
22 lieu thereof “\$15,000”; and

23 (B) by striking out “\$30,000” and inserting in
24 lieu thereof “\$40,000”.

1 (2) Section 601 (b) of the Legislative Reorganization
2 Act of 1946 (relating to expense allowances for Members of
3 Congress) is hereby repealed.

4 (3) Subsection (e) of the first section of the Act en-
5 titled "An Act to increase rates of compensation of the Presi-
6 dent, Vice President, and the Speaker of the House of
7 Representatives" (Public Law 2, Eighty-first Congress)
8 (relating to an expense allowance for the Speaker of the
9 House) is hereby repealed.

10 (d) COMPUTING DEDUCTION FOR RETIREMENT.—In
11 computing the amount to be deducted from the compensation
12 of any official whose salary is changed by this section for
13 the purposes of the Civil Service Retirement Act of May
14 29, 1930, and in computing the amount of any annuity under
15 such Act any change in compensation provided by this sec-
16 tion shall be disregarded until further Act of Congress.

17 (e) EFFECTIVE DATE.—Except as provided in subsec-
18 tion (a) the provisions of this section shall take effect as of
19 November 1, 1951.

AMENDMENT

Intended to be proposed by Mr. WILLIAMS (for himself, Mr. FREAR, Mr. WATKINS, Mr. FERGUSON, Mr. GILLETTE, Mr. Ives, Mr. BENNETT, Mr. SCHOEPPEL, Mr. BYRD, Mr. CAIN, Mr. BRICKER, Mr. BUTLER of Maryland, Mr. HENDRICKSON, Mr. JENNER, Mr. BREWSTER, Mr. MARTIN, Mr. KEM, and Mr. MORSE) to the bill (H. R. 4473) to provide revenue, and for other purposes.

SEPTEMBER 20 (legislative day, SEPTEMBER 19), 1951
Ordered to lie on the table and to be printed

Calendar No. 737

82^D CONGRESS
1ST SESSION

H. R. 4473

IN THE SENATE OF THE UNITED STATES

SEPTEMBER 21 (legislative day, SEPTEMBER 19), 1951

Ordered to lie on the table and to be printed

AMENDMENT

Intended to be proposed by Mr. BRIDGES to the bill (H. R. 4473) to provide revenue, and for other purposes, viz:

1 On page 331, line 22, after the word "ORGANIZATIONS",
2 insert "OR HOSPITALS".

3 On page 332, line 6, after the comma insert: "or to
4 the benefit of a hospital, or an institution for the rehabilitation
5 of physically handicapped persons which maintains or is
6 building for proper maintenance such a hospital or institution
7 staffed or to be staffed by qualified professional persons for
8 the treatment of the sick and/or the rehabilitation of the
9 physically handicapped".

82^d CONGRESS
1ST SESSION

H. R. 4473

AMENDMENT

Intended to be proposed by Mr. BRIDGES to the bill (H. R. 4473) to provide revenue, and for other purposes.

SEPTEMBER 21 (legislative day, SEPTEMBER 19), 1951

Ordered to lie on the table and to be printed

Calendar No. 737

82^D CONGRESS
1ST SESSION

H. R. 4473

IN THE SENATE OF THE UNITED STATES

SEPTEMBER 22 (legislative day, SEPTEMBER 19), 1951

Ordered to lie on the table and to be printed

AMENDMENT

Intended to be proposed by Mr. KEFAUVER to the bill (H. R. 4473) to provide revenue, and for other purposes, viz:

1 At the proper place insert the following: That section
2 421 of the Internal Revenue Code is amended by adding
3 at the end thereof the following: "The provisions of this
4 section shall apply to irrevocable trusts to the extent that
5 the income is owned by any individual who dies on or after
6 December 7, 1941, while in active service as a member of
7 the military or naval forces of the United States or of any
8 of the other United Nations and prior to January 1, 1948."

82ND CONGRESS
1ST SESSION

H. R. 4473

AMENDMENT

Intended to be proposed by Mr. KEFAUVER to the bill (H. R. 4473) to provide revenue, and for other purposes.

SEPTEMBER 22 (legislative day, SEPTEMBER 19), 1951

Ordered to lie on the table and to be printed

82^D CONGRESS
1ST SESSION

H. R. 4473

IN THE SENATE OF THE UNITED STATES

SEPTEMBER 28 (legislative day, SEPTEMBER 19), 1951

Ordered to be printed with the amendments of the Senate numbered

AN ACT

To provide revenue, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That (a) SHORT TITLE.—This Act, divided into titles and
4 sections according to the following table of contents, may
5 be cited as the “Revenue Act of 1951”:

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TITLE I—INCREASE IN INCOME TAX RATES

PART I—INDIVIDUAL INCOME TAXES

Sec. 101. Defense tax.

 (a) Increase in rate of tax.

 (b) Amendment of section 12 (b).

 (c) Limitation on tax.

 (d) Technical amendments.

Sec. 102. Individuals with adjusted gross income of less than \$5,000.

Sec. 103. Computation of tax in case of certain joint returns.

Sec. 104. Effective date of part I.

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TITLE I—INCREASE IN INCOME TAX RATES—Continued

PART II—CORPORATION INCOME TAXES

- Sec. 121. Increase in rate of corporation normal tax.
 - (a) Amendment of section 12.
 - (b) Maximum tax.
 - (c) Mutual insurance companies other than life or marine.
 - (d) Regulated investment companies.
 - (e) Business income of certain section 101 organizations.
 - (f) Technical amendments.
- Sec. 122. Credits of corporations.
 - (a) Dividends received credit.
 - (b) Credit for dividends paid on certain preferred stock.
 - (c) Western Hemisphere trade corporations.
- Sec. 123. Surtax exemptions and certain credits of related corporations.
 - (a) Limitation on surtax exemption in the case of related corporations.
 - (b) Insurance companies.
 - (c) Minimum excess profits credit.
- Sec. 124. Computation of alternative capital gains tax.
 - (a) Alternative tax.
 - (b) Effective date.
- Sec. 125. Effective date.

PART III—FISCAL YEAR TAXPAYERS

- Sec. 131. Fiscal year taxpayers.
 - (a) Amendment of section 108.
 - (b) Computation of excess profits tax.
 - (c) Technical amendments.

TITLE II—WITHHOLDING OF TAX AT SOURCE

PART I—WITHHOLDING OF TAX AT SOURCE ON DIVIDENDS, INTEREST, AND ROYALTIES

- Sec. 201. Collection of income tax at source on dividends, interest, and royalties.
- Sec. 202. Credit for tax withheld.
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 - (a) Tax computed by collector.
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 - (f) Information by corporations.
 - (g) Clerical amendment.
 - (h) Amount of credit considered as payment.
 - (i) Special period of limitations for small refunds on tax withheld at source.
 - (j) Presumptions as to date of payment.
 - (k) Interest on overpayments.
 - (l) Definition of withholding agent.
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- Sec. 221. Percentage method of withholding.
- Sec. 222. Wage bracket withholding.
- Sec. 223. Additional withholding of tax on wages upon agreement by employer and employee.
- Sec. 224. Effective date.

TITLE III—MISCELLANEOUS INCOME TAX AMENDMENTS

- Sec. 301. Tax treatment in case of head of household.
 - (a) Surtax in case of head of household.
 - (b) Effective date.
- Sec. 302. Expenditures in the development of mines.
 - (a) Deduction of expenditures.
 - (b) Adjusted basis for determining gain or loss upon sale or exchange.
 - (c) Technical amendment.
 - (d) Effective date.
- Sec. 303. Gain from sale or exchange of taxpayer's residence.
 - (a) Nonrecognition of gain in certain cases.
 - (b) Technical amendments.
 - (c) Effective date.
- Sec. 304. Percentage depletion.
 - (a) Allowance of percentage depletion.
 - (b) Technical amendment.
 - (c) Effective date.
- Sec. 305. Capital gains and losses.
 - (a) Treatment of long-term capital gains and losses.
 - (b) Alternative tax.
 - (c) Technical amendments.
 - (d) Effective date.
- Sec. 306. Sales of livestock.
- Sec. 307. Tax treatment of coal royalties.
 - (a) Definition of property used in the trade or business.
 - (b) Gain or loss upon certain disposals of timber or coal.
 - (c) Clerical amendment.
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- Sec. 308. Collapsible corporations.
 - (a) Definitions with respect to collapsible corporations.
 - (b) Limitations on application of section 117 (m).
 - (c) Effective date.
- Sec. 309. Dealers in securities—capital gains and ordinary losses.
- Sec. 310. Treatment of gain on sales of certain property between spouses and between an individual and a controlled corporation.
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- Sec. 313. Family partnerships:
 (a) Definition of partner.
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 (c) Effective date.

TITLE IV—EXCISE TAXES

PART I—TAX ON ADMISSIONS AND CABARETS

- Sec. 401. Removal of tax on free admissions.
- Sec. 402. Exemptions from admissions tax:
 (a) Reinstatement of prewar exemptions.
 (b) Amendment of section 1701 (a).
 (c) Admissions to municipal swimming pools, etc.
- Sec. 403. Effective date of amendments relating to admissions.
- Sec. 404. Tax on cabarets, roof gardens, etc.
 (a) Ballrooms and dance halls.
 (b) Effective date.

PART II—TAX ON CIGARETTES

- Sec. 421. Tax on cigarettes:
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PART V—LIQUOR

- Sec. 451. Increase in tax on distilled spirits from \$9 to \$10.50 per gallon:
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- Sec. 452. Wines:
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- Sec. 461. Dealers in liquors:
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 (c) Wholesale dealers in malt liquors.
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 Sec. 463. Tax on coin-operated gaming devices.
 Sec. 464. Tax on bowling alleys and billiard and pool tables:
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- Sec. 471. Wagering taxes:
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Sec. 442. Wines.
 (a) *Increase in rate of tax.*
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Sec. 443. Fermented malt liquor.
 (a) *Increase in tax on fermented malt liquors from \$8 to \$9 per barrel.*
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 (a) Increase in tax on trucks.
 (b) Increase in tax on passenger automobiles and motorcycles.
 (c) Increase in tax on parts or accessories.
 (d) Rebuilt parts or accessories.
 (e) Technical amendment.
 (f) Parts or accessories for farm equipment.
 (g) Effective date of subsection (f).
 (h) Removal of tax on tires for toys, etc.
- Sec. 472. Navigation receivers sold to the United States.*
 (a) Exemption on sales to United States of certain radio sets.
 (b) Tax-free sales of radio parts.
 (c) Refund in case of use of parts.
 (d) Refund in case of resale to United States.
 (e) Use by manufacturer of taxable parts.
 (f) Effective dates.
- Sec. 473. Tax-free sales of refrigerator components to wholesalers for resale to manufacturers.*
- Sec. 474. Sporting goods.*
- Sec. 475. Electric, gas, and oil appliances.*
 (a) Items subject to tax.
 (b) Determination of sale price.
- Sec. 476. Photographic apparatus.*
- Sec. 477. Imposition of tax on mechanical pencils, fountain and ball point pens, and mechanical lighters for cigarettes, cigars, and pipes.*
- Sec. 478. Repeal of tax on electrical energy.*
 (a) Repeal of tax.
 (b) Effective date.
- Sec. 479. Tax on gasoline.*
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 (b) Floor stocks tax and refund.
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PART VIII—MISCELLANEOUS EXCISE TAX AMENDMENTS

- Sec. 481. Reduction of tax on telegraph dispatches.*
 (a) Reduction of tax.
 (b) Effective date.
 (c) Amounts paid pursuant to bills rendered.
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 (b) Effective date.
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 (b) Effective date.
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- Sec. 487. Refunds on articles from foreign trade zones.*
 (a) Imported articles.
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- Sec. 502. Payments from foreign sources for technical assistance, etc.*
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- Sec. 503. Average base period net income in case of certain fiscal year taxpayers.*
- Sec. 504. Average base period net income—alternative based on growth in case of new corporations.*
 (a) General rule.
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- Sec. 505. Average base period net income—alternative based on growth.*
- Sec. 506. Adjustments for changes in inadmissible assets in case of banks.*
 (a) Amendment of section 435 (g).
 (b) Amendment of section 438.
 (c) Amendment of section 435 (f).
- Sec. 507. Decrease in inadmissible assets.*
- Sec. 508. Election with respect to certain inadmissible assets.*
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- Sec. 515. Nontaxable income from certain mining properties.*
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 - (e) Effective date.*
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- Sec. 612. Consolidated returns—includible corporations.*
- Sec. 613. Time for performing certain acts postponed in case of China Trade Act corporations.*
- Sec. 614. Treaty obligations.*
- Sec. 615. Reorganization Plan Numbered 26 of 1950.*
- Sec. 616. Claims under the Renegotiation Act.*
- Sec. 617. Prohibition upon denial of Social Security Act funds.*
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 - (e) Effective date.*

1 (b) ACT AMENDATORY OF INTERNAL REVENUE
 2 CODE.—Except as otherwise expressly provided, wherever
 3 in this Act an amendment or repeal is expressed in terms of
 4 an amendment to or repeal of a chapter, subchapter, title,
 5 supplement, section, subsection, subdivision, paragraph, sub-
 6 paragraph, or clause, the reference shall be considered to be
 7 made to a provision of the Internal Revenue Code.

8 (c) MEANING OF TERMS USED.—Except as otherwise
 9 expressly provided, terms used in this Act shall have the
 10 same meaning as when used in the Internal Revenue Code.

11 **TITLE I—INCREASE IN INCOME TAX RATES**

12 **PART I—INDIVIDUAL INCOME TAXES**

13 **(1) SEC. 101. DEFENSE TAX.**

14 ~~(a) INCREASE IN RATE OF TAX.~~—Part I of subchapter
 15 B of chapter 1 is hereby amended by adding at the end
 16 thereof the following new section:

17 **“SEC. 16. DEFENSE TAX**

18 ~~“(a) INDIVIDUALS—CALENDAR YEAR 1951.~~—In the
 19 case of a taxable year beginning on January 1, 1951, and
 20 ending on December 31, 1951, the amount of the combined
 21 normal tax and surtax under sections 11 and 12, and the
 22 amount of the combined normal tax and surtax under section
 23 ~~421~~ ~~(a)~~ ~~(2)~~, shall be the amount of such combined tax
 24 computed without regard to this section, increased by 4 per
 25 centum.

1 “(b) INDIVIDUALS—TAXABLE YEARS BEGINNING
2 AFTER AUGUST 31, 1951.—In the case of taxable years
3 beginning after August 31, 1951, the amount of the com-
4 bined normal tax and surtax under sections 11 and 12, and
5 the amount of the combined normal tax and surtax under
6 section 421 (a) (2), shall be the amount of such combined
7 tax computed without regard to this section, increased by
8 $12\frac{1}{2}$ per centum.

9 “(c) ALTERNATIVE CAPITAL GAINS TAX.—

10 “(1) CALENDAR YEAR 1951.—In computing an
11 alternative tax under paragraph (1) or (2) of section
12 117 (c) for a taxable year beginning on January 1,
13 1951, and ending on December 31, 1951, the amount to
14 be added to the partial tax under such paragraph shall
15 be increased by 4 per centum.

16 “(2) TAXABLE YEARS BEGINNING AFTER AUGUST
17 31, 1951.—In computing an alternative tax under para-
18 graph (1) or (2) of section 117 (c) for a taxable year
19 beginning after August 31, 1951, the amount to be
20 added to the partial tax under such paragraph shall be
21 increased by $12\frac{1}{2}$ per centum.

22 “(3) TAXABLE YEARS BEGINNING BEFORE SEP-
23 TEMBER 1, 1951, AND ENDING AFTER AUGUST 31,
24 1951.—In computing an alternative tax under paragraph

1 ~~(1) or (2)~~ of section 117 ~~(c)~~ for a taxable year ~~(other~~
2 than one beginning on January 1, 1951, and ending on
3 December 31, 1951) beginning before September 1,
4 1951, and ending after August 31, 1951, the amount
5 to be added to the partial tax under such paragraph shall
6 be increased by a percentage which bears the same
7 ratio to $12\frac{1}{2}$ per centum as the number of months in
8 such taxable year after August 31, 1951, bears to the
9 total number of calendar months in such taxable year.
10 For the purposes of this paragraph, a calendar month
11 only part of which falls within a taxable year ~~(A)~~
12 shall be disregarded if less than 15 days of such month
13 are included in such taxable year, and ~~(B)~~ shall be
14 included as a calendar month within the taxable year
15 if more than 14 days of such month fall within the tax-
16 able year."

17 ~~(b)~~ AMENDMENT OF SECTION 12 ~~(b)~~.—Section 12
18 ~~(b)~~ ~~(relating to rates of surtax)~~ is hereby amended by
19 striking out paragraph ~~(2)~~ and inserting in lieu thereof
20 the following:

21 "In the case of a head of a household, the tax imposed
22 by this subsection shall not apply to any taxable year
23 beginning after August 31, 1951. In the case of an
24 individual whose surtax net income for the taxable year
25 is over \$90,000, the tax imposed by this paragraph

shall not apply if the defense tax provided in section 16 is applicable to such taxable year.

“(2) SURTAX NET INCOME OVER \$90,000—CALENDAR YEAR 1951.—In the case of a taxable year beginning on January 1, 1951, and ending on December 31, 1951, if the surtax net income of the individual is over \$90,000, there shall be levied, collected, and paid for such taxable year upon the surtax net income of such individual the surtax shown in the following table:

If the surtax net income is:	The surtax shall be:
Over \$90,000 but not over \$100,000.	\$55,920 plus 83% of excess over \$90,000.
Over \$100,000 but not over \$150,000.	\$64,220 plus 84% of excess over \$100,000.
Over \$150,000 but not over \$200,000.	\$106,220 plus 85% of excess over \$150,000.
Over \$200,000-----	\$148,720 plus 86% of excess over \$200,000.

“(3) SURTAX NET INCOME OVER \$90,000—TAXABLE YEARS BEGINNING AFTER AUGUST 31, 1951.—In the case of a taxable year beginning after August 31, 1951, to which the defense tax provided by section 16 is applicable, if the surtax net income of the individual for the taxable year is over \$90,000, there shall be levied, collected, and paid for such taxable year upon the surtax net income of such individual a surtax of \$55,920 plus 81 per centum of the excess over \$90,000.”

1 ~~(e) LIMITATION ON TAX.~~—Section 12 ~~(f) (relating to~~
 2 ~~limitation on tax)~~ is hereby amended to read as follows:

3 ~~“(f) LIMITATION ON TAX.—~~

4 ~~“(1) TAXABLE YEARS TO WHICH DEFENSE TAX~~
 5 ~~DOES NOT APPLY.~~—In the case of a taxable year be-
 6 ginning after September 30, 1950, other than a taxable
 7 year to which paragraph ~~(2)~~ or ~~(3)~~ is applicable, the
 8 combined normal tax and surtax shall in no event exceed
 9 87 per centum of the net income for the taxable year.

10 ~~“(2) CALENDAR YEAR 1951.~~—In the case of a
 11 taxable year beginning on January 1, 1951, and end-
 12 ing December 31, 1951, the combined normal tax and
 13 surtax, increased as provided in section 16, shall in no
 14 event exceed 88 per centum of the net income for the
 15 taxable year.

16 ~~“(3) OTHER TAXABLE YEARS TO WHICH DEFENSE~~
 17 ~~TAX APPLIES.~~—In the case of a taxable year beginning
 18 after August 31, 1951, to which the defense tax provided
 19 in section 16 is applicable, the combined normal tax
 20 and surtax, increased as provided in section 16, shall in
 21 no event exceed 90 per centum of the net income for
 22 the taxable year.”

23 ~~(d) TECHNICAL AMENDMENTS.—~~

1 ~~(1)~~ Section 11 ~~(a)~~ ~~(relating to normal tax on~~
 2 individuals~~)~~ is hereby amended by adding at the end
 3 thereof the following new sentence: "For percentage
 4 increase in the amount of tax for the calendar year 1951
 5 and for taxable years beginning after August 31, 1951,
 6 see section 16."

7 ~~(2)~~ Section 12 ~~(g)~~ ~~(cross references)~~ is hereby
 8 amended by adding at the end thereof the following:

9 "~~(7)~~ DEFENSE TAX.—For percentage increase in
 10 the amount of tax for the calendar year 1951 and for
 11 taxable years beginning after August 31, 1951, see see-
 12 tion 16.

13 "~~(8)~~ COMPUTATION OF TAX FOR CERTAIN FISCAL
 14 YEARS.—For computation of tax in the case of taxable
 15 years ~~(other than the calendar year 1951)~~ beginning
 16 before September 1, 1951, and ending after August 31,
 17 1951, see section 108 ~~(h)~~."

18 **SEC. 102. INDIVIDUALS WITH ADJUSTED GROSS INCOME**
 19 **OF LESS THAN \$5,000.**

20 Section 400 ~~(relating to optional tax on individuals~~
 21 with adjusted gross incomes of less than \$5,000~~)~~ is hereby
 22 amended by striking out the tables contained therein and
 23 inserting in lieu thereof the following:

"Table I

"Taxable year beginning January 1, 1951, and ending
December 31, 1951

If adjusted gross income is—		And the number of exemptions is—				If adjusted gross income is—		And the number of exemptions is—									
At least	But less than	1	2	3	4 or more	At least	But less than	1	2		3		4	5	6	7	8 or more
									And if other than a joint re- turn is filed	And if a joint re- turn is filed	And if other than a joint re- turn is filed	And if a joint re- turn is filed					
The income and defense tax shall be—						The income and defense tax shall be—											
\$0	\$675	\$0	\$0	\$0	\$0	\$2,325	\$2,350	\$313	\$188	\$188	\$63	\$63	\$0	\$0	\$0	\$0	\$0
675	700	4	0	0	0	2,350	2,375	317	193	193	68	68	0	0	0	0	0
700	725	9	0	0	0	2,375	2,400	322	197	197	73	73	0	0	0	0	0
725	750	13	0	0	0	2,400	2,425	327	202	202	77	77	0	0	0	0	0
750	775	18	0	0	0	2,425	2,450	332	207	207	82	82	0	0	0	0	0
775	800	23	0	0	0	2,450	2,475	336	211	211	87	87	0	0	0	0	0
800	825	27	0	0	0	2,475	2,500	341	216	216	91	91	0	0	0	0	0
825	850	32	0	0	0	2,500	2,525	346	221	221	96	96	0	0	0	0	0
850	875	37	0	0	0	2,525	2,550	350	225	225	101	101	0	0	0	0	0
875	900	41	0	0	0	2,550	2,575	355	230	230	105	105	0	0	0	0	0
900	925	46	0	0	0	2,575	2,600	360	235	235	110	110	0	0	0	0	0
925	950	51	0	0	0	2,600	2,625	364	239	239	115	115	0	0	0	0	0
950	975	55	0	0	0	2,625	2,650	369	244	244	119	119	0	0	0	0	0
975	1,000	60	0	0	0	2,650	2,675	374	249	249	124	124	0	0	0	0	0
1,000	1,025	65	0	0	0	2,675	2,700	378	254	254	129	129	4	0	0	0	0
1,025	1,050	69	0	0	0	2,700	2,725	383	258	258	133	133	9	0	0	0	0
1,050	1,075	74	0	0	0	2,725	2,750	388	263	263	138	138	13	0	0	0	0
1,075	1,100	79	0	0	0	2,750	2,775	392	268	268	143	143	18	0	0	0	0
1,100	1,125	83	0	0	0	2,775	2,800	397	272	272	147	147	23	0	0	0	0
1,125	1,150	88	0	0	0	2,800	2,825	402	277	277	152	152	27	0	0	0	0
1,150	1,175	93	0	0	0	2,825	2,850	406	282	282	157	157	32	0	0	0	0
1,175	1,200	98	0	0	0	2,850	2,875	411	286	286	161	161	37	0	0	0	0
1,200	1,225	102	0	0	0	2,875	2,900	416	291	291	166	166	41	0	0	0	0
1,225	1,250	107	0	0	0	2,900	2,925	421	296	296	171	171	46	0	0	0	0
1,250	1,275	112	0	0	0	2,925	2,950	426	300	300	176	176	51	0	0	0	0
1,275	1,300	116	0	0	0	2,950	2,975	431	305	305	180	180	55	0	0	0	0
1,300	1,325	121	0	0	0	2,975	3,000	436	310	310	185	185	60	0	0	0	0
1,325	1,350	126	1	0	0	3,000	3,050	444	317	317	192	192	67	0	0	0	0
1,350	1,375	130	5	0	0	3,050	3,100	454	326	326	201	201	76	0	0	0	0
1,375	1,400	135	10	0	0	3,100	3,150	465	335	335	211	211	86	0	0	0	0
1,400	1,425	140	15	0	0	3,150	3,200	475	345	345	220	220	95	0	0	0	0
1,425	1,450	144	20	0	0	3,200	3,250	485	354	354	229	229	105	0	0	0	0
1,450	1,475	149	24	0	0	3,250	3,300	496	363	363	239	239	114	0	0	0	0
1,475	1,500	154	29	0	0	3,300	3,350	506	373	373	248	248	123	0	0	0	0
1,500	1,525	158	34	0	0	3,350	3,400	516	382	382	257	257	133	8	0	0	0
1,525	1,550	163	38	0	0	3,400	3,450	526	392	392	267	267	142	17	0	0	0
1,550	1,575	168	43	0	0	3,450	3,500	537	401	401	276	276	151	27	0	0	0
1,575	1,600	172	48	0	0	3,500	3,550	547	410	410	285	285	161	36	0	0	0
1,600	1,625	177	52	0	0	3,550	3,600	557	420	420	295	295	170	45	0	0	0
1,625	1,650	182	57	0	0	3,600	3,650	568	430	429	304	304	179	55	0	0	0
1,650	1,675	186	62	0	0	3,650	3,700	578	441	438	314	314	189	64	0	0	0
1,675	1,700	191	66	0	0	3,700	3,750	588	451	448	323	323	198	73	0	0	0
1,700	1,725	196	71	0	0	3,750	3,800	598	461	457	332	332	207	83	0	0	0
1,725	1,750	200	76	0	0	3,800	3,850	609	471	466	342	342	217	92	0	0	0
1,750	1,775	205	80	0	0	3,850	3,900	619	482	476	351	351	226	101	0	0	0
1,775	1,800	210	85	0	0	3,900	3,950	629	492	485	360	360	236	111	0	0	0
1,800	1,825	215	90	0	0	3,950	4,000	640	502	495	370	370	245	120	0	0	0
1,825	1,850	219	94	0	0	4,000	4,050	650	513	504	379	379	254	129	5	0	0
1,850	1,875	224	99	0	0	4,050	4,100	660	523	513	388	388	264	139	14	0	0
1,875	1,900	229	104	0	0	4,100	4,150	671	533	523	398	398	273	148	23	0	0
1,900	1,925	233	108	0	0	4,150	4,200	681	544	532	407	407	282	158	33	0	0
1,925	1,950	238	113	0	0	4,200	4,250	691	554	541	417	417	292	167	42	0	0
1,950	1,975	243	118	0	0	4,250	4,300	701	564	551	427	426	301	176	51	0	0
1,975	2,000	247	122	0	0	4,300	4,350	712	574	560	437	435	310	186	61	0	0
2,000	2,025	252	127	2	0	4,350	4,400	722	585	569	447	445	320	195	70	0	0
2,025	2,050	257	132	7	0	4,400	4,450	732	595	579	458	454	329	204	80	0	0
2,050	2,075	261	137	12	0	4,450	4,500	743	605	588	468	463	339	214	89	0	0
2,075	2,100	266	141	16	0	4,500	4,550	753	616	597	478	473	348	223	98	0	0
2,100	2,125	271	146	21	0	4,550	4,600	763	626	607	489	482	357	232	108	0	0
2,125	2,150	275	151	26	0	4,600	4,650	774	636	616	499	491	367	242	117	0	0
2,150	2,175	280	155	30	0	4,650	4,700	784	647	626	509	501	376	251	126	2	0
2,175	2,200	285	160	35	0	4,700	4,750	794	657	635	520	510	385	261	136	11	0
2,200	2,225	289	165	40	0	4,750	4,800	804	667	644	530	519	395	270	145	20	0
2,225	2,250	294	169	44	0	4,800	4,850	815	677	654	540	529	404	279	154	30	0
2,250	2,275	299	174	49	0	4,850	4,900	825	688	663	550	538	413	289	164	39	0
2,275	2,300	303	179	54	0	4,900	4,950	835	698	672	561	548	423	298	173	48	0
2,300	2,325	308	183	59	0	4,950	5,000	846	708	682	571	557	432	307	183	58	0

"Table II

"Taxable years beginning after August 31, 1951

If adjusted gross income is—		And the number of exemptions is—				If adjusted gross income is—		And the number of exemptions is—												
At least	But less than	1	2	3	4 or more	At least	But less than	1		2			3			4	5	6	7	8 or more
								And tax-payer is single or married filing separately	And tax-payer is head of household	And tax-payer is single or married filing separately	And tax-payer is head of household	And a joint return is filed	And tax-payer is single or married filing separately	And tax-payer is head of household	And a joint return is filed					
The income and defense tax shall be—																				
\$0	\$675	\$0	\$0	\$0	\$0	\$2,325	\$2,350	\$338	\$338	\$203	\$203	\$203	\$68	\$68	\$68	\$0	\$0	\$0	\$0	\$0
675	700	4	0	0	0	2,350	2,375	343	343	208	208	208	73	73	73	0	0	0	0	0
700	725	9	0	0	0	2,375	2,400	348	348	213	213	213	78	78	78	0	0	0	0	0
725	750	14	0	0	0	2,400	2,425	354	354	219	219	219	84	84	84	0	0	0	0	0
750	775	19	0	0	0	2,425	2,450	359	359	224	224	224	89	89	89	0	0	0	0	0
775	800	24	0	0	0	2,450	2,475	364	364	229	229	229	94	94	94	0	0	0	0	0
800	825	30	0	0	0	2,475	2,500	369	369	234	234	234	99	99	99	0	0	0	0	0
825	850	35	0	0	0	2,500	2,525	374	374	239	239	239	104	104	104	0	0	0	0	0
850	875	40	0	0	0	2,525	2,550	379	379	244	244	244	109	109	109	0	0	0	0	0
875	900	45	0	0	0	2,550	2,575	384	384	249	249	249	114	114	114	0	0	0	0	0
900	925	50	0	0	0	2,575	2,600	389	389	254	254	254	119	119	119	0	0	0	0	0
925	950	55	0	0	0	2,600	2,625	394	394	259	259	259	124	124	124	0	0	0	0	0
950	975	60	0	0	0	2,625	2,650	399	399	264	264	264	129	129	129	0	0	0	0	0
975	1,000	65	0	0	0	2,650	2,675	404	404	269	269	269	134	134	134	0	0	0	0	0
1,000	1,025	70	0	0	0	2,675	2,700	409	409	274	274	274	139	139	139	4	0	0	0	0
1,025	1,050	75	0	0	0	2,700	2,725	414	414	279	279	279	144	144	144	9	0	0	0	0
1,050	1,075	80	0	0	0	2,725	2,750	419	419	284	284	284	149	149	149	14	0	0	0	0
1,075	1,100	85	0	0	0	2,750	2,775	424	424	289	289	289	154	154	154	19	0	0	0	0
1,100	1,125	90	0	0	0	2,775	2,800	429	429	294	294	294	159	159	159	24	0	0	0	0
1,125	1,150	95	0	0	0	2,800	2,825	435	435	300	300	300	165	165	165	30	0	0	0	0
1,150	1,175	100	0	0	0	2,825	2,850	440	440	305	305	305	170	170	170	35	0	0	0	0
1,175	1,200	105	0	0	0	2,850	2,875	445	445	310	310	310	175	175	175	40	0	0	0	0
1,200	1,225	111	0	0	0	2,875	2,900	450	450	315	315	315	180	180	180	45	0	0	0	0
1,225	1,250	116	0	0	0	2,900	2,925	455	455	320	320	320	185	185	185	50	0	0	0	0
1,250	1,275	121	0	0	0	2,925	2,950	461	460	325	325	325	190	190	190	55	0	0	0	0
1,275	1,300	126	0	0	0	2,950	2,975	466	466	330	330	330	195	195	195	60	0	0	0	0
1,300	1,325	131	0	0	0	2,975	3,000	472	471	335	335	335	200	200	200	65	0	0	0	0
1,325	1,350	136	1	0	0	3,000	3,050	480	479	343	343	343	208	208	208	73	0	0	0	0
1,350	1,375	141	6	0	0	3,050	3,100	491	490	353	353	353	218	218	218	83	0	0	0	0
1,375	1,400	146	11	0	0	3,100	3,150	503	500	363	363	363	228	228	228	93	0	0	0	0
1,400	1,425	151	16	0	0	3,150	3,200	514	511	373	373	373	238	238	238	103	0	0	0	0
1,425	1,450	156	21	0	0	3,200	3,250	525	521	383	383	383	248	248	248	113	0	0	0	0
1,450	1,475	161	26	0	0	3,250	3,300	536	532	393	393	393	258	258	258	123	0	0	0	0
1,475	1,500	166	31	0	0	3,300	3,350	547	543	403	403	403	268	268	268	133	0	0	0	0
1,500	1,525	171	36	0	0	3,350	3,400	558	553	413	413	413	278	278	278	143	8	0	0	0
1,525	1,550	176	41	0	0	3,400	3,450	569	564	424	424	424	289	289	289	154	19	0	0	0
1,550	1,575	181	46	0	0	3,450	3,500	581	575	434	434	434	299	299	299	164	29	0	0	0
1,575	1,600	186	51	0	0	3,500	3,550	592	585	444	444	444	309	309	309	174	39	0	0	0
1,600	1,625	192	57	0	0	3,550	3,600	603	596	454	454	454	319	319	319	184	49	0	0	0
1,625	1,650	197	62	0	0	3,600	3,650	614	607	465	465	464	329	329	329	194	59	0	0	0
1,650	1,675	202	67	0	0	3,650	3,700	625	617	477	475	474	339	339	339	204	69	0	0	0
1,675	1,700	207	72	0	0	3,700	3,750	636	628	488	486	484	349	349	349	214	79	0	0	0
1,700	1,725	212	77	0	0	3,750	3,800	647	638	499	497	494	359	359	359	224	89	0	0	0
1,725	1,750	217	82	0	0	3,800	3,850	659	649	510	507	505	370	370	370	235	100	0	0	0
1,750	1,775	222	87	0	0	3,850	3,900	670	660	521	518	515	380	380	380	245	110	0	0	0
1,775	1,800	227	92	0	0	3,900	3,950	681	670	532	529	525	390	390	390	255	120	0	0	0
1,800	1,825	232	97	0	0	3,950	4,000	692	681	543	539	535	400	400	400	265	130	0	0	0
1,825	1,850	237	102	0	0	4,000	4,050	703	692	555	550	545	410	410	410	275	140	5	0	0
1,850	1,875	242	107	0	0	4,050	4,100	714	702	566	560	555	420	420	420	285	150	15	0	0
1,875	1,900	247	112	0	0	4,100	4,150	725	713	577	571	565	430	430	430	295	160	25	0	0
1,900	1,925	252	117	0	0	4,150	4,200	736	723	588	582	575	440	440	440	305	170	35	0	0
1,925	1,950	257	122	0	0	4,200	4,250	748	734	599	592	586	451	451	451	316	181	46	0	0
1,950	1,975	262	127	0	0	4,250	4,300	759	745	610	603	596	462	461	461	326	191	56	0	0
1,975	2,000	267	132	0	0	4,300	4,350	770	755	621	614	606	473	472	471	336	201	66	0	0
2,000	2,025	273	138	3	0	4,350	4,400	781	766	633	624	616	484	482	481	346	211	76	0	0
2,025	2,050	278	143	8	0	4,400	4,450	792	777	644	635	626	495	493	491	356	221	86	0	0
2,050	2,075	283	148	13	0	4,450	4,500	803	787	655	645	636	506	504	501	366	231	96	0	0
2,075	2,100	288	153	18	0	4,500	4,550	814	798	666	656	646	517	514	511	376	241	106	0	0
2,100	2,125	293	158	23	0	4,550	4,600	826	809	677	667	656	529	525	521	386	251	116	0	0
2,125	2,150	298	163	28	0	4,600	4,650	837	819	688	677	667	540	536	532	397	262	127	0	0
2,150	2,175	303	168	33	0	4,650	4,700	848	830	699	688	677	551	546	542	407	272	137	2	0
2,175	2,200	308	173	38	0	4,700	4,750	859	840	710	699	687	562	557	552	417	282	147	12	0
2,200	2,225	313	178	43	0	4,750	4,800	870	851	722	709	697	573	568	562	427	292	157	22	0
2,225	2,250	318	183	48	0	4,800	4,850	881	862	733	720	707	584	578	572	437				

1 **SEC. 103. COMPUTATION OF TAX IN CASE OF CERTAIN**
2 **JOINT RETURNS.**

3 If a joint return of a husband and wife is filed under
4 the provisions of section 51 ~~(b)~~ ~~(3)~~ of the Internal Revenue
5 Code in a case where the husband and wife have different
6 taxable years because of the death of either spouse, and the
7 taxable year of the surviving spouse covered by such joint
8 return began before September 1, 1951, and ended after
9 August 31, 1951, the amendments made by this part shall
10 be applicable in respect of such joint return as if the tax-
11 able years of both spouses covered by the joint return
12 ended on the date of the closing of the surviving spouse's
13 taxable year.

14 **SEC. 104. EFFECTIVE DATE OF PART I.**

15 Except as provided in section 103, the amendments
16 made by this part shall be applicable only with respect to
17 taxable years ending after August 31, 1951. For treat-
18 ment of taxable years ~~(other than the calendar year 1951)~~
19 beginning before September 1, 1951, and ending after
20 August 31, 1951, see section 131.

21 **SEC. 101. INCREASE IN SURTAX FOR 1951, 1952, AND 1953.**

22 *(a) Rates of Surtax.—Section 12 (b) (relating to rates*
23 *of surtax) is hereby amended to read as follows:*

1 “(b) *RATES OF SURTAX.*—

2 “(1) *CALENDAR YEAR 1951.*—In the case of a tax-
3 able year beginning on January 1, 1951, and ending on
4 December 31, 1951, there shall be levied, collected, and
5 paid for such taxable year upon the surtax net income of
6 every individual the surtax shown in the following table:

<i>“If the surtax net income is:</i>	<i>The surtax shall be:</i>
<i>Not over \$2,000-----</i>	<i>17.4% of the surtax net income.</i>
<i>Over \$2,000 but not over \$4,000---</i>	<i>\$348, plus 19.4% of excess over \$2,000.</i>
<i>Over \$4,000 but not over \$6,000---</i>	<i>\$736, plus 23% of excess over \$4,000.</i>
<i>Over \$6,000 but not over \$8,000---</i>	<i>\$1,196, plus 28% of excess over \$6,000.</i>
<i>Over \$8,000 but not over \$10,000--</i>	<i>\$1,756, plus 32% of excess over \$8,000.</i>
<i>Over \$10,000 but not over \$12,000-</i>	<i>\$2,396, plus 35% of excess over \$10,000.</i>
<i>Over \$12,000 but not over \$14,000-</i>	<i>\$3,096, plus 41% of excess over \$12,000.</i>
<i>Over \$14,000 but not over \$16,000-</i>	<i>\$3,916, plus 45% of excess over \$14,000.</i>
<i>Over \$16,000 but not over \$18,000-</i>	<i>\$4,816, plus 48% of excess over \$16,000.</i>
<i>Over \$18,000 but not over \$20,000-</i>	<i>\$5,776, plus 51% of excess over \$18,000.</i>
<i>Over \$20,000 but not over \$22,000-</i>	<i>\$6,796, plus 54% of excess over \$20,000.</i>
<i>Over \$22,000 but not over \$26,000-</i>	<i>\$7,876, plus 57% of excess over \$22,000.</i>
<i>Over \$26,000 but not over \$32,000-</i>	<i>\$10,156, plus 60% of excess over \$26,000.</i>
<i>Over \$32,000 but not over \$38,000-</i>	<i>\$13,756, plus 62% of excess over \$32,000.</i>
<i>Over \$38,000 but not over \$44,000-</i>	<i>\$17,476, plus 67% of excess over \$38,000.</i>
<i>Over \$44,000 but not over \$50,000-</i>	<i>\$21,496, plus 69% of excess over \$44,000.</i>
<i>Over \$50,000 but not over \$60,000-</i>	<i>\$25,636, plus 72% of excess over \$50,000.</i>
<i>Over \$60,000 but not over \$70,000-</i>	<i>\$32,836, plus 76% of excess over \$60,000.</i>
<i>Over \$70,000 but not over \$80,000-</i>	<i>\$40,436, plus 78% of excess over \$70,000.</i>
<i>Over \$80,000 but not over \$90,000-</i>	<i>\$48,236, plus 81% of excess over \$80,000.</i>

<i>"If the surtax net income is:</i>	<i>The surtax shall be:</i>
<i>Over \$90,000 but not over \$100,000—</i>	<i>\$56,336, plus 84% of excess over \$90,000.</i>
<i>Over \$100,000 but not over \$150,000.</i>	<i>\$64,736, plus 86% of excess over \$100,000.</i>
<i>Over \$150,000 but not over \$200,000.</i>	<i>\$107,736, plus 87% of excess over \$150,000.</i>
<i>Over \$200,000-----</i>	<i>\$151,236, plus 88.1% of excess over \$200,000.</i>

1 “(2) TAXABLE YEARS BEGINNING AFTER OCTOBER
2 31, 1951, AND BEFORE JANUARY 1, 1954.—In the case of
3 taxable years beginning after October 31, 1951, and
4 before January 1, 1954, there shall be levied, collected,
5 and paid for each taxable year upon the surtax net in-
6 come of every individual (other than a head of a house-
7 hold to whom subsection (c) applies) the surtax shown in
8 the following table:

<i>"If the surtax net income is:</i>	<i>The surtax shall be:</i>
<i>Not over \$2,000-----</i>	<i>19.2% of the surtax net income.</i>
<i>Over \$2,000 but not over \$4,000---</i>	<i>\$384, plus 21.4% of excess over \$2,000.</i>
<i>Over \$4,000 but not over \$6,000---</i>	<i>\$812, plus 26% of excess over \$4,000.</i>
<i>Over \$6,000 but not over \$8,000---</i>	<i>\$1,332, plus 30% of excess over \$6,000.</i>
<i>Over \$8,000 but not over \$10,000--</i>	<i>\$1,932, plus 35% of excess over \$8,000.</i>
<i>Over \$10,000 but not over \$12,000-</i>	<i>\$2,632, plus 39% of excess over \$10,000.</i>
<i>Over \$12,000 but not over \$14,000-</i>	<i>\$3,412, plus 45% of excess over \$12,000.</i>
<i>Over \$14,000 but not over \$16,000-</i>	<i>\$4,312, plus 49% of excess over \$14,000.</i>
<i>Over \$16,000 but not over \$18,000-</i>	<i>\$5,292, plus 53% of excess over \$16,000.</i>
<i>Over \$18,000 but not over \$20,000-</i>	<i>\$6,352, plus 56% of excess over \$18,000.</i>
<i>Over \$20,000 but not over \$22,000-</i>	<i>\$7,472, plus 59% of excess over \$20,000.</i>
<i>Over \$22,000 but not over \$28,000-</i>	<i>\$8,652, plus 62% of excess over \$22,000.</i>
<i>Over \$28,000 but not over \$34,000-</i>	<i>\$12,372, plus 64% of excess over \$28,000.</i>

"If the surtax net income is:***The surtax shall be:***

<i>Over \$34,000 but not over \$40,000—</i>	<i>\$16,212, plus 66% of excess over \$34,000.</i>
<i>Over \$40,000 but not over \$50,000—</i>	<i>\$20,172, plus 70% of excess over \$40,000.</i>
<i>Over \$50,000 but not over \$60,000—</i>	<i>\$27,172, plus 74% of excess over \$50,000.</i>
<i>Over \$60,000 but not over \$70,000—</i>	<i>\$34,572, plus 77% of excess over \$60,000.</i>
<i>Over \$70,000 but not over \$80,000—</i>	<i>\$42,272, plus 79% of excess over \$70,000.</i>
<i>Over \$80,000 but not over \$90,000—</i>	<i>\$50,172, plus 82% of excess over \$80,000.</i>
<i>Over \$90,000 but not over \$100,000—</i>	<i>\$58,372, plus 85% of excess over \$90,000.</i>
<i>Over \$100,000 but not over \$150,000—</i>	<i>\$66,872, plus 87% of excess over \$100,000.</i>
<i>Over \$150,000 but not over \$200,000—</i>	<i>\$110,372, plus 88% of excess over \$150,000.</i>
<i>Over \$200,000-----</i>	<i>\$154,372, plus 88.7% of excess over \$200,000.</i>

1 ***"(3) TAXABLE YEARS BEGINNING AFTER DECEM-***
2 *BER 31, 1953.—In the case of taxable years beginning*
3 *after December 31, 1953, there shall be levied, collected,*
4 *and paid for each taxable year upon the surtax net in-*
5 *come of every individual (other than a head of a house-*
6 *hold to whom subsection (c) applies) the surtax shown in*
7 *the following table:*

"If the surtax net income is:***The surtax shall be:***

<i>Not over \$2,000-----</i>	<i>17% of the surtax net income.</i>
<i>Over \$2,000 but not over \$4,000---</i>	<i>\$340, plus 19% of excess over \$2,000.</i>
<i>Over \$4,000 but not over \$6,000---</i>	<i>\$720, plus 23% of excess over \$4,000.</i>
<i>Over \$6,000 but not over \$8,000---</i>	<i>\$1,180, plus 27% of excess over \$6,000.</i>
<i>Over \$8,000 but not over \$10,000--</i>	<i>\$1,720, plus 31% of excess over \$8,000.</i>
<i>Over \$10,000 but not over \$12,000--</i>	<i>\$2,340, plus 35% of excess over \$10,000.</i>
<i>Over \$12,000 but not over \$14,000--</i>	<i>\$3,040, plus 40% of excess over \$12,000.</i>
<i>Over \$14,000 but not over \$16,000--</i>	<i>\$3,840, plus 44% of excess over \$14,000.</i>

<i>"If the surtax net income is:</i>	<i>The surtax shall be:</i>
<i>Over \$16,000 but not over \$18,000—</i>	<i>\$4,720, plus 47% of excess over \$16,000.</i>
<i>Over \$18,000 but not over \$20,000—</i>	<i>\$5,660, plus 50% of excess over \$18,000.</i>
<i>Over \$20,000 but not over \$22,000—</i>	<i>\$6,660, plus 53% of excess over \$20,000.</i>
<i>Over \$22,000 but not over \$26,000—</i>	<i>\$7,720, plus 56% of excess over \$22,000.</i>
<i>Over \$26,000 but not over \$32,000—</i>	<i>\$9,960, plus 59% of excess over \$26,000.</i>
<i>Over \$32,000 but not over \$38,000—</i>	<i>\$13,500, plus 62% of excess over \$32,000.</i>
<i>Over \$38,000 but not over \$44,000—</i>	<i>\$17,220, plus 66% of excess over \$38,000.</i>
<i>Over \$44,000 but not over \$50,000—</i>	<i>\$21,180, plus 69% of excess over \$44,000.</i>
<i>Over \$50,000 but not over \$60,000—</i>	<i>\$25,320, plus 72% of excess over \$50,000.</i>
<i>Over \$60,000 but not over \$70,000—</i>	<i>\$32,520, plus 75% of excess over \$60,000.</i>
<i>Over \$70,000 but not over \$80,000—</i>	<i>\$40,020, plus 78% of excess over \$70,000.</i>
<i>Over \$80,000 but not over \$90,000—</i>	<i>\$47,820, plus 81% of excess over \$80,000.</i>
<i>Over \$90,000 but not over \$100,000—</i>	<i>\$55,920, plus 84% of excess over \$90,000.</i>
<i>Over \$100,000 but not over \$150,000.</i>	<i>\$64,320, plus 86% of excess over \$100,000.</i>
<i>Over \$150,000 but not over \$200,000.</i>	<i>\$107,320, plus 87% of excess over \$150,000.</i>
<i>Over \$200,000-----</i>	<i>\$150,820, plus 88% of excess over \$200,000."</i>

1 (b) *Limitation On Tax.*—Section 12 (f) (relating to
2 limitation on tax) is hereby amended to read as follows:

3 “(f) *LIMITATION ON TAX.*—

4 “(1) *CALENDAR YEAR 1951.*—In the case of a tax-
5 able year beginning on January 1, 1951, and ending
6 December 31, 1951, the combined normal tax and sur-

1 *tax shall in no event exceed 87.2 per centum of the net*
2 *income for the taxable year.*

3 “(2) *TAXABLE YEARS BEGINNING AFTER OCTO-*
4 *BER 31, 1951, AND BEFORE JANUARY 1, 1954.—In the*
5 *case of taxable years beginning after October 31, 1951,*
6 *and before January 1, 1954, the combined normal tax*
7 *and surtax shall in no event exceed 88 per centum of*
8 *the net income of the taxable year.*

9 “(3) *TAXABLE YEARS BEGINNING AFTER DECEM-*
10 *BER 31, 1953.—In the case of taxable years beginning*
11 *after December 31, 1953, the combined normal tax and*
12 *surtax shall in no event exceed 87 per centum of the*
13 *net income for the taxable year.”*

14 **SEC. 102. INDIVIDUALS WITH ADJUSTED GROSS INCOME OF LESS**
15 **THAN \$5,000.**

16 *Section 400 (relating to optional tax on individuals*
17 *with adjusted gross incomes of less than \$5,000) is hereby*
18 *amended by striking out the tables contained therein and*
19 *inserting in lieu thereof the following:*

"Table 1

"Taxable year beginning January 1, 1951, and ending
December 31, 1951

If adjusted gross income is—		And the number of exemptions is—				If adjusted gross income is—		And the number of exemptions is—									
At least	But less than	1	2	3	4 or more	At least	But less than	1	2		3		4	5	6	7	8 or more
									And tax-payer is single or married filing separately	And a joint return is filed	And tax-payer is single or married filing separately	And a joint return is filed					
The tax shall be—						The tax shall be—											
\$0	\$675	\$0	\$0	\$0	\$0	\$2,325	\$2,350	\$307	\$184	\$184	\$62	\$62	\$0	\$0	\$0	\$0	\$0
675	700	4	0	0	0	2,350	2,375	311	189	189	67	67	0	0	0	0	0
700	725	8	0	0	0	2,375	2,400	316	194	194	71	71	0	0	0	0	0
725	750	13	0	0	0	2,400	2,425	321	198	198	76	76	0	0	0	0	0
750	775	18	0	0	0	2,425	2,450	325	203	203	80	80	0	0	0	0	0
775	800	22	0	0	0	2,450	2,475	330	207	207	85	85	0	0	0	0	0
800	825	27	0	0	0	2,475	2,500	334	212	212	90	90	0	0	0	0	0
825	850	31	0	0	0	2,500	2,525	339	216	216	94	94	0	0	0	0	0
850	875	36	0	0	0	2,525	2,550	343	221	221	99	99	0	0	0	0	0
875	900	41	0	0	0	2,550	2,575	348	226	226	103	103	0	0	0	0	0
900	925	45	0	0	0	2,575	2,600	353	230	230	108	108	0	0	0	0	0
925	950	50	0	0	0	2,600	2,625	357	235	235	112	112	0	0	0	0	0
950	975	54	0	0	0	2,625	2,650	362	239	239	117	117	0	0	0	0	0
975	1,000	59	0	0	0	2,650	2,675	366	244	244	122	122	0	0	0	0	0
1,000	1,025	63	0	0	0	2,675	2,700	371	249	249	126	126	4	0	0	0	0
1,025	1,050	68	0	0	0	2,700	2,725	376	253	253	131	131	8	0	0	0	0
1,050	1,075	73	0	0	0	2,725	2,750	380	258	258	135	135	13	0	0	0	0
1,075	1,100	77	0	0	0	2,750	2,775	385	262	262	140	140	18	0	0	0	0
1,100	1,125	82	0	0	0	2,775	2,800	389	267	267	145	145	22	0	0	0	0
1,125	1,150	86	0	0	0	2,800	2,825	394	272	272	149	149	27	0	0	0	0
1,150	1,175	91	0	0	0	2,825	2,850	399	276	276	154	154	31	0	0	0	0
1,175	1,200	96	0	0	0	2,850	2,875	404	281	281	158	158	36	0	0	0	0
1,200	1,225	100	0	0	0	2,875	2,900	408	285	285	163	163	41	0	0	0	0
1,225	1,250	105	0	0	0	2,900	2,925	413	290	290	168	168	45	0	0	0	0
1,250	1,275	109	0	0	0	2,925	2,950	418	295	295	172	172	50	0	0	0	0
1,275	1,300	114	0	0	0	2,950	2,975	423	299	299	177	177	54	0	0	0	0
1,300	1,325	119	0	0	0	2,975	3,000	428	304	304	181	181	59	0	0	0	0
1,325	1,350	123	1	0	0	3,000	3,050	435	311	311	188	188	66	0	0	0	0
1,350	1,375	128	5	0	0	3,050	3,100	446	320	320	197	197	75	0	0	0	0
1,375	1,400	132	10	0	0	3,100	3,150	456	329	329	207	207	84	0	0	0	0
1,400	1,425	137	15	0	0	3,150	3,200	466	338	338	216	216	93	0	0	0	0
1,425	1,450	142	19	0	0	3,200	3,250	476	347	347	225	225	103	0	0	0	0
1,450	1,475	146	24	0	0	3,250	3,300	486	356	356	234	234	112	0	0	0	0
1,475	1,500	151	28	0	0	3,300	3,350	496	366	366	243	243	121	0	0	0	0
1,500	1,525	155	33	0	0	3,350	3,400	506	375	375	252	252	130	8	0	0	0
1,525	1,550	160	37	0	0	3,400	3,450	516	384	384	262	262	139	17	0	0	0
1,550	1,575	164	42	0	0	3,450	3,500	526	393	393	271	271	148	26	0	0	0
1,575	1,600	169	47	0	0	3,500	3,550	536	402	402	280	280	158	35	0	0	0
1,600	1,625	174	51	0	0	3,550	3,600	546	412	412	289	289	167	44	0	0	0
1,625	1,650	178	56	0	0	3,600	3,650	556	422	421	298	298	176	54	0	0	0
1,650	1,675	183	60	0	0	3,650	3,700	566	432	430	308	308	185	63	0	0	0
1,675	1,700	187	65	0	0	3,700	3,750	577	442	439	317	317	194	72	0	0	0
1,700	1,725	192	70	0	0	3,750	3,800	587	452	448	326	326	203	81	0	0	0
1,725	1,750	197	74	0	0	3,800	3,850	597	462	457	335	335	213	90	0	0	0
1,750	1,775	201	79	0	0	3,850	3,900	607	472	467	344	344	222	99	0	0	0
1,775	1,800	206	83	0	0	3,900	3,950	617	482	476	353	353	231	109	0	0	0
1,800	1,825	210	88	0	0	3,950	4,000	627	493	485	363	363	240	118	0	0	0
1,825	1,850	215	93	0	0	4,000	4,050	637	503	494	372	372	249	127	5	0	0
1,850	1,875	220	97	0	0	4,050	4,100	647	513	503	381	381	259	136	14	0	0
1,875	1,900	224	102	0	0	4,100	4,150	657	523	513	390	390	268	145	23	0	0
1,900	1,925	229	106	0	0	4,150	4,200	667	533	522	399	399	277	155	32	0	0
1,925	1,950	233	111	0	0	4,200	4,250	677	543	531	409	409	286	164	41	0	0
1,950	1,975	238	116	0	0	4,250	4,300	687	553	540	419	418	295	173	50	0	0
1,975	2,000	243	120	0	0	4,300	4,350	698	563	549	429	427	304	182	60	0	0
2,000	2,025	247	125	2	0	4,350	4,400	708	573	558	439	436	314	191	69	0	0
2,025	2,050	252	129	7	0	4,400	4,450	718	583	568	449	445	323	200	78	0	0
2,050	2,075	256	134	11	0	4,450	4,500	728	593	577	459	454	332	210	87	0	0
2,075	2,100	261	138	16	0	4,500	4,550	738	603	586	469	464	341	219	96	0	0
2,100	2,125	265	143	21	0	4,550	4,600	748	614	595	479	473	350	228	106	0	0
2,125	2,150	270	148	25	0	4,600	4,650	758	624	604	489	482	360	237	115	0	0
2,150	2,175	275	152	30	0	4,650	4,700	768	634	614	499	491	369	246	124	2	0
2,175	2,200	279	157	34	0	4,700	4,750	778	644	623	509	500	378	256	133	11	0
2,200	2,225	284	161	39	0	4,750	4,800	788	654	632	519	509	387	265	142	20	0
2,225	2,250	288	166	44	0	4,800	4,850	798	664	641	530	519	396	274	151	29	0
2,250	2,275	293	171	48	0	4,850	4,900	808	674	650	540	528	405	283	161	38	0
2,275	2,300	298	175	53	0	4,900	4,950	818	684	659	550	537	415	292	170	47	0
2,300	2,325	302	180	57	0	4,950	5,000	829	694	669	560	546	424	301	179	57	0

"Table II

"Taxable years beginning after October 31, 1951, and before January 1, 1954

If adjusted gross income is—		And the number of exemptions is—				If adjusted gross income is—		And the number of exemptions is—												
At least	But less than	1	2	3	4 or more	At least	But less than	1		2		3				4	5	6	7	8 or more
								And tax-payer is single or married filing separately	And tax-payer is head of household	And tax-payer is single or married filing separately	And tax-payer is head of household	And a joint re- turn is filed	And tax-payer is single or married filing separately	And tax-payer is head of household	And a joint re- turn is filed					
The tax shall be—								The tax shall be—												
\$0	\$675	\$0	\$0	\$0	\$0	\$2,325	\$2,350	\$334	\$334	\$201	\$201	\$201	\$67	\$67	\$67	\$0	\$0	\$0	\$0	\$0
675	700	4	0	0	0	2,350	2,375	339	339	206	206	206	72	72	72	0	0	0	0	0
700	725	9	0	0	0	2,375	2,400	344	344	211	211	211	77	77	77	0	0	0	0	0
725	750	14	0	0	0	2,400	2,425	349	349	216	216	216	82	82	82	0	0	0	0	0
750	775	19	0	0	0	2,425	2,450	354	354	221	221	221	87	87	87	0	0	0	0	0
775	800	24	0	0	0	2,450	2,475	359	359	226	226	226	92	92	92	0	0	0	0	0
800	825	29	0	0	0	2,475	2,500	364	364	231	231	231	97	97	97	0	0	0	0	0
825	850	34	0	0	0	2,500	2,525	369	369	236	236	236	102	102	102	0	0	0	0	0
850	875	39	0	0	0	2,525	2,550	374	374	241	241	241	107	107	107	0	0	0	0	0
875	900	44	0	0	0	2,550	2,575	379	379	246	246	246	112	112	112	0	0	0	0	0
900	925	49	0	0	0	2,575	2,600	384	384	251	251	251	117	117	117	0	0	0	0	0
925	950	54	0	0	0	2,600	2,625	389	389	256	256	256	122	122	122	0	0	0	0	0
950	975	59	0	0	0	2,625	2,650	394	394	261	261	261	127	127	127	0	0	0	0	0
975	1,000	64	0	0	0	2,650	2,675	399	399	266	266	266	132	132	132	0	0	0	0	0
1,000	1,025	69	0	0	0	2,675	2,700	404	404	271	271	271	137	137	137	4	0	0	0	0
1,025	1,050	74	0	0	0	2,700	2,725	409	409	276	276	276	142	142	142	9	0	0	0	0
1,050	1,075	79	0	0	0	2,725	2,750	414	414	281	281	281	147	147	147	14	0	0	0	0
1,075	1,100	84	0	0	0	2,750	2,775	419	419	286	286	286	152	152	152	19	0	0	0	0
1,100	1,125	89	0	0	0	2,775	2,800	424	424	291	291	291	157	157	157	24	0	0	0	0
1,125	1,150	94	0	0	0	2,800	2,825	429	429	296	296	296	162	162	162	29	0	0	0	0
1,150	1,175	99	0	0	0	2,825	2,850	434	434	301	301	301	167	167	167	34	0	0	0	0
1,175	1,200	104	0	0	0	2,850	2,875	439	439	306	306	306	172	172	172	39	0	0	0	0
1,200	1,225	109	0	0	0	2,875	2,900	444	444	311	311	311	177	177	177	44	0	0	0	0
1,225	1,250	114	0	0	0	2,900	2,925	449	449	316	316	316	182	182	182	49	0	0	0	0
1,250	1,275	119	0	0	0	2,925	2,950	455	454	321	321	321	187	187	187	54	0	0	0	0
1,275	1,300	124	0	0	0	2,950	2,975	460	460	326	326	326	192	192	192	59	0	0	0	0
1,300	1,325	129	0	0	0	2,975	3,000	466	465	331	331	331	197	197	197	64	0	0	0	0
1,325	1,350	134	1	0	0	3,000	3,050	474	473	338	338	338	205	205	205	72	0	0	0	0
1,350	1,375	139	6	0	0	3,050	3,100	485	484	348	348	348	215	215	215	82	0	0	0	0
1,375	1,400	144	11	0	0	3,100	3,150	496	495	358	358	358	225	225	225	92	0	0	0	0
1,400	1,425	149	16	0	0	3,150	3,200	507	505	368	368	368	235	235	235	102	0	0	0	0
1,425	1,450	154	21	0	0	3,200	3,250	518	516	378	378	378	245	245	245	112	0	0	0	0
1,450	1,475	159	26	0	0	3,250	3,300	529	527	388	388	388	255	255	255	122	0	0	0	0
1,475	1,500	164	31	0	0	3,300	3,350	540	537	398	398	398	265	265	265	132	0	0	0	0
1,500	1,525	169	36	0	0	3,350	3,400	551	548	408	408	408	275	275	275	142	8	0	0	0
1,525	1,550	174	41	0	0	3,400	3,450	562	559	418	418	418	285	285	285	152	18	0	0	0
1,550	1,575	179	46	0	0	3,450	3,500	573	570	428	428	428	295	295	295	162	28	0	0	0
1,575	1,600	184	51	0	0	3,500	3,550	584	580	438	438	438	305	305	305	171	38	0	0	0
1,600	1,625	189	56	0	0	3,550	3,600	595	591	448	448	448	315	315	315	181	48	0	0	0
1,625	1,650	194	61	0	0	3,600	3,650	606	602	459	459	458	325	325	325	191	58	0	0	0
1,650	1,675	199	66	0	0	3,650	3,700	617	612	470	470	468	335	335	335	201	68	0	0	0
1,675	1,700	204	71	0	0	3,700	3,750	628	623	480	480	478	345	345	345	211	78	0	0	0
1,700	1,725	209	76	0	0	3,750	3,800	639	634	492	491	488	355	355	355	221	88	0	0	0
1,725	1,750	214	81	0	0	3,800	3,850	650	645	503	502	498	365	365	365	231	98	0	0	0
1,750	1,775	219	86	0	0	3,850	3,900	661	655	514	512	508	375	375	375	241	108	0	0	0
1,775	1,800	224	91	0	0	3,900	3,950	672	666	525	523	518	385	385	385	251	118	0	0	0
1,800	1,825	229	96	0	0	3,950	4,000	683	677	536	534	528	395	395	395	261	128	0	0	0
1,825	1,850	234	101	0	0	4,000	4,050	693	687	547	545	538	405	405	405	271	138	5	0	0
1,850	1,875	239	106	0	0	4,050	4,100	704	698	558	555	548	415	415	415	281	148	15	0	0
1,875	1,900	244	111	0	0	4,100	4,150	715	709	569	566	558	425	425	425	291	158	25	0	0
1,900	1,925	249	116	0	0	4,150	4,200	726	719	580	577	568	435	435	435	301	168	35	0	0
1,925	1,950	254	121	0	0	4,200	4,250	737	730	591	587	578	445	445	445	311	178	45	0	0
1,950	1,975	259	126	0	0	4,250	4,300	748	741	602	598	588	455	455	455	321	188	55	0	0
1,975	2,000	264	131	0	0	4,300	4,350	759	752	613	609	598	467	466	466	331	198	65	0	0
2,000	2,025	269	136	2	0	4,350	4,400	770	762	624	620	608	478	477	477	341	208	75	0	0
2,025	2,050	274	141	7	0	4,400	4,450	781	773	635	630	618	489	487	487	351	218	85	0	0
2,050	2,075	279	146	12	0	4,450	4,500	792	784	646	641	628	500	498	498	361	228	95	0	0
2,075	2,100	284	151	17	0	4,500	4,550	803	794	657	652	638	510	509	509	371	238	105	0	0
2,100	2,125	289	156	22	0	4,550	4,600	814	805	668	662	648	521	520	520	381	248	115	0	0
2,125	2,150	294	161	27	0	4,600	4,650	825	816	679	673	658	532	530	530	391	258	125	0	0
2,150	2,175	299	166	32	0	4,650	4,700	836	827	690	684	668	543	541	541	401	268	135	2	0
2,175	2,200	304	171	37	0	4,700	4,750	847	837	701	694	678	554	552	554	411	278	145	12	0
2,200	2,225	309	176	42	0	4,750	4,800	858	848	712	705	688	565	562	565	421	2			

“Table III
“Taxable years beginning after December 31, 1953

If adjusted gross income is—		And the number of exemptions is—				If adjusted gross income is—		And the number of exemptions is—															
At least	But less than	1	2	3	4 or more	At least	But less than	1		2				3				4	5	6	7	8 or more	
								And tax-payer is single or married filing separately	And tax-payer is head of household	And tax-payer is single or married filing separately	And tax-payer is head of household	And a joint return is filed	And tax-payer is single or married filing separately	And tax-payer is head of household	And a joint return is filed								
		The tax shall be—						The tax shall be—															
\$0	\$0.75	\$0	\$0	\$0	\$0	\$2,325	\$2,350	\$301	\$301	\$181	\$181	\$181	\$61	\$61	\$61	\$0	70	\$0	\$0	\$0			
675	700	4	0	0	0	2,350	2,375	505	505	185	185	185	65	65	65	0	0	0	0	0			
700	725	8	0	0	0	2,375	2,400	510	510	190	190	190	70	70	70	0	0	0	0	0			
725	750	12	0	0	0	2,400	2,425	514	514	194	194	194	74	74	74	0	0	0	0	0			
750	775	17	0	0	0	2,425	2,450	519	519	199	199	199	79	79	79	0	0	0	0	0			
775	800	22	0	0	0	2,450	2,475	523	523	203	203	203	83	83	83	0	0	0	0	0			
800	825	26	0	0	0	2,475	2,500	528	528	208	208	208	88	88	88	0	0	0	0	0			
825	850	31	0	0	0	2,500	2,525	532	532	212	212	212	92	92	92	0	0	0	0	0			
850	875	35	0	0	0	2,525	2,550	537	537	217	217	217	97	97	97	0	0	0	0	0			
875	900	40	0	0	0	2,550	2,575	541	541	221	221	221	101	101	101	0	0	0	0	0			
900	925	44	0	0	0	2,575	2,600	546	546	226	226	226	106	106	106	0	0	0	0	0			
925	950	49	0	0	0	2,600	2,625	550	550	230	230	230	110	110	110	0	0	0	0	0			
950	975	53	0	0	0	2,625	2,650	555	555	235	235	235	115	115	115	0	0	0	0	0			
975	1,000	58	0	0	0	2,650	2,675	559	559	239	239	239	119	119	119	0	0	0	0	0			
1,000	1,025	62	0	0	0	2,675	2,700	564	564	244	244	244	124	124	124	4	0	0	0	0			
1,025	1,050	67	0	0	0	2,700	2,725	568	568	248	248	248	128	128	128	8	0	0	0	0			
1,050	1,075	71	0	0	0	2,725	2,750	573	573	253	253	253	133	133	133	13	0	0	0	0			
1,075	1,100	76	0	0	0	2,750	2,775	577	577	257	257	257	137	137	137	17	0	0	0	0			
1,100	1,125	80	0	0	0	2,775	2,800	582	582	262	262	262	142	142	142	22	0	0	0	0			
1,125	1,150	85	0	0	0	2,800	2,825	586	586	266	266	266	146	146	146	26	0	0	0	0			
1,150	1,175	89	0	0	0	2,825	2,850	591	591	271	271	271	151	151	151	31	0	0	0	0			
1,175	1,200	94	0	0	0	2,850	2,875	595	595	275	275	275	155	155	155	35	0	0	0	0			
1,200	1,225	98	0	0	0	2,875	2,900	400	400	280	280	280	160	160	160	40	0	0	0	0			
1,225	1,250	103	0	0	0	2,900	2,925	405	405	284	284	284	164	164	164	44	0	0	0	0			
1,250	1,275	107	0	0	0	2,925	2,950	410	409	289	289	289	169	169	169	49	0	0	0	0			
1,275	1,300	112	0	0	0	2,950	2,975	415	414	293	293	293	173	173	173	53	0	0	0	0			
1,300	1,325	116	0	0	0	2,975	3,000	420	419	298	298	298	178	178	178	58	0	0	0	0			
1,325	1,350	121	1	0	0	3,000	3,050	427	426	305	305	305	185	185	185	65	0	0	0	0			
1,350	1,375	125	5	0	0	3,050	3,100	437	436	314	314	314	194	194	194	74	0	0	0	0			
1,375	1,400	130	10	0	0	3,100	3,150	447	446	323	323	323	203	203	203	83	0	0	0	0			
1,400	1,425	134	14	0	0	3,150	3,200	457	455	332	332	332	212	212	212	92	0	0	0	0			
1,425	1,450	139	19	0	0	3,200	3,250	467	465	341	341	341	221	221	221	101	0	0	0	0			
1,450	1,475	143	23	0	0	3,250	3,300	476	475	350	350	350	230	230	230	110	0	0	0	0			
1,475	1,500	148	28	0	0	3,300	3,350	486	484	359	359	359	239	239	239	119	0	0	0	0			
1,500	1,525	152	32	0	0	3,350	3,400	496	494	368	368	368	248	248	248	128	8	0	0	0			
1,525	1,550	157	37	0	0	3,400	3,450	506	504	377	377	377	257	257	257	137	17	0	0	0			
1,550	1,575	161	41	0	0	3,450	3,500	516	513	386	386	386	266	266	266	146	26	0	0	0			
1,575	1,600	166	46	0	0	3,500	3,550	526	523	395	395	395	275	275	275	155	35	0	0	0			
1,600	1,625	170	50	0	0	3,550	3,600	536	533	404	404	404	284	284	284	164	44	0	0	0			
1,625	1,650	175	55	0	0	3,600	3,650	546	542	414	413	413	293	293	293	173	53	0	0	0			
1,650	1,675	179	59	0	0	3,650	3,700	556	552	424	423	422	302	302	302	182	62	0	0	0			
1,675	1,700	184	64	0	0	3,700	3,750	566	562	434	433	431	311	311	311	191	71	0	0	0			
1,700	1,725	188	68	0	0	3,750	3,800	575	571	443	442	440	320	320	320	200	80	0	0	0			
1,725	1,750	193	73	0	0	3,800	3,850	585	581	453	452	449	329	329	329	209	89	0	0	0			
1,750	1,775	197	77	0	0	3,850	3,900	595	591	463	462	458	338	338	338	218	98	0	0	0			
1,775	1,800	202	82	0	0	3,900	3,950	605	600	473	471	467	347	347	347	227	107	0	0	0			
1,800	1,825	206	86	0	0	3,950	4,000	615	610	483	481	476	356	356	356	236	116	0	0	0			
1,825	1,850	211	91	0	0	4,000	4,050	625	620	493	491	485	365	365	365	245	125	5	0	0			
1,850	1,875	215	95	0	0	4,050	4,100	635	630	503	501	494	374	374	374	254	134	14	0	0			
1,875	1,900	220	100	0	0	4,100	4,150	645	639	513	510	503	383	383	383	263	143	23	0	0			
1,900	1,925	224	104	0	0	4,150	4,200	655	649	523	520	512	392	392	392	272	152	32	0	0			
1,925	1,950	229	109	0	0	4,200	4,250	665	659	533	530	521	401	401	401	281	161	41	0	0			
1,950	1,975	233	113	0	0	4,250	4,300	674	668	542	539	530	410	410	410	290	170	50	0	0			
1,975	2,000	238	118	0	0	4,300	4,350	684	678	552	549	539	420	420	420	299	179	59	0	0			
2,000	2,025	242	122	2	0	4,350	4,400	694	688	562	559	548	430	430	430	308	188	68	0	0			
2,025	2,050	247	127	7	0	4,400	4,450	704	697	572	568	557	440	439	439	317	197	77	0	0			
2,050	2,075	251	131	11	0	4,450	4,500	714	707	582	578	566	450	449	449	326	206	86	0	0			
2,075	2,100	256	136	16	0	4,500	4,550	724	717	592	588	575	460	459	459	335	215	95	0	0			
2,100	2,125	260	140	20	0	4,550	4,600	734	726	602	597	584	470	468	468	344	224	104	0	0			
2,125	2,150	265	145	25	0	4,600	4,650	744	736	612	607	593	480	478	478	353	233	113	0	0			
2,150	2,175	269	149	29	0	4,650	4,700	754	746	622	617	602	490	488	488	362	242	122	2	0			
2,175	2,200	274	154	34	0	4,700	4,750	764	755	632	626	611	500	497	497	371	251	131	11	0			
2,200	2,225	278	158	38	0	4,750	4,800	773	765	641	636	620	509	507	507	380	260	140	20	0			
2,225	2,250	283	163	43	0	4,800	4,850	783	775	651	646	629	519	517	517	389	269	149	29	0			
2,250	2,275	287																					

1 SEC. 103. INAPPLICABILITY OF CERTAIN PENALTIES AND AD-
2 DITIONS TO TAX.

3 (a) PENALTIES FOR FAILURE TO FILE RETURN.—

4 Section 145 (relating to penalties with respect to failure to
5 file returns, pay tax, etc.) is hereby amended by relettering
6 subsection (f) as subsection (g) and by adding after sub-
7 section (e) a new subsection (f) as follows:

8 “(f) In the case of taxable years beginning prior to
9 November 1, 1951, and ending after October 31, 1951,
10 the penalties prescribed by this section for willful failure to
11 make declarations of, or pay, estimated tax shall not be
12 applicable to a failure to take into account the increase
13 in rates of tax imposed on individuals by the Revenue Act of
14 1951.”

15 (b) ADDITIONS TO TAX.—Section 294 (d) (2) (re-
16 lating to additions to tax for substantial under-estimates of
17 estimated tax) is hereby amended by adding at the end thereof
18 a new sentence as follows: “In the case of taxable years be-
19 ginning prior to November 1, 1951, and ending after Octo-
20 ber 31, 1951, the additions to tax prescribed by this subsec-
21 tion shall not be applicable if the taxpayer failed to meet
22 the requirements of this paragraph by reason of the increase

1 *in rates of tax on individuals imposed by the Revenue Act of*
2 *1951.”*

3 **SEC. 104. COMPUTATION OF TAX IN CASE OF CERTAIN JOINT**
4 **RETURNS.**

5 *If a joint return of a husband and wife is filed under*
6 *the provisions of section 51 (b) (3) of the Internal Revenue*
7 *Code in a case where the husband and wife have different*
8 *taxable years because of the death of either spouse, and the*
9 *taxable year of the surviving spouse covered by such joint*
10 *return began before November 1, 1951, and ended after*
11 *October 31, 1951, the amendments made by this part and*
12 *section 131 shall be applicable in respect of such joint return*
13 *as if the taxable years of both spouses covered by the joint*
14 *return ended on the date of the closing of the surviving*
15 *spouse's taxable year.*

16 **SEC. 105. EFFECTIVE DATE OF PART I.**

17 *Except as provided in section 104, the amendments*
18 *made by this part shall be applicable only with respect to*
19 *taxable years beginning after October 31, 1951, and to*
20 *taxable years beginning on January 1, 1951, and ending*
21 *on December 31, 1951. For treatment of taxable years*
22 *(other than the calendar year 1951) beginning before No-*
23 *vember 1, 1951, and ending after October 31, 1951, see*
24 *section 131.*

1 **PART II—CORPORATION INCOME TAXES**

2 **SEC. 121. INCREASE IN RATE OF CORPORATION NORMAL**
 3 **TAX (2) AND SURTAX.**

4 (a) ~~(3) AMENDMENT OF SECTION 13~~ *INCREASE IN*
 5 *RATE OF CORPORATION NORMAL TAX.*—Subsections (a)
 6 and (b) of section 13 (relating to normal tax on cor-
 7 porations) are hereby amended to read as follows:

8 “(a) **DEFINITIONS.**—For the purposes of this chapter—

9 “(1) **ADJUSTED NET INCOME.**—The term ‘adjusted
 10 net income’ means the net income minus the credit pro-
 11 vided in section 26 (a), relating to interest on certain
 12 obligations of the United States and Government
 13 corporations.

14 “(2) **NORMAL-TAX NET INCOME.**—The term ‘nor-
 15 mal-tax net income’ means the adjusted net income
 16 minus the sum of the following credits:

17 “(A) The credit for dividends received pro-
 18 vided in section 26 (b) ;

19 “(B) In the case of a public utility, the credit
 20 for dividends paid on its preferred stock provided
 21 in section 26 (h) ; and

22 “(C) In the case of a western hemisphere
 23 trade corporation (as defined in section 109), the
 24 credit provided in section 26 (i) .

1 ~~(4)“(b) IMPOSITION OF TAX.—~~There shall be levied,
 2 collected, and paid for each taxable year upon the normal-
 3 tax net income of every corporation ~~(except a corporation~~
 4 subject to a tax imposed by section 231 (a), supplement
 5 G, or supplement Q) a tax of 30 per centum of the normal-
 6 tax net income.”

7 “(b) IMPOSITION OF TAX.—There shall be levied, col-
 8 lected, and paid for each taxable year upon the normal-tax
 9 net income of every corporation (except a corporation sub-
 10 ject to a tax imposed by section 231 (a), Supplement G,
 11 or Supplement Q)—

12 “(1) CALENDAR YEAR 1951.—In the case of a
 13 taxable year beginning on January 1, 1951, and ending
 14 on December 31, 1951, a tax of $26\frac{1}{2}$ per centum of the
 15 normal-tax net income.

16 “(2) TAXABLE YEARS BEGINNING AFTER MARCH
 17 31, 1951, AND BEFORE JANUARY 1, 1954.—In the case of
 18 taxable years beginning after March 31, 1951, and
 19 before January 1, 1954, a tax of 27 per centum of the
 20 normal-tax net income.

21 “(3) TAXABLE YEARS BEGINNING AFTER DECEM-
 22 BER 31, 1953.—In the case of taxable years beginning after
 23 December 31, 1953, a tax of 25 per centum of the
 24 normal-tax net income.”

1 **(5)(b) INCREASE IN RATE OF CORPORATION SURTAX.—**

2 *Section 15 (relating to surtax on corporations) is hereby*
 3 *amended to read as follows:*

4 **“SEC. 15. SURTAX ON CORPORATIONS.**

5 **“(a) CORPORATION SURTAX NET INCOME.—***For the*
 6 *purposes of this chapter, the term ‘corporation surtax net*
 7 *income’ means the net income minus the sum of the follow-*
 8 *ing credits:*

9 **“(1) The credit for dividends received provided in**
 10 *section 26 (b);*

11 **“(2) In the case of a public utility, the credit for**
 12 *dividends paid on its preferred stock provided in section*
 13 *26(h);*

14 **“(3) In the case of a western hemisphere trade**
 15 *corporation (as defined in section 109), the credit pro-*
 16 *vided in section 26 (i).*

17 **“(b) IMPOSITION OF TAX.—***There shall be levied, col-*
 18 *lected, and paid for each taxable year upon the corpora-*
 19 *tion surtax net income of every corporation (except a cor-*
 20 *poration subject to a tax imposed by section 231 (a), Supple-*
 21 *ment G, or Supplement Q)—*

22 **“(1) CALENDAR YEAR 1951.—***In the case of a*
 23 *taxable year beginning on January 1, 1951, and end-*
 24 *ing on December 31, 1951, a surtax of 24 $\frac{1}{4}$ per centum*

1 of the amount of the corporation surtax net income in
2 excess of \$25,000.

3 “(2) TAXABLE YEARS BEGINNING AFTER MARCH
4 31, 1951, AND BEFORE JANUARY 1, 1954.—In the case
5 of taxable years beginning after March 31, 1951, and
6 before January 1, 1954, a surtax of 25 per centum of
7 the amount of the corporation surtax net income in
8 excess of \$25,000.

9 “(3) TAXABLE YEARS BEGINNING AFTER DECEM-
10 BER 31, 1953.—In the case of taxable years beginning
11 after December 31, 1953, a surtax of 22 per centum of
12 the amount of the corporation surtax net income in
13 excess of \$25,000.”

14 **(6)(b) MAXIMUM TAX.**—Section 430 (a) (2) (relating
15 to the limitation on the rate of the excess profits tax) is
16 hereby amended by striking out “62 per centum” and insert-
17 ing in lieu thereof “70 per centum”.

18 (c) MAXIMUM TAX.—Section 430 (a) (2) (relating
19 to the limitation on the rate of the excess profits tax) is
20 hereby amended as follows:

21 (1) By inserting after “(2)” the following: “(A)
22 in the case of taxable years ending before April 1,
23 1951,”.

24 (2) By striking out the period at the end of para-

1 graph (2) and inserting “, or” and by adding after
2 paragraph (2) the following:

3 “(B) in the case of taxable years beginning on
4 January 1, 1951, and ending on December 31, 1951,
5 an amount equal to $16\frac{1}{2}$ per centum of the excess profits
6 net income for the taxable year, except that in the case
7 of an affiliated group of includible corporations making
8 or required to make a consolidated return for the taxable
9 year under section 141, such amount shall be reduced by
10 an amount which bears the same ratio (but not in excess
11 of 100 per centum) to the increase of 2 per centum in the
12 surtax imposed by reason of section 141 (c) as the
13 amount of the consolidated excess profits net income bears
14 to the amount of the consolidated corporation surtax net
15 income, or

16 “(C) in the case of taxable years beginning after
17 March 31, 1951, an amount equal to 17 per centum of
18 the excess profits net income for the taxable year, except
19 that in the case of an affiliated group of includible cor-
20 porations making or required to make a consolidated
21 return for the taxable year under section 141, such
22 amount shall be reduced by an amount which bears the
23 same ratio (but not in excess of 100 per centum) to the
24 increase of 2 per centum in the surtax imposed by reason

1 *of section 141 (c) as the amount of the consolidated excess*
 2 *profits net income bears to the amount of the consolidated*
 3 *corporation surtax net income, or”.*

4 **(7)(c) MUTUAL INSURANCE COMPANIES OTHER THAN**
 5 **LIFE OR MARINE.—**

6 ~~(1) Section 207 (a) (1) (relating to normal tax~~
 7 ~~and surtax on mutual insurance companies, other than~~
 8 ~~life or marine) is hereby amended by striking out sub-~~
 9 ~~paragraphs (A) and (B) and inserting in lieu thereof~~
 10 ~~the following:~~

11 ~~“(A) Normal Tax.—A normal tax of 30 per~~
 12 ~~centum of the normal-tax net income, or 60 per~~
 13 ~~centum of the amount by which the normal-tax~~
 14 ~~net income exceeds \$3,000, whichever is the lesser;~~
 15 ~~plus~~

16 ~~“(B) Surtax.—A surtax of 22 per centum~~
 17 ~~of the corporation surtax net income in excess of~~
 18 ~~\$25,000.”~~

19 ~~(2) Section 207 (a) (3) (relating to a normal~~
 20 ~~tax and surtax on interinsurers and reciprocal under-~~
 21 ~~writers) is hereby amended by striking out subpara-~~
 22 ~~graphs (A) and (B) and inserting in lieu thereof the~~
 23 ~~following:~~

24 ~~“(A) Normal Tax.—A normal tax of 30 per~~
 25 ~~centum of the normal-tax net income, or 60 per~~

centum of the amount by which the normal-tax net income exceeds \$50,000, whichever is the lesser; plus

“(B) Surtax.—A surtax of 22 per centum of the corporation surtax net income in excess of \$25,000, or 33 per centum of the amount by which the corporation surtax net income exceeds \$50,000, whichever is the lesser.”

(d) REGULATED INVESTMENT COMPANIES.—Section 362 (b) (relating to tax on regulated investment companies) is hereby amended by striking out paragraphs (3) and (4) and inserting in lieu thereof the following:

“(3) There shall be levied, collected, and paid for each taxable year upon its supplement Q net income a tax equal to 30 per centum of the amount thereof.

“(4) There shall be levied, collected, and paid for each taxable year upon its supplement Q surtax net income a tax equal to 22 per centum of the amount thereof in excess of \$25,000.”

(e) BUSINESS INCOME OF CERTAIN SECTION 101 ORGANIZATIONS.—Section 421 (a) (1) (relating to imposition of tax on business income of certain section 101 organizations) is hereby amended by striking out “25 per centum” and inserting in lieu thereof “30 per centum”.

1 ~~(f)~~ TECHNICAL AMENDMENTS.—

2 ~~(1)~~ REPEAL OF SECTION 14.—Section 14 (~~relat-~~
3 ing to normal tax on special classes of corporations in the
4 ease of taxable years beginning before July 1, 1950)
5 is hereby repealed.

6 ~~(2)~~ AMENDMENT OF SECTION 15.—Section 15
7 (~~relating to surtax on corporations~~) is hereby amended
8 to read as follows:

9 “SEC. 15. SURTAX ON CORPORATIONS.

10 “~~(a)~~ CORPORATION SURTAX NET INCOME.—For the
11 purpose of this chapter, the term ‘corporation surtax net
12 income’ means the net income minus the sum of the follow-
13 ing credits:

14 “~~(1)~~ The credit for dividends received provided in
15 section 26 ~~(b)~~;

16 “~~(2)~~ In the case of a public utility, the credit for
17 dividends paid on its preferred stock provided in section
18 26 ~~(h)~~;

19 “~~(3)~~ In the case of a western hemisphere trade
20 corporation (~~as defined in section 109~~), the credit pro-
21 vided in section 26 ~~(i)~~.

22 “~~(b)~~ IMPOSITION OF TAX.—There shall be levied, col-
23 lected and paid for each taxable year upon the corporation
24 surtax net income of every corporation (~~except a corporation~~
25 subject to a tax imposed by section 231 ~~(a)~~, supplement G,

1 or supplement Q) a surtax of 22 per centum of the amount
 2 of the corporation surtax net income in excess of the surtax
 3 exemption provided in section 26(j).”

4 (d) *MUTUAL INSURANCE COMPANIES OTHER*
 5 *THAN LIFE OR MARINE.*—

6 (1) *Section 207 (a) (1) (relating to normal tax*
 7 *and surtax on mutual insurance companies, other than*
 8 *life or marine) is hereby amended by striking out sub-*
 9 *paragraphs (A) and (B) and inserting in lieu thereof*
 10 *the following:*

11 “(A) *Taxable Years Beginning After De-*
 12 *cember 31, 1950, and Before April 1, 1951.—In*
 13 *the case of taxable years beginning after December*
 14 *31, 1950, and before April 1, 1951, and ending*
 15 *after March 31, 1951—*

16 “(i) *Normal tax.*—*A normal tax on the*
 17 *normal-tax net income, computed at the rate*
 18 *provided in section 13 (b) (1), or 53 per*
 19 *centum of the amount by which the normal-tax*
 20 *net income exceeds \$3,000, whichever is the*
 21 *lesser; plus*

22 “(ii) *Surtax.*—*A surtax on the corporation*
 23 *surtax net income, computed as provided in sec-*
 24 *tion 15 (b) (1).*

25 “(B) *Taxable Years Beginning After March*

1 31, 1951, and Before January 1, 1954.—In the
2 case of taxable years beginning after March 31,
3 1951, and before January 1, 1954—

4 “(i) Normal tax.—A normal tax on the
5 normal-tax net income, computed at the rate
6 provided in section 13 (b) (2), or 54 per
7 centum of the amount by which the normal-tax
8 net income exceeds \$3,000, whichever is the
9 lesser; plus

10 “(ii) Surtax.—A surtax on the corpora-
11 tion surtax net income, computed as provided in
12 section 15 (b) (2).

13 “(C) Taxable Years Beginning After Decem-
14 ber 31, 1953.—In the case of a taxable year begin-
15 ning after December 31, 1953—

16 “(i) Normal tax.—A normal tax on the
17 normal-tax net income, computed at the rate
18 provided in section 13 (b) (3), or 50 per
19 centum of the amount by which the normal-tax
20 net income exceeds \$3,000, whichever is the
21 lesser; plus

22 “(ii) Surtax.—A surtax on the corporation
23 surtax net income, computed as provided in sec-
24 tion 15 (b) (3).”

25 (2) Section 207 (a) (3) (relating to a normal tax

1 *and surtax on interinsurers and reciprocal underwriters)*
2 *is hereby amended by striking out subparagraphs (A)*
3 *and (B) and inserting in lieu thereof the following:*

4 *“(A) Taxable Years Beginning After Decem-*
5 *ber 31, 1950, and before April 1, 1951.—In the*
6 *case of taxable years beginning after December 31,*
7 *1950, and before April 1, 1951, and ending after*
8 *March 31, 1951—*

9 *“(i) Normal tax.—A normal tax on the*
10 *normal-tax net income, computed at the rate*
11 *provided in section 13 (b) (1), or 53 per*
12 *centum of the amount by which the normal-tax*
13 *net income exceeds \$50,000, whichever is the*
14 *lesser; plus*

15 *“(ii) Surtax.—A surtax on the corpo-*
16 *ration surtax net income, computed as pro-*
17 *vided in section 15 (b) (1), or $36\frac{3}{8}$ per centum*
18 *of the amount by which the corporation surtax*
19 *net income exceeds \$50,000, whichever is the*
20 *lesser.*

21 *“(B) Taxable Years Beginning After March*
22 *31, 1951, and Before January 1, 1954.—In the*
23 *case of taxable years beginning after March 31,*
24 *1951, and before January 1, 1954—*

25 *“(i) Normal tax.—A normal tax on the*

1 normal-tax net income, computed at the rate
 2 provided in section 13 (b) (2), or 54 per
 3 centum of the amount by which the normal-tax
 4 net-income exceeds \$50,000, whichever is the
 5 lesser; plus

6 “(ii) Surtax.—A surtax on the corporation
 7 surtax net income, computed as provided in
 8 section 15 (b) (2), or $37\frac{1}{2}$ per centum of the
 9 amount by which the corporation surtax net
 10 income exceeds \$50,000, whichever is the lesser.

11 “(C) Taxable Years Beginning After Decem-
 12 ber 31, 1953.—In the case of a taxable year begin-
 13 ning after December 31, 1953—

14 “(i) Normal tax.—A normal tax on the
 15 normal-tax net income computed at the rate
 16 provided in section 13 (b) (3), or 50 per
 17 centum of the amount by which the normal-tax
 18 net income exceeds \$50,000, whichever is the
 19 lesser; plus

20 “(ii) Surtax.—A surtax on the corporation
 21 surtax net income, computed as provided in
 22 section 15 (b) (3), or 33 per centum of the
 23 amount by which the corporation surtax net
 24 income exceeds \$50,000, whichever is the lesser.”

25 (e) REGULATED INVESTMENT COMPANIES.—Section

1 362 (b) (relating to tax on regulated investment companies)
2 is hereby amended by striking out paragraphs (3) and (4)
3 and inserting in lieu thereof the following:

4 “(3) In the case of taxable years beginning after
5 December 31, 1950, and before April 1, 1951, and end-
6 ing after March 31, 1951, there shall be levied, collected,
7 and paid for each taxable year upon its Supplement Q
8 net income a tax equal to $26\frac{1}{2}$ per centum of the amount
9 thereof. In the case of taxable years beginning after
10 March 31, 1951, and before January 1, 1954, there
11 shall be levied, collected, and paid for each taxable year
12 upon its Supplement Q net income a tax equal to 27
13 per centum of the amount thereof. In the case of taxable
14 years beginning after December 31, 1953, there shall
15 be levied, collected, and paid for each taxable year upon
16 its Supplement Q net income a tax equal to 25 per
17 centum of the amount thereof.

18 “(4) In the case of taxable years beginning after
19 December 31, 1950, and before April 1, 1951, and end-
20 ing after March 31, 1951, there shall be levied, col-
21 lected, and paid for each taxable year upon its Supple-
22 ment Q surtax net income a tax equal to $24\frac{1}{4}$ per centum
23 of the amount thereof in excess of \$25,000. In the case
24 of taxable years beginning after March 31, 1951, and
25 before January 1, 1954, there shall be levied, collected,

1 and paid for each taxable year upon its Supplement
 2 Q surtax net income a tax equal to 25 per centum of the
 3 amount thereof in excess of \$25,000. In the case of
 4 taxable years beginning after December 31, 1953, there
 5 shall be levied, collected, and paid for each taxable year
 6 upon its Supplement Q surtax net income a tax equal to
 7 22 per centum of the amount thereof in excess of
 8 \$25,000.”

9 (f) *BUSINESS INCOME OF CERTAIN SECTION 101*
 10 *ORGANIZATIONS.*—Section 421 (a) (1) (relating to im-
 11 position of tax on business income of certain section 101
 12 organizations) is hereby amended by inserting before the
 13 period at the end thereof the following: “; except that (A)
 14 in the case of taxable years beginning before April 1, 1951,
 15 and ending after March 31, 1951, the normal tax shall be
 16 26½ per centum of the Supplement U net income and the
 17 surtax shall be 24¼ per centum of the amount of the Sup-
 18 plement U net income in excess of \$25,000, and (B) in the
 19 case of taxable years beginning after March 31, 1951, and
 20 before January 1, 1954, the normal tax shall be 27
 21 per centum of the Supplement U net income and the sur-
 22 tax shall be 25 per centum of the amount of the Supplement
 23 U net income in excess of \$25,000”.

24 (g) *TECHNICAL AMENDMENT.*—Section 14 (relating to
 25 normal tax on special classes of corporations in the case of

1 taxable years beginning before July 1, 1950) is hereby
2 repealed.

3 **(8) SEC. 122. CREDITS OF CORPORATIONS.**

4 ~~(a)~~ DIVIDENDS RECEIVED CREDIT.—Paragraphs ~~(1)~~
5 and ~~(2)~~ of section 26 ~~(b)~~ (relating to credit for dividends
6 received) are hereby amended to read as follows:

7 “~~(1)~~ IN GENERAL.—85 per centum of the amount
8 received as dividends (other than dividends described
9 in paragraph ~~(2)~~ on the preferred stock of a public
10 utility) from a domestic corporation which is subject
11 to taxation under this chapter; and

12 “~~(2)~~ CERTAIN PREFERRED STOCK.—62 per
13 centum of the amount received as dividends on the pre-
14 ferred stock of a public utility which is subject to taxa-
15 tion under this chapter.”

16 ~~(b)~~ CREDIT FOR DIVIDENDS PAID ON CERTAIN
17 PREFERRED STOCK.—The first sentence of section 26 ~~(b)~~
18 ~~(1)~~ (relating to amount of credit for dividends paid on
19 certain preferred stock) is hereby amended to read as follows:
20 “In the case of a public utility, an amount equal to 27 per
21 centum of the lesser of ~~(A)~~ the amount of dividends paid
22 during the taxable year on its preferred stock or ~~(B)~~ the
23 adjusted net income for such taxable year minus the credit

1 for dividends received provided in subsection ~~(b)~~ for such
2 year.”

3 ~~(c) WESTERN HEMISPHERE TRADE CORPORATIONS.—~~

4 Section 26 ~~(i)~~ ~~(relating to credit of a western hemisphere~~
5 ~~trade corporation)~~ is hereby amended to read as follows:

6 “~~(i) WESTERN HEMISPHERE TRADE CORPORATIONS.—~~

7 In the case of a western hemisphere trade corporation (as
8 defined in section 109), an amount equal to 27 per centum
9 of its normal-tax net income computed without regard to the
10 credit provided in this subsection.”

11 SEC. 122. CREDITS OF CORPORATIONS.

12 (a) DIVIDENDS RECEIVED CREDIT.—Paragraphs
13 (1) and (2) of section 26 (b) (relating to credit for divi-
14 dends received) are hereby amended to read as follows:

15 “(1) IN GENERAL.—85 per centum of the amount
16 received as dividends (other than dividends described
17 in paragraph (2) on the preferred stock of a public
18 utility) from a domestic corporation which is subject to
19 taxation under this chapter.

20 “(2) CERTAIN PREFERRED STOCK.—

21 “(A) Calendar Year 1951.—In the case of a
22 taxable year beginning on January 1, 1951, and
23 ending on December 31, 1951, 61 per centum of the
24 amount received as dividends on the preferred stock
25 of a public utility which is subject to taxation under

1 *this chapter and with respect to which the credit*
2 *provided in section 26 (h) for dividends paid is*
3 *allowable.*

4 *“(B) Taxable Years Beginning After March*
5 *31, 1951, and Before January 1, 1954.—In the*
6 *case of taxable years beginning after March*
7 *31, 1951, and before January 1, 1954, 62 per*
8 *centum of the amount received as dividends on the*
9 *preferred stock of a public utility which is subject*
10 *to taxation under this chapter and with respect to*
11 *which the credit provided in section 26 (h) for*
12 *dividends paid is allowable.*

13 *“(C) Taxable Years Beginning After December*
14 *31, 1953.—In the case of taxable years beginning*
15 *after December 31, 1953, 59 per centum of the*
16 *amount received as dividends on the preferred stock*
17 *of a public utility which is subject to taxation under*
18 *this chapter and with respect to which the credit*
19 *provided in section 26 (h) for dividends paid is*
20 *allowable.”*

21 *(b) CREDIT FOR DIVIDENDS PAID ON CERTAIN*
22 *PREFERRED STOCK.—The first sentence of section 26 (h)*
23 *(1) (relating to amount of credit for dividends paid on*
24 *certain preferred stock) is hereby amended to read as follows:*
25 *“In the case of a public utility, (A) for a taxable year*

1 beginning on January 1, 1951, and ending on De-
 2 cember 31, 1951, an amount equal to 28 per centum
 3 of the lesser of (i) the amount of dividends paid dur-
 4 ing the taxable year on its preferred stock or (ii) the
 5 adjusted net income for such taxable year minus the credit
 6 for dividends received provided in subsection (b) for such
 7 year, (B) for a taxable year beginning after March 31,
 8 1951, and before January 1, 1954, an amount equal to
 9 27 per centum of the lesser of (i) the amount of dividends
 10 paid during the taxable year on its preferred stock or (ii)
 11 the adjusted net income for such taxable year minus the
 12 credit for dividends received provided in subsection (b)
 13 for such year, and (C) for a taxable year beginning after
 14 December 31, 1953, an amount equal to 30 per centum
 15 of the lower of (i) the amount of dividends paid during
 16 the taxable year on its preferred stock or (ii) the adjusted
 17 net income for such taxable year minus the credit for
 18 dividends received provided in subsection (b) for such year.”

19 (c) WESTERN HEMISPHERE TRADE CORPORATIONS.—
 20 Section 26 (i) (relating to credit of a western hemisphere
 21 trade corporation) is hereby amended to read as follows:

22 “(i) WESTERN HEMISPHERE TRADE CORPORATIONS.—
 23 In the case of a western hemisphere trade corporation (as
 24 defined in section 109)—

25 “(1) CALENDAR YEAR 1951.—In the case of a

taxable year beginning on January 1, 1951, and ending on December 31, 1951, an amount equal to $27\frac{1}{2}$ per centum of its normal-tax net income computed without regard to the credit provided in this subsection.

“(2) TAXABLE YEARS BEGINNING AFTER MARCH 31, 1951, AND BEFORE JANUARY 1, 1954.—In the case of a taxable year beginning after March 31, 1951, and before January 1, 1954, an amount equal to 27 per centum of its normal-tax net income computed without regard to the credit provided in this subsection.

“(3) TAXABLE YEARS BEGINNING AFTER DECEMBER 31, 1953.—In the case of a taxable year beginning after December 31, 1953, an amount equal to 30 per centum of its normal-tax net income computed without regard to the credit provided in this subsection.”

(9) SEC. 123. SURTAX EXEMPTIONS AND CERTAIN CREDITS OF RELATED CORPORATIONS.

~~(a) LIMITATION ON SURTAX EXEMPTION IN THE CASE OF RELATED CORPORATIONS.~~—Section 26 (relating to credits of corporations) is hereby amended by adding at the end thereof the following new subsection:

~~“(j) SURTAX EXEMPTION.—~~

~~“(1) IN GENERAL.—Except in the case of a corporation to which paragraph (2) is applicable for the taxable year, a surtax exemption of \$25,000.~~

1 “(2) RELATED CORPORATIONS.—In the case of a
 2 corporation which on December 31 of any year is a
 3 member of a controlled group as defined in paragraph
 4 (3), a surtax exemption, for the taxable year which
 5 includes such date, in an amount equal to \$25,000
 6 divided by the number of corporations in such group at
 7 the close of such date. In lieu of such exemption, a
 8 surtax exemption of \$25,000 for the controlled group
 9 may be divided (in any manner) by the corporations
 10 which at the close of such date are members of such
 11 group by making and filing with the Secretary a consent
 12 setting forth the portion of the \$25,000 which will
 13 be taken by each member as its surtax exemption for
 14 its taxable year which includes such date. The consent
 15 shall be made and filed at such time and in such manner
 16 as the Secretary by regulations may prescribe. If a
 17 member of a controlled group has a taxable year which
 18 does not include December 31, the surtax exemption for
 19 such member for such taxable year shall be an amount
 20 equal to \$25,000 divided by the number of corporations
 21 in such group at the close of such taxable year.

22 “(3) DEFINITION OF CONTROLLED GROUP.—For
 23 the purposes of paragraph (2), a ‘controlled group’
 24 mean

25 “(A) Any group of one or more chains of

corporations connected through ownership with a common parent corporation if—

“(i) stock possessing at least 95 per centum of the voting power of all classes of stock of each of the corporations (except the common parent corporation) is owned directly by one or more of the other corporations; and

“(ii) the common parent corporation owns directly stock possessing at least 95 per centum of the voting power of all classes of stock of at least one of the other corporations, excluding, in computing such voting power, stock held by such other corporations.

“(B) Any group of two or more corporations if at least 95 per centum of the voting power of all classes of stock of each of the corporations is owned, directly or indirectly, by or for one individual, or is owned, directly or indirectly, by or for not more than five individuals each of whom owns substantially the same proportion of the voting power in any one of such corporations as he owns in each of the other corporations. For the purposes of this subparagraph—

“(i) an individual shall be considered as owning substantially the same proportion of the

1 voting power in any two corporations if, and
2 only if, he could own the same proportion of the
3 voting power in each by increasing by not more
4 than 10 per centum his voting power in one of
5 the corporations and decreasing by not more
6 than 10 per centum his voting power in the
7 other corporation;

8 “(ii) stock owned, directly or indirectly,
9 by or for a corporation, partnership, estate,
10 or trust, shall be considered as being owned
11 proportionately by or for its shareholders, part-
12 ners, or beneficiaries;

13 “(iii) an individual shall be considered as
14 owning the stock owned, directly or indirectly,
15 by or for his spouse;

16 “(iv) if an individual owns more than 50
17 per centum of the voting power in any corpora-
18 tion (including the voting power of the stock
19 owned by him upon the application of clauses
20 (ii) and (iii)), such individual shall be con-
21 sidered as owning the stock owned in such cor-
22 poration, directly or indirectly, by or for his
23 ancestors and lineal descendants;

24 “(v) stock constructively owned by a per-
25 son by reason of the application of clause (ii)

1 shall, for the purpose of applying clause ~~(ii)~~,
2 ~~(iii)~~, or ~~(iv)~~, be treated as actually owned by
3 such person, but stock constructively owned by
4 an individual by reason of the application of
5 clause ~~(iii)~~ or ~~(iv)~~ shall not be treated as
6 owned by him for the purpose of applying
7 either such clause in order to make another the
8 constructive owner of such stock; and

9 “~~(vi)~~ if stock may be treated as construe-
10 tively owned by two or more individuals, such
11 stock shall, in any computation to determine
12 the proportionate voting power of such individ-
13 uals, be treated in such computation as construe-
14 tively owned by the individual whose construe-
15 tive ownership of such stock results in the
16 corporation being a member of a controlled
17 group.

18 If a group of corporations described in subparagraph
19 ~~(B)~~ includes a common parent corporation included in
20 a group described in subparagraph ~~(A)~~, then each
21 member of the group described in subparagraph ~~(A)~~ of
22 which the common parent corporation is a member shall
23 be a member of the group described in subparagraph
24 ~~(B)~~. For the purposes of this paragraph, treasury
25 stock shall not be considered to be voting stock.”

1 ~~(b)~~ INSURANCE COMPANIES.—Section 201 ~~(g)~~ ~~(re-~~
2 relating to credits under section 26 allowed life insurance com-
3 panies) and section 204 ~~(f)~~ ~~(relating to credits under sec-~~
4 tion 26 allowed to insurance companies other than life or
5 mutual) are each amended by adding at the end thereof
6 the following new sentence: “In computing the surtax im-
7 posed by this section, in the manner provided in section
8 15 ~~(b)~~, the surtax exemption provided in section 26 ~~(j)~~
9 shall be allowed.”

10 ~~(e)~~ MINIMUM EXCESS PROFITS CREDIT.—The last
11 sentence of section 431 ~~(relating to definition of adjusted~~
12 ~~excess profits net income)~~ is hereby amended to read as
13 follows: “If such sum is less than its surtax exemption
14 provided in section 26 ~~(j)~~ for the taxable year, such sum
15 shall be increased to the amount of its surtax exemption
16 for such year.”

17 (10) SEC. 124. COMPUTATION OF ALTERNATIVE CAPITAL
18 GAINS TAX.

19 ~~(a) ALTERNATIVE TAX.~~—Section 117 (c) (1) (relat-
20 ing to alternative tax on corporations) is hereby amended
21 by striking out the second paragraph and inserting in lieu
22 thereof the following:

23 ~~“(A)~~ A partial tax shall first be computed
24 upon the net income reduced by the amount of

such excess, at the rates and in the manner as if this subsection had not be enacted.

“(B) There shall then be ascertained an amount equal to 25 per centum of such excess. In the case of taxable years to which the defense tax provided in section 16 (c) is applicable, such amount shall be increased by the percentage specified in such section.

“(C) The total tax shall be the partial tax computed under subparagraph (A) plus the amount computed under subparagraph (B).”

(b) **EFFECTIVE DATE.**—The amendment made by subsection (a) shall be applicable only with respect to taxable years ending after August 31, 1951.

(11) SEC. 123. FILING OF CORPORATION RETURNS FOR TAXABLE YEARS ENDING AFTER MARCH 31, 1951, AND BEFORE OCTOBER 1, 1951.

In the case of a corporation subject to a tax imposed by chapter 1 of the Internal Revenue Code for a taxable year ending after March 31, 1951, but prior to October 1, 1951, such corporation shall after the date of the enactment of this Act and on or before January 15, 1952, make a return for such taxable year with respect to the tax imposed by chapter 1 of the Internal Revenue Code for such taxable

1 year. The return required by this section for such taxable
2 year shall constitute the return for such taxable year for all
3 purposes of the Internal Revenue Code; and no return for
4 such taxable year, with respect to any tax imposed by chapter
5 1 of such code, filed on or before the date of the enactment
6 of this Act shall be considered for any of such purposes as
7 a return for such year. The taxes imposed by chapter 1
8 of such code (determined with the amendments made by this
9 Act) for such taxable year shall be paid on January 15,
10 1952, in lieu of the time prescribed in section 56 (a) of
11 such code. All payments with respect to any tax for such
12 taxable year imposed by chapter 1 of such code under the law
13 in effect prior to the enactment of this Act, to the extent
14 that such payments have not been credited or refunded,
15 shall be deemed payments made at the time of the filing of
16 the return required by this section on account of the tax
17 for such taxable year under chapter 1 determined with the
18 amendments made by this Act.

19 **(12) SEC. 125. EFFECTIVE DATE.**

20 Except as provided in section 124, the amendments made
21 by this part shall be applicable only with respect to taxable
22 years beginning after December 31, 1950. For treatment of
23 taxable years beginning in 1950 and ending in 1951, see part
24 III of this title.

1 **SEC. 124. EFFECTIVE DATE.**

2 *The amendments made by this part shall be applicable*
 3 *only with respect to taxable years beginning after March*
 4 *31, 1951, and to taxable years beginning on January 1,*
 5 *1951, and ending on December 31, 1951, except that the*
 6 *amendments made to sections 207, 362, and 421 of the In-*
 7 *ternal Revenue Code shall be applicable to taxable years*
 8 *beginning after December 31, 1950, and ending after March*
 9 *31, 1951. In the case of an insurance company subject*
 10 *to the tax imposed by section 207, the provisions of section*
 11 *26 (b) of such code applicable to the calendar year 1951*
 12 *shall be applicable to a taxable year beginning after December*
 13 *31, 1950, and before April 1, 1951, and ending after March*
 14 *31, 1951. For treatment of taxable years (other than the*
 15 *calendar year 1951) beginning before April 1, 1951, and*
 16 *ending after March 31, 1951, see section 131.*

17 **PART III—FISCAL YEAR TAXPAYERS**

18 **SEC. 131. FISCAL YEAR TAXPAYERS.**

19 **(13)(a) AMENDMENT OF SECTION 108.**—Section 108 is
 20 hereby amended by striking out paragraph ~~(2)~~ of sub-
 21 section ~~(f)~~ and inserting in lieu thereof the following:

22 ~~“(2) that portion of a tentative tax consisting of—~~

23 ~~“(A) A tentative normal tax of 25 per centum~~
 24 ~~of the normal-tax net income, plus~~

1 ~~“(B)~~ a tentative surtax of 20 per centum of
 2 the surtax net income in excess of \$25,000,
 3 which the number of days in such taxable year after
 4 June 30, 1950, and before January 1, 1951, bears to
 5 the total number of days in such taxable year, plus (if
 6 the taxable year ends in 1951)

7 ~~“(3)~~ that portion of a tentative tax consisting of—
 8 ~~“(A)~~ a tentative normal tax of 30 per centum
 9 of the normal-tax net income, plus

10 ~~“(B)~~ a tentative surtax of 20 per centum of
 11 the surtax net income in excess of \$25,000,
 12 which the number of days in such taxable year after
 13 December 31, 1950, bears to the total number of days
 14 in such taxable year.

15 In computing for the purposes of paragraph ~~(2)~~ the normal-
 16 tax net income and the corporation surtax net income, the
 17 credits provided in section 26 applicable to taxable years
 18 beginning on July 1, 1950, shall be allowed in the manner
 19 and to the extent provided in sections 13 and 15
 20 applicable to years beginning on such date, except that
 21 such credits shall be applied without regard to the amend-
 22 ments made to section 26 by title II of the Excess Profits
 23 Tax Act of 1950. In computing for the purposes of para-
 24 graph ~~(3)~~ the normal-tax net income and the corporation
 25 surtax net income, the credits provided in section 26 appli-

1 eable to taxable years beginning on January 1, 1951, shall
 2 be allowed in the manner and to the extent provided in sec-
 3 tions 13 and 15 applicable to years beginning on such date.

4 ~~“(g) TAXABLE YEARS OF CORPORATIONS BEGINNING~~
 5 ~~AFTER JUNE 30, 1950, AND BEFORE 1951, AND ENDING~~
 6 ~~IN 1951.~~—In the case of a taxable year of a corporation
 7 beginning after June 30, 1950, and before January 1, 1951,
 8 and ending after December 31, 1950, the tax imposed by
 9 sections 13 and 15 shall be an amount equal to the sum of—

10 ~~“(1) that portion of a tentative tax, computed~~
 11 ~~under the provisions of sections 13 and 15 applicable~~
 12 ~~to such taxable year, which the number of days in such~~
 13 ~~taxable year prior to January 1, 1951, bears to the~~
 14 ~~total number of days in such taxable year, plus~~

15 ~~“(2) that portion of a tentative tax, computed~~
 16 ~~under the provisions of sections 13 and 15 applicable to~~
 17 ~~years beginning on January 1, 1951, as if such pro-~~
 18 ~~visions were applicable to such taxable year, which the~~
 19 ~~number of days in such taxable year after December~~
 20 ~~31, 1950, bears to the total number of days in such~~
 21 ~~taxable year. For the purposes of this paragraph a~~
 22 ~~surtax exemption of \$25,000 shall be allowed in lieu~~
 23 ~~of the exemption provided in section 26 (j).~~

24 ~~“(h) CERTAIN TAXABLE YEARS OF INDIVIDUALS~~
 25 ~~BEGINNING BEFORE SEPTEMBER 1, 1951, AND ENDING~~

1 AFTER AUGUST 31, 1951.—In the case of a taxable year
2 (other than one beginning on January 1, 1951, and ending
3 on December 31, 1951) of a taxpayer, other than a corpora-
4 tion, beginning before September 1, 1951, and ending after
5 August 31, 1951, the tax imposed by sections 11 and 12,
6 section 400, or section 421 (a) (2), shall be an amount
7 equal to the sum of—

8 “(1) that portion of a tentative tax, computed
9 under the provisions of sections 11 and 12, or section
10 400, applicable to taxable years beginning on October 1,
11 1950, which the number of calendar months in such
12 taxable year prior to September 1, 1951, bears to the
13 total number of calendar months in such taxable year,
14 plus

15 “(2) that portion of a tentative tax, computed
16 under the provisions of sections 11 and 12, or section
17 400, applicable to years beginning on September 1,
18 1951, as if such provisions (other than the provisions
19 relating to head of household) were applicable to such
20 taxable year, which the number of calendar months
21 in such taxable year after August 31, 1951, bears to
22 the total number of calendar months in such taxable
23 year.

24 For the purposes of this subsection, a calendar month only
25 part of which falls within the taxable year (A) shall be

1 disregarded if less than 15 days of such month are included
 2 in such taxable year, and ~~(B)~~ shall be included as a calendar
 3 month within the taxable year if more than 14 days of such
 4 month fall within the taxable year. This subsection shall
 5 not apply in the case of a trust described in section 421
 6 ~~(b) (2)~~ if the taxable year of such trust began before
 7 January 1, 1951."

8 (a) AMENDMENT OF SECTION 108.—Section 108 is
 9 hereby amended by striking out paragraph (2) of subsec-
 10 tion (f) and inserting in lieu thereof the following:

11 “(2) that portion of a tentative tax consisting of—

12 “(A) a tentative normal tax of 25 per centum
 13 of the normal-tax net income, plus

14 “(B) a tentative surtax of 20 per centum of
 15 the surtax net income in excess of \$25,000,

16 which the number of days in such taxable year after
 17 June 30, 1950, and before April 1, 1951, bears to the
 18 total number of days in such taxable year, plus (if the
 19 taxable year ends after March 31, 1951)

20 “(3) that portion of a tentative tax consisting of—

21 “(A) a tentative normal tax of 27 per centum
 22 of the normal-tax net income, plus

23 “(B) a tentative surtax of 23 per centum of
 24 the surtax net income in excess of \$25,000,

1 *which the number of days in such taxable year after*
2 *March 31, 1951, bears to the total number of days*
3 *in such taxable year.*

4 *In computing for the purposes of paragraph (2) the normal-*
5 *tax net income and the corporation surtax net income, the*
6 *credits provided in section 26 applicable to taxable years*
7 *beginning on July 1, 1950, shall be allowed in the manner*
8 *and to the extent provided in sections 13 and 15*
9 *applicable to years beginning on such date, except that*
10 *such credits shall be applied without regard to the amend-*
11 *ments made to section 26 by title II of the Excess Profits*
12 *Tax Act of 1950. In computing for the purposes of para-*
13 *graph (3) the normal-tax net income and the corporation*
14 *surtax net income, the credits provided in section 26 appli-*
15 *cable to taxable years beginning on April 1, 1951, shall*
16 *be allowed in the manner and to the extent provided in sec-*
17 *tions 13 and 15 applicable to years beginning on such date.*

18 *“(g) CERTAIN TAXABLE YEARS OF CORPORATIONS*
19 *BEGINNING AFTER JUNE 30, 1950, AND BEFORE APRIL 1,*
20 *1951.—In the case of a taxable year (other than one be-*
21 *ginning on January 1, 1951, and ending on December 31,*
22 *1951) of a corporation beginning after June 30, 1950, and*
23 *before April 1, 1951, and ending after March 31, 1951, the*
24 *tax imposed by sections 13 and 15 shall be an amount equal*
25 *to the sum of—*

1 “(1) that portion of a tentative tax, computed
2 under the provisions of sections 13 and 15 applicable
3 to such taxable year, which the number of days in such
4 taxable year prior to April 1, 1951, bears to the
5 total number of days in such taxable year, plus

6 “(2) that portion of a tentative tax, computed
7 under the provisions of sections 13 and 15 applicable to
8 years beginning on April 1, 1951, as if such pro-
9 visions were applicable to such taxable year, which the
10 number of days in such taxable year after March
11 31, 1951, bears to the total number of days in such
12 taxable year.

13 “(h) CERTAIN TAXABLE YEARS OF INDIVIDUALS
14 BEGINNING BEFORE NOVEMBER 1, 1951, AND ENDING
15 AFTER OCTOBER 31, 1951.—In the case of a taxable year
16 (other than one beginning on January 1, 1951, and ending
17 on December 31, 1951) of a taxpayer, other than a corpora-
18 tion, beginning before November 1, 1951, and ending after
19 October 31, 1951, the tax imposed by sections 11 and 12
20 section 400, or section 421 (a) (2), shall be an amount
21 equal to the sum of—

22 “(1) that portion of a tentative tax, computed
23 under the provisions of sections 11 and 12, section
24 400, or section 421 (a) (2), applicable to such year,
25 which the number of calendar months in such taxable

1 year prior to November 1, 1951, bears to the total
 2 number of calendar months in such taxable year, plus
 3 “(2) that portion of a tentative tax, computed
 4 under the provisions of sections 11 and 12, section 400,
 5 or section 421 (a) (2), applicable to years beginning on
 6 November 1, 1951, as if such provisions (other than the
 7 provisions relating to head of household) were applicable
 8 to such taxable year, which the number of calendar
 9 months in such taxable year after October 31, 1951,
 10 bears to the total number of calendar months in such
 11 taxable year.

12 This subsection shall not apply in the case of a trust de-
 13 scribed in section 421 (b) (2) if the taxable year of such
 14 trust began before January 1, 1951.

15 “(i) *DEFINITION OF CALENDAR MONTH.*—For the
 16 purposes of this section, a calendar month only part of
 17 which falls within a taxable year (1) shall be disregarded
 18 if less than 15 days of such month are included in such
 19 taxable year, and (2) shall be included as a calendar month
 20 within the taxable year if more than 14 days of such month
 21 fall within the taxable year.

22 “(j) *TAXABLE YEARS OF INDIVIDUALS BEGINNING*
 23 *IN 1953 AND ENDING IN 1954.*—In the case of a taxable
 24 year of a taxpayer, other than a corporation, beginning
 25 before January 1, 1954, and ending after December 31,

1 1953, the tax imposed by sections 11 and 12, section 400,
2 or section 421 (a) (2), shall be an amount equal to the
3 sum of—

4 “(1) that portion of a tentative tax, computed un-
5 der the provisions of sections 11 and 12, section 400, or
6 section 421 (a) (2), applicable to years beginning on
7 January 1, 1953, which the number of calendar months
8 in such taxable year prior to January 1, 1954, bears
9 to the total number of calendar months in such taxable
10 year, plus

11 “(2) that portion of a tentative tax, computed un-
12 der the provisions of sections 11 and 12, section 400,
13 or section 421 (a) (2), applicable to years beginning
14 on January 1, 1954, as if such provisions were appli-
15 cable to such taxable year, which the number of calendar
16 months in such taxable year after December 31, 1953,
17 bears to the total number of calendar months in such
18 taxable year.

19 “(k) TAXABLE YEARS OF CORPORATIONS BEGIN-
20 NING IN 1953 AND ENDING IN 1954.—In the case of a tax-
21 able year of a corporation beginning before January 1, 1954,
22 and ending after December 31, 1953, the tax imposed by
23 sections 13 and 15, or section 421 (a) (1), shall be an
24 amount equal to the sum of—

25 “(1) that portion of a tentative tax, computed under

1 the provisions of sections 13 and 15, or section 421 (a)
 2 (1), applicable to years beginning on January 1, 1953,
 3 which the number of days in such taxable year prior to
 4 January 1, 1954, bears to the total number of days in
 5 such taxable year, plus

6 “(2) that portion of a tentative tax, computed under
 7 the provisions of sections 13 and 15, or section 421 (a)
 8 (1), applicable to years beginning on January 1, 1954,
 9 as if such provisions were applicable to such taxable year,
 10 which the number of days in such taxable year after
 11 December 31, 1953, bears to the total number of days
 12 in such taxable year.”

13 (b) COMPUTATION OF EXCESS PROFITS TAX.—Sub-
 14 section (b) of section 430 (relating to computation of ex-
 15 cess profits tax in the case of certain taxable years) is hereby
 16 amended to read as follows:

17 “(b) CERTAIN TAXABLE YEARS BEGINNING BEFORE
 18 1951.—

19 “(1) TAXABLE YEARS ENDING BEFORE (14) JAN-
 20 UARY APRIL 1, 1951.—In the case of a taxable year
 21 beginning before July 1, 1950, and ending after June 30,
 22 1950, and before (15) January April 1, 1951, the tax
 23 imposed by subsection (a) shall be an amount equal to
 24 that portion of a tentative tax, computed under the
 25 provisions of subsection (a) applicable to taxable years

ending on December 31, 1950, which the number of days in such taxable year after June 30, 1950, bears to the total number of days in such taxable year.

“(2) TAXABLE YEARS ENDING AFTER ~~(16) DECEMBER 31, 1950~~ MARCH 31, 1951.—In the case of a taxable year ~~(17) beginning before January 1, 1951, and ending after December 31, 1950~~ (*other than a taxable year beginning on January 1, 1951, and ending on December 31, 1951*) beginning before April 1, 1951, and ending after March 31, 1951, the tax imposed by subsection (a) shall be an amount equal to the sum of—

“(A) that portion of a tentative tax, computed under the provisions of subsection (a) applicable to taxable years ending on December 31, 1950, which the number of days in such taxable year after June 30, 1950, and before ~~(18) January April 1, 1951,~~ bears to the total number of days in such taxable year, plus

“(B) that portion of a tentative tax, computed under the provisions of subsection (a) applicable to taxable years beginning on ~~(19) January April 1, 1951,~~ which the number of days in such taxable year after ~~(20) December 31, 1950~~ March 31, 1951, bears to the total number of days in such taxable year.”

1 (c) TECHNICAL AMENDMENTS.—

2 (1) Section 108 (e) (2) is hereby amended by
3 inserting after “section 400,” the following: “applica-
4 ble to years beginning on October 1, 1950,”.

5 (2) Section 108 (g) is hereby amended by
6 striking out “(g)” and inserting in lieu thereof

7 **(21)“(i) (l)”**

8 **TITLE II—WITHHOLDING OF TAX AT SOURCE**

9 **(22)PART I—WITHHOLDING OF TAX AT SOURCE** 10 **ON DIVIDENDS, INTEREST, AND ROYALTIES**

11 **SEC. 201. COLLECTION OF INCOME TAX AT SOURCE ON** 12 **DIVIDENDS, INTEREST, AND ROYALTIES.**

13 Subtitle B of the Internal Revenue Code is hereby
14 amended by inserting before chapter 7 the following new
15 chapter:

16 **“CHAPTER 6—COLLECTION OF INCOME TAX AT** 17 **SOURCE ON DIVIDENDS, INTEREST, AND ROY-** 18 **ALTIES**

19 **“Subchapter A—Dividends and Interest**

20 **“SEC. 1200. DEFINITIONS.**

21 **“As used in this chapter—**

22 **“(a) DIVIDEND.—**The term ‘dividend’ means—

23 **“(1) any distribution by a corporation which is a**
24 **dividend as defined in section 115 (a); and**

25 **“(2) a payment made by a stockbroker to any per-**

son as a substitute for a dividend (as defined in section 115 (a)) upon which a tax is required to be deducted and withheld under this subchapter.

“(b) INTEREST.—The term ‘interest’ means—

“(1) interest on all bonds, debentures, notes, certificates, or other evidences of indebtedness, issued by any corporation, with interest coupons or in registered form;

“(2) interest on deposits with stockbrokers;

“(3) interest on amounts held by an insurance company under an agreement to pay interest thereon; and

“(4) interest on the overpayment of any internal revenue tax, except income or excess profits taxes imposed upon corporations.

“SEC. 1201. INCOME TAX COLLECTED AT SOURCE.

“(a) REQUIREMENT OF WITHHOLDING.—Every person making payment after December 31, 1951, of a dividend or interest shall deduct and withhold upon such dividend or interest a tax equal to 20 per centum of the amount thereof. If the withholding agent is unable to determine the person to whom the dividend or interest is payable, such tax shall be deducted and withheld at the time payment thereof would be made if such person were known. For certain exemptions from withholding, see section 1202.

1 ~~“(b) WITHHOLDING WHERE AMOUNT OF DIVIDEND~~
 2 IS UNKNOWN.—If the withholding agent is unable to deter-
 3 mine the portion of a distribution which is a dividend, the
 4 tax required to be deducted and withheld under this sub-
 5 chapter shall be computed on the entire amount of the
 6 distribution.

7 ~~“(c) INDEMNIFICATION OF WITHHOLDING AGENT.—~~
 8 A withholding agent shall not be liable, except as provided
 9 in section 1203, to any person for the amount of any tax
 10 required to be deducted and withheld under this subchapter.

11 ~~“(d) CREDIT FOR TAX WITHHELD.—~~For credit,
 12 against the income tax of the recipient of the income, of
 13 amounts required to be deducted and withheld under this
 14 subchapter see section 35.

15 **“SEC. 1202. EXEMPTIONS FROM WITHHOLDING.**

16 ~~“The provisions of this chapter shall not apply to:~~

17 ~~“(a) A dividend paid in the stock or rights to acquire~~
 18 the stock of the distributing corporation, whether or not the
 19 recipient of such stock or rights had an option to be paid
 20 in money, or other property, in lieu of such stock or rights.

21 ~~“(b) Distributions (other than capital gain dividends~~
 22 described in section 362 (b) (7)) to shareholders which
 23 are treated under chapter 1 as amounts received upon the
 24 sale or exchange of property, or distributions with respect

1 to which gain or loss is not recognized under chapter 1 to
2 the shareholders.

3 “(e) Any amount which is includible in gross in-
4 come as a taxable dividend under the provisions of section
5 112 (e) (2) (relating to certain distributions made in pur-
6 suance of a plan of reorganization); section 115 (g) (relat-
7 ing to redemptions of stock); or section 371 (e) (2) (re-
8 lating to certain distributions pursuant to the order of the
9 Securities and Exchange Commission).

10 “(d) A dividend paid by a Federal reserve bank, Fed-
11 eral land bank, Federal home loan bank, Central Bank for
12 Cooperatives, or Bank for Cooperatives.

13 “(e) Any interest which, irrespective of the person to
14 whom payable, is wholly exempt from the tax imposed by
15 chapter 1.

16 “(f) Dividends or interest paid by a corporation to
17 another corporation if both corporations are members of
18 the same affiliated group which filed a consolidated return
19 under chapter 1 for the preceding taxable year of the payor
20 corporation.

21 “(g) Dividends or interest paid by a corporation to one
22 or more (1) governments, (2) political subdivisions thereof,
23 (3) international organizations, or (4) wholly owned in-
24 strumentalities or agencies of the foregoing, if the entire

1 class of stock in respect of which such dividend is paid, or the
 2 entire class of obligations in respect of which such interest
 3 is paid, is owned by one or more of such governments, sub-
 4 divisions, organizations, instrumentalities, or agencies.

5 “(h) Interest on equipment trust certificates.

6 “(i) Dividends or interest paid by a foreign corpora-
 7 tion, a nonresident alien individual, any partnership not en-
 8 gaged in trade or business within the United States and
 9 composed in whole or in part of nonresident aliens, or by
 10 an international organization.

11 “(j) (1) Any payment of a dividend or interest (ex-
 12 cept coupon bond interest) to (A) a foreign corporation
 13 not engaged in trade or business within the United States,
 14 (B) a nonresident alien individual, (C) any partnership
 15 not engaged in trade or business within the United States
 16 and composed in whole or in part of nonresident aliens, or
 17 (D) any foreign government or international organization.

18 “(2) Any payment of coupon bond interest to a person
 19 described in paragraph (1) of this subsection, but only if a
 20 certificate filed (in such form and manner, and at such time,
 21 as the Secretary may by regulations prescribe) with the
 22 withholding agent discloses that the recipient of such pay-
 23 ment is a person described in paragraph (1).

24 “(k) Any payment upon which the withholding agent
 25 is required to deduct and withhold a tax under section 143

1 ~~(a)~~ ~~(relating to tax-free covenant bonds, etc.)~~ determined
 2 without regard to the provisions of paragraph ~~(2)~~ of such
 3 section.

4 “~~(1)~~ Interest on an obligation of a corporation, issued
 5 before January 1, 1951, containing a contract or provision
 6 by which the obligor agrees to pay the interest without
 7 deduction for any tax which the obligor may be required
 8 to pay thereon or to retain therefrom under any law of the
 9 United States.

10 “~~(m)~~ Dividends paid pursuant to the terms of a lease
 11 of property entered into prior to January 1, 1951, if under
 12 such lease the shareholders of the lessor corporation are en-
 13 titled to such dividends without deduction for any tax which
 14 any law of the United States might require to be deducted
 15 and withheld upon the payment of dividends.

16 “~~(n)~~ Amounts ~~(whether or not designed as divi-~~
 17 ~~dends)~~ paid by a mutual savings bank, saving and loan
 18 association, building and loan association, cooperative bank,
 19 homestead association, credit union, or any similar organiza-
 20 tion, in respect of withdrawable or repurchasable shares,
 21 investment certificates, or deposits.

22 **“SEC. 1203. RETURNS AND PAYMENT.**

23 “~~(a)~~ **IN GENERAL.**—Every person required under this
 24 subchapter to deduct and withhold any tax shall make a
 25 return of such tax and shall pay such tax, at such time, for

1 such period, and in such manner as the Secretary may by
 2 regulations prescribe, by making a return of the total amount
 3 of dividends and interest with respect to which tax is
 4 required to be deducted and withheld by such person under
 5 this subchapter for such period and paying a tax, for which
 6 such person shall be liable, in an amount equal to 20 per
 7 centum of such total.

8 “(b) ~~ADJUSTMENT OF TAX.~~—If more or less than the
 9 correct amount of tax due for any period under subsection
 10 (a) is paid with respect to such period, proper adjustments
 11 with respect to the tax shall be made, without interest, in
 12 such manner and at such times as may be prescribed by
 13 regulations made under this subchapter.

14 **“SEC. 1204. CREDIT FOR REGULATED INVESTMENT COM-**
 15 **PANIES AND PERSONAL HOLDING COMPANIES.**

16 “In the case of any withholding agent which is a regu-
 17 lated investment company as defined in section 361 or a
 18 personal holding company as defined in section 501, the
 19 amount required to be deducted and withheld as tax under
 20 this chapter with respect to dividends and interest received
 21 by it during a taxable year shall be allowed, under regula-
 22 tions prescribed by the Secretary, as a credit against (but
 23 not in excess of) the tax for which such withholding agent
 24 is liable under section 1203 (a) in respect of dividends and
 25 interest paid by it during such year. For the purposes of

1 this section a dividend shall be considered as having been
2 paid within a taxable year ~~(1)~~ in the case of a regulated
3 investment company, if treated as paid during such taxable
4 year under section 362 ~~(b)~~ ~~(8)~~, or ~~(2)~~ in the case of a
5 personal holding company, if claimed under section 504 ~~(c)~~;
6 in computing undistributed subchapter A net income, in the
7 return for such year.

8 "Subchapter B—Royalties

9 "SEC. 1220. DEFINITION OF ROYALTY.

10 "As used in this chapter, the term 'royalty' means—

11 "~~(a)~~ any rent or royalty in respect of mines, oil
12 and gas wells, and other natural deposits, including any
13 delay rental and any minimum royalty, whether or not
14 measured by production or by a share of gross or net
15 income therefrom, and any payment representing a
16 share of the gross or net income derived from the
17 extraction and sale of any natural deposit, but only if
18 the recipient of such rent, royalty, or payment is not
19 personally obligated to pay a proportionate share of
20 development or operating expenses. —For the pur-
21 poses of this chapter, if a royalty, as defined in
22 the preceding sentence, is paid in kind, such payment
23 shall not constitute payment of a royalty, but if the
24 mineral, oil, gas, or other natural deposit so received in
25 kind is sold by or on behalf of the recipient to the pro-

1 duer or under a division order, the purchaser shall be
 2 considered as making payment of the royalty in an
 3 amount equal to the purchase price;

4 “(b) any payment, however designated, made by
 5 a corporation for the privilege of using any patent, pend-
 6 ing application for a patent, copyright, secret process or
 7 formula, trade mark, or trade brand, including any pay-
 8 ments made by an assignee or an exclusive licensee
 9 thereof, if measured by the use of a patent, pending
 10 application for a patent, copyright, secret process or
 11 formula, trade mark, or trade brand, or if payable over
 12 a period substantially coterminous with the period of
 13 the payor's right to use such property, but not including
 14 any payments in respect of copyrights made to an or-
 15 ganization to which subsection (c) is applicable; and

16 “(c) any payment made by an organization to
 17 its members in respect of the use of their copyrights, if
 18 such organization is authorized to license the use of such
 19 copyrights and has control of the receipt, allocation, and
 20 distribution of the payments made for such use.

21 **“SEC. 1221. INCOME TAX COLLECTED AT SOURCE.**

22 “(a) **REQUIREMENT OF WITHHOLDING.**—Every per-
 23 son making payment after December 31, 1951, of a royalty
 24 shall deduct and withhold upon such royalty a tax equal to

1 20 per centum of the amount thereof. If the withholding
 2 agent is unable to determine the person to whom the royalty
 3 is payable, such tax shall be deducted and withheld at the
 4 time payment thereof would be made if such person were
 5 known. For certain exemptions from withholding see see-
 6 tion 1222.

7 “(b) TAX PAID BY RECIPIENT.—If the withholding
 8 agent, in violation of the provisions of this subchapter, fails
 9 to deduct and withhold the tax under this subchapter, and
 10 thereafter the tax against which such tax may be credited is
 11 paid, the tax so required to be deducted and withheld shall
 12 not be collected from the withholding agent, but this sub-
 13 section shall in no case relieve the withholding agent from
 14 liability for any penalties or additions to the tax otherwise
 15 applicable in respect of such failure to deduct and withhold.

16 “(c) LIABILITY FOR TAX.—The withholding agent
 17 shall be liable for the payment of the tax required to be
 18 deducted and withheld under this subchapter, and shall not
 19 be liable to any person for the amount of any such payment.

20 “(d) REFUNDS AND CREDITS.—

21 “(1) WITHHOLDING AGENT.—Where there has
 22 been an overpayment of tax under this subchapter,
 23 refund or credit shall be made to the withholding agent

1 only to the extent that the amount of such overpayment
2 was not deducted and withheld under this subchapter
3 by the withholding agent.

4 ~~“(2) RECIPIENT.~~—For credit, against the income
5 tax of the recipient of the income, of amounts deducted
6 and withheld under this subchapter, see section 35. —

7 **“SEC. 1222. EXEMPTIONS FROM WITHHOLDING.**

8 ~~“The provisions of this chapter shall not apply to—~~

9 ~~“(a) Royalties paid to a corporation or to a govern-~~
10 ~~ment or political subdivision thereof.~~

11 ~~“(b) Royalties paid by a foreign corporation, a non-~~
12 ~~resident alien individual, a partnership not engaged in trade~~
13 ~~or business within the United States and composed in whole~~
14 ~~or in part of nonresident aliens, or an international organi-~~
15 ~~zation.~~

16 ~~“(c) Royalties paid to (1) a nonresident alien indi-~~
17 ~~vidual, (2) a partnership not engaged in trade or business~~
18 ~~within the United States and composed in whole or in part~~
19 ~~of nonresident aliens, or (3) an international organization.~~

20 **“SEC. 1223. RETURNS AND PAYMENT.**

21 ~~“(a) IN GENERAL.~~—Every person required under this
22 subchapter to deduct and withhold any tax shall make a
23 return of such tax and shall pay such tax, at such time, for
24 such period, and in such manner as the Secretary may by
25 regulations prescribe.

1 “(b) ADJUSTMENT OF TAX.—If more or less than the
2 correct amount of tax imposed by this subchapter is paid
3 with respect to any payment of royalties, proper adjustments,
4 with respect both to the tax and the amount to be deducted,
5 shall be made, without interest, in such manner and at such
6 times as may be prescribed by regulations made under this
7 subchapter.

8 “SEC. 1224. RECEIPTS.

9 “(a) REQUIREMENT.—Every person required under
10 this subchapter to deduct and withhold tax on a royalty,
11 shall, not later than January 31 of the year succeeding the
12 calendar year in which the royalty is paid, furnish to the
13 payee of the royalty a written statement showing the amount
14 of the royalties paid to such payee during such calendar
15 year, and the amount of tax deducted and withheld under
16 this subchapter in respect of such royalties.

17 “(b) STATEMENTS TO CONSTITUTE INFORMATION
18 RETURNS.—The statements required to be furnished by this
19 section in respect of any royalty shall be furnished at such
20 other times, shall contain such other information, and shall
21 be in such form as the Secretary may by regulations pre-
22 scribe. A duplicate of such statement if made and filed in
23 accordance with regulations prescribed by the Secretary shall
24 constitute the return required to be made in respect of such
25 royalties under section 147.

1 “(c) **EXTENSION OF TIME.**—The Secretary, under
2 regulations prescribed by him, may grant to any person a
3 reasonable extension of time (not in excess of 30 days) with
4 respect to the statements required to be furnished by such
5 person under this section.

6 **“SEC. 1225. PENALTIES.**

7 “(a) **CRIMINAL PENALTY.**—In lieu of any other pen-
8 alty provided by law (except the penalty provided by sub-
9 section (b) of this section), any person required under the
10 provisions of section 1224 to furnish a statement who will-
11 fully furnishes a false or fraudulent statement, or who will-
12 fully fails to furnish a statement in the manner, at the time,
13 and showing the information required under section 1224,
14 or regulations prescribed thereunder, shall for each such
15 offense, upon conviction thereof, be fined not more than
16 \$1,000, or imprisoned for not more than one year, or both.

17 “(b) **CIVIL PENALTY.**—In addition to the penalty pro-
18 vided by subsection (a) of this section, any person required
19 under the provisions of section 1224 to furnish a statement
20 who willfully furnishes a false or fraudulent statement, or
21 who willfully fails to furnish a statement in the manner, at
22 the time, and showing the information required under section
23 1224, or regulations prescribed thereunder, shall for each such
24 offense be subject to a civil penalty of not more than \$50.

“Subchapter C—General Provisions

“SEC. 1230. DEFINITIONS.

“As used in this chapter—

“(a) TAXABLE YEAR.—The term ‘taxable year’ shall have the same meaning as when used in chapter 1.

“(b) PERSON.—The term ‘person’ includes any government or political subdivision, or agency or instrumentality thereof.

“(c) NONRESIDENT ALIEN.—The term ‘nonresident alien individual’ includes an alien resident of Puerto Rico.

**“SEC. 1231. NONDEDUCTIBILITY OF TAX IN COMPUTING
NET INCOME.**

“Any tax deducted and withheld under this chapter shall not be allowed as a deduction in computing net income for the purpose of any tax on income imposed by Act of Congress.

**“SEC. 1232. RETURN AND PAYMENT BY GOVERNMENTAL
PAYOR.**

“If the person referred to in section 1203 (a) or 1223 (a) is the United States, or a State, Territory, or political subdivision thereof, or the District of Columbia, or any agency or instrumentality of any one or more of the foregoing, the return and payment required by such sections shall be made by any officer or employee of the United States, or of such State, Territory, or political subdivision,

1 or of the District of Columbia, or of such agency or instru-
2 mentality, as the case may be, having control of the payment
3 of the dividend, interest, or royalty, or appropriately desig-
4 nated for that purpose.

5 **"SEC. 1233. TAX-EXEMPT ORGANIZATIONS—REFUND.**

6 "In the case of a person which is exempt from the tax
7 imposed by chapter 1, if the amount required to be deducted
8 and withheld as tax under this chapter with respect to
9 dividends and interest received by it during any calendar
10 quarter, and the amount deducted and withheld as tax under
11 this chapter with respect to royalties received by it during
12 such calendar quarter, exceed the credit claimed by and
13 allowed to such person under section 1637 for such quarter,
14 the excess shall be immediately refunded or credited to such
15 person as an overpayment of the tax imposed by this chap-
16 ter, but only if claim therefor is filed (or, if no claim is
17 filed, if credit or refund is made) after the close of such
18 calendar quarter and on or before March 15 of the fourth
19 calendar year beginning after the close of such calendar
20 quarter. No interest shall be allowed or paid with respect
21 to any such refund or credit for any period prior to the date
22 on which claim for such refund or credit is filed or prior to
23 March 16 of the calendar year succeeding the close of the
24 calendar quarter in respect of which such refund or credit
25 is claimed, whichever date is the later.

1 **“SEC. 1234. FAILURE TO FILE RETURNS.**

2 “In case of a failure to make and file any return re-
3 quired under this chapter within the time prescribed by
4 law or prescribed by the Secretary in pursuance of law;
5 unless it is shown that such failure is due to reasonable cause
6 and not to willful neglect, the addition to the tax or taxes
7 required to be shown on such return shall not be less than \$5.

8 **“SEC. 1235. OTHER LAWS APPLICABLE.**

9 “All provisions of law, including penalties, applicable
10 with respect to any tax imposed by section 2700, and the
11 provisions of section 3661, shall, insofar as applicable and
12 not inconsistent with the provisions of this chapter, be ap-
13 plicable with respect to the tax under this chapter.”

14 **SEC. 202. CREDIT FOR TAX WITHHELD.**

15 Section 35 (relating to credit against income tax) is
16 hereby amended as follows:

17 ~~(1)~~ by striking from the heading thereof the words
18 “ON WAGES”;

19 ~~(2)~~ by inserting at the beginning of the first para-
20 graph thereof the following heading: “~~(a)~~ CREDIT FOR
21 TAX WITHHELD ON WAGES.—”; and

22 ~~(3)~~ by inserting at the end thereof the following
23 new subsection:

24 “~~(b)~~ CREDIT FOR TAX WITHHELD ON DIVIDENDS, IN-

1 INTEREST, AND ROYALTIES.—Under regulations prescribed by
2 the Secretary—

3 “(1) IN GENERAL.—The amount required to be
4 deducted and withheld as tax under chapter 6 upon any
5 payment of a dividend or interest, and the amount de-
6 ducted and withheld as tax under such chapter upon
7 any payment of a royalty, shall be allowed as a credit,
8 to the recipient of the income, against the tax imposed
9 by this chapter for the taxable year in which the divi-
10 dend, interest, or royalty is received.

11 “(2) PARTNERSHIPS, TRUSTS, AND ESTATES.—If
12 the recipient of the dividend, interest, or royalty is a
13 partnership or a common trust fund, then the credit
14 shall not be allowed to such recipient, but the members
15 of the partnership, or the participants in the common
16 trust fund, as the case may be, shall be allowed their
17 proportionate share of such credit. If the recipient is
18 an estate or trust, and if any legatee, heir, or beneficiary
19 subject to the tax imposed by this chapter is required
20 to include a portion of such dividend, interest, or royalty
21 in computing his net income, such legatee, heir, or
22 beneficiary shall be allowed such portion of the credit

as is properly allocable to him on the basis of the income allocable to him under section 162 for the taxable year of the estate or trust, and such portion of the credit shall not be allowed to the estate or trust.

~~“(3) REGULATED INVESTMENT COMPANIES AND PERSONAL HOLDING COMPANIES.~~—In the case of a regulated investment company or a personal holding company, the credit provided in paragraph (1) shall be reduced by the amount of credit allowed such company under section 1204.

~~“(4) TAX EXEMPT ORGANIZATIONS.~~—The credit provided by this subsection shall not be allowed to any recipient which is exempt from income tax. For credit against the liability of such a recipient in respect of the employment taxes imposed by subchapter A and subchapter D of chapter 9, see section 1637. For refund under chapter 6 in the case of such a recipient, see section 1233.”

SEC. 203. CREDITS IN CASE OF ORGANIZATIONS EXEMPT FROM TAX.

Subchapter E of chapter 9 (relating to employment taxes) is hereby amended by adding after section 1636 the following new section:

1 **"SEC. 1637. SPECIAL CREDIT IN CASE OF ORGANIZATIONS**
2 **EXEMPT FROM INCOME TAX.**

3 "In the case of any person (including any government
4 or political subdivision, agency, or instrumentality thereof)
5 which is exempt from the tax imposed by chapter 1, the
6 amount required to be deducted and withheld as tax under
7 chapter 6 with respect to dividends and interest received
8 by it during any calendar quarter, and the amount deducted
9 and withheld as tax under such chapter with respect to
10 royalties received by it during such calendar quarter, shall
11 be allowed, under regulations prescribed by the Secretary,
12 as a credit against (but not in excess of) the amount shown
13 on the return of such person as its liability (after the adjust-
14 ments, if any, provided for in sections 1401 (c) and 1411)
15 for such quarter in respect of the taxes imposed by sub-
16 chapter A and subchapter D of this chapter. Such credit
17 shall be allowed only if claim therefor is made, in accord-
18 ance with such regulations, at the time of the filing of the
19 return under subchapter A and subchapter D for such quarter.
20 For refund under chapter 6, see section 1233."

21 **SEC. 204. TECHNICAL AMENDMENTS.**

22 (a) **TAX COMPUTED BY COLLECTOR.**—Section 51 (f)
23 (relating to tax computed by collector) is hereby amended
24 to read as follows:

1 ~~“(f) TAX COMPUTED BY COLLECTOR.~~

2 ~~“(1) RETURN REQUIREMENTS.—~~An individual en-
 3 titled to elect to pay the tax imposed by supplement T
 4 whose gross income is less than \$5,000 and is entirely
 5 from one or more of the following sources: wages as
 6 defined in section 1621 (a), or dividends (other than
 7 a capital gain dividend as defined in section 362 (b)
 8 ~~(7))~~ or interest on which tax is required to be deducted
 9 and withheld under chapter 6, shall at his election be
 10 relieved, by using the form prescribed as the form for
 11 the return for the purposes of this subsection, from show-
 12 ing on the return the tax imposed by this chapter. In
 13 such case the tax shall be computed by the collector.

14 ~~“(2) RESULT OF COMPUTATION.—~~After the col-
 15 lector has computed the tax, he shall mail to the tax-
 16 payer a notice stating the amount determined by the
 17 collector as payable and making demand therefor.

18 ~~“(3) REGULATIONS.—~~The Secretary shall prescribe
 19 regulations for carrying out this subsection, and such
 20 regulations may provide for the application of the rules
 21 of this subsection to cases where the gross income in-
 22 cludes items other than those enumerated in paragraph
 23 ~~(1)~~ if the gross income from such other sources is not
 24 more than \$200, and to cases where the gross income is

1 \$5,000 or more but not more than \$5,200. Such regu-
 2 lations shall provide for the application of this sub-
 3 section in the case of husband and wife, including pro-
 4 visions determining when a joint return under this
 5 subsection may be permitted or required and what con-
 6 stitutes a joint return, whether the liability shall be joint
 7 and several, and whether one spouse may make return
 8 under this subsection and the other without regard to
 9 this subsection.

10 “(4) METHOD OF ELECTION.—The election to
 11 have the benefits of this subsection shall be made by
 12 making return on the form prescribed as the form for
 13 the return for the purposes of this subsection. An elec-
 14 tion so made shall constitute an election to pay the tax
 15 imposed by supplement T.”

16 “(b) REQUIREMENT OF DECLARATION OF ESTIMATED
 17 TAX.—Section 58 (a) (relating to declaration of estimated
 18 tax) is hereby amended to read as follows:

19 “(a) REQUIREMENT OF DECLARATION.—Every in-
 20 dividual (other than an estate or trust and other than a
 21 nonresident alien with respect to whose wages, as defined
 22 in section 1621 (a), withholding under subchapter D of
 23 chapter 9 is not made applicable, but including every alien
 24 individual who is a resident of Puerto Rico during the entire
 25 taxable year) shall, at the time prescribed in subsection (d),

1 make a declaration of his estimated tax for the taxable
2 year if—

3 “~~(1)~~ his gross income from wages (as defined in
4 section 1621) and from dividends, interest, and royal-
5 ties, as defined in chapter 6, upon which a tax is required
6 to be deducted and withheld under such chapter, can
7 reasonably be expected to exceed the sum of \$4,500
8 plus \$600 with respect to each exemption provided in
9 section 25 ~~(b)~~; or

10 “~~(2)~~ his gross income from sources other than
11 wages (as defined in section 1621) and other than
12 dividends, interest, and royalties, as defined in chapter 6,
13 upon which a tax is required to be deducted and with-
14 held under such chapter, can reasonably be expected to
15 exceed \$100 for the taxable year and his gross income
16 to be \$600 or more.”

17 ~~(c) CREDIT UNDER SECTION 143.~~—Section 143 (relat-
18 ing to withholding of tax at source) is hereby amended by
19 adding at the end thereof the following new subsection:

20 “~~(i) CREDIT FOR TAX WITHHELD AT SOURCE.~~—

21 Where any person is required to deduct and withhold a tax
22 under subsection ~~(b)~~ on an amount on which a tax was re-
23 quired to be deducted and withheld under subchapter A of
24 chapter 6, or on an amount on which a tax was deducted and

1 withheld under subchapter B of such chapter, such person
2 shall deduct and withhold only the excess of—

3 “~~(1)~~ the amount which would be required to be
4 deducted and withheld under subsection ~~(b)~~ but for the
5 application of chapter 6, over

6 “~~(2)~~ the amount required to be deducted and with-
7 held under subchapter A of chapter 6, or the amount
8 deducted and withheld under subchapter B of such
9 chapter, whichever is applicable.”

10 ~~(d)~~ CREDIT UNDER SECTION 144.—Section 144 ~~(relat-~~
11 ~~ing to payment of corporation income tax at source)~~ is
12 hereby amended by striking out the period at the end
13 thereof and adding in lieu thereof the following: “: *Pro-*
14 *vided further,* That, where any person is required under
15 this section to deduct and withhold a tax on an amount
16 on which a tax was required to be deducted and withheld
17 under subchapter A of chapter 6, or on an amount on which
18 a tax was deducted and withheld under subchapter B of
19 such chapter, such person shall deduct and withhold only
20 the excess of—

21 “~~(1)~~ the amount which would be required to be
22 deducted and withheld under this section but for the
23 application of chapter 6, over

24 “~~(2)~~ the amount required to be deducted and with-
25 held under subchapter A of chapter 6, or the amount

deducted and withheld under subchapter B of such chapter, whichever is applicable.”

~~(c)~~ INFORMATION AT SOURCE.—Subsections ~~(a)~~ and ~~(b)~~ of section 147 (relating to information at source) are hereby amended to read as follows:

“(a) PAYMENTS OF RENT, SALARIES, INTEREST, ETC.—All persons, in whatever capacity acting, including lessees or mortgagors of real or personal property, fiduciaries, and employers, making payment to another person, of—

“(1) rent, salaries, wages, premiums, annuities, compensations, remunerations, emoluments, or other fixed or determinable gains, profits, and income (other than payments described in section 148 ~~(a)~~ or 149), of \$600 or more in any taxable year, or

“(2) interest, upon which tax is required to be deducted and withheld under chapter 6, of \$300 or more in any taxable year, or

“(3) interest, upon which tax is required to be deducted and withheld under chapter 6, of \$100 or more in any taxable year,

or, in the case of such payments made by the United States, the officers or employees of the United States having information as to such payments and required to make returns in regard thereto by the regulations hereinafter provided for,

1 shall render a true and accurate return to the Secretary,
 2 under such regulations and in such form and manner and to
 3 such extent as may be prescribed by him, setting forth the
 4 amount of such gains, profits, and income, and the name and
 5 address of the recipient of such payment.

6 “(b) RETURNS REGARDLESS OF AMOUNT OF PAY-
 7 MENT.—Such returns may be required, regardless of
 8 amounts, (1) in the case of payments of interest, and (2)
 9 in the case of collections of items (not payable in the United
 10 States) of interest upon the bonds of foreign countries and
 11 interest upon the bonds of and dividends from foreign
 12 corporations by persons undertaking as a matter of business
 13 or for profit the collection of foreign payments of such
 14 interest or dividends by means of coupons, checks, or bills
 15 of exchange. This subsection shall not apply to payments
 16 of interest (other than coupon bond interest) upon which
 17 tax is required to be deducted and withheld under chapter 6.”

18 (f) INFORMATION BY CORPORATIONS.—Section 148
 19 (a) (relating to information by corporations in the case of
 20 dividend payments) is hereby amended by inserting a
 21 comma in lieu of the period at the end thereof and adding
 22 the following: “except that if the amount of dividends paid
 23 to any shareholder during a calendar year is less than \$300
 24 and tax is required to be deducted and withheld under chap-
 25 ter 6 upon the entire amount of such dividends, no such

1 return shall be required with respect to such shareholder for
2 such calendar year."

3 ~~(g) CLERICAL AMENDMENT.~~—Section 169 ~~(b) (re-~~
4 ~~lating to taxation of common trust funds)~~ is hereby amended
5 by striking out "or chapter 6" and by striking out "chapters"
6 and inserting in lieu thereof "chapter".

7 ~~(h) AMOUNT OF CREDIT CONSIDERED AS PAYMENT.~~—
8 Section 322 ~~(a) (2) (relating to refunds and credits)~~ is
9 hereby amended to read as follows:

10 ~~"(2) TREATMENT OF CREDITS.~~—The amount of
11 credit provided in section 35 against the tax for any
12 taxable year shall, to the extent thereof, be considered
13 as payment of the tax for such year, whether or not the
14 withholding agent has paid to the collector the amount
15 of the tax deducted and withheld at the source under
16 subchapter D of chapter 9 of subchapter B of chapter 6
17 or the amount of tax required to be deducted and with-
18 held at source under subchapter A of chapter 6."

19 ~~(i) SPECIAL PERIOD OF LIMITATIONS FOR SMALL~~
20 ~~REFUNDS ON TAX WITHHELD AT SOURCE.~~—Section 322
21 ~~(b) (relating to statute of limitations on filing claim for~~
22 ~~credit or refund)~~ is hereby amended by adding at the end
23 thereof the following new paragraph:

24 ~~"(7) SPECIAL PERIOD OF LIMITATIONS WITH RE-~~

1 SPECT TO CERTAIN OVERPAYMENTS RESULTING FROM
2 TAX WITHHELD ON DIVIDENDS, INTEREST, OR ROYAL-
3 TIES.—In the case of an individual filing a claim for
4 credit or refund of an overpayment for a taxable year
5 for which he was not required under section 51 (a) to
6 make a return, if the overpayment is attributable to the
7 credit allowed under section 35 for tax required to be
8 deducted and withheld under subchapter A of chapter 6
9 (relating to tax withheld at source on dividends and
10 interest) or for tax deducted and withheld under sub-
11 chapter B of such chapter (relating to tax withheld at
12 source on royalties), in lieu of the period of limitation
13 prescribed in paragraph (1), the period shall be seven
14 years from the date prescribed by law for filing a return
15 for the taxable year with respect to which the claim is
16 made. In such a case, the amount of credit or refund
17 may exceed the portion of the tax paid within the period
18 prescribed in paragraph (2), to the extent of the
19 amount of the overpayment attributable to such credit
20 allowed under section 35, or to the extent of \$2, which-
21 ever is the lesser.”

22 (j) PRESUMPTIONS AS TO DATE OF PAYMENT.—Sec-
23 tion 322 (c) (relating to presumption as to date of pay-
24 ment) is hereby amended to read as follows:

1 “(c) PRESUMPTIONS AS TO DATE OF PAYMENT.—For
2 the purpose of this section—

3 “(1) any amount allowable as a credit under sec-
4 tion 32 (relating to credit for tax withheld at source on
5 tax-free covenant bonds and on payments to nonresi-
6 dent aliens and foreign corporations) or under section
7 35 (relating to credit for tax withheld at source on
8 wages, dividends, interest, and royalties) shall, in re-
9 spect of the person entitled to such credit, be deemed
10 to have been paid by him on the last day prescribed
11 by law, (determined without regard to any extension of
12 time granted the taxpayer) for the filing of the return
13 for his taxable year with respect to which such amount
14 is allowable as a credit; and

15 “(2) any amount paid as estimated tax for any
16 taxable year shall be deemed to have been paid on the
17 last day prescribed by law (determined without regard
18 to any extension of time granted the taxpayer) for the
19 filing of the return for such taxable year.”

20 “(k) INTEREST ON OVERPAYMENTS.—Section 3771 (f)
21 is hereby amended to read as follows:

22 “(f) TAX WITHHELD AT SOURCE AND ESTIMATED
23 TAX.—

24 “(1) CLAIMS FILED UNDER SPECIAL PERIOD OF
25 LIMITATIONS PROVIDED IN SECTION 322 (b) (7).—If

1 credit or refund of the overpayment would be barred
 2 under section 322 (b) except for paragraph (7) thereof;
 3 no interest shall be allowed or paid with respect to the
 4 overpayment for any period ending prior to the expira-
 5 tion of six months after the date on which the claim
 6 was filed.

7 “(2) CROSS REFERENCE.—For date of payment in
 8 respect of estimated tax and tax withheld at source, see
 9 section 322 (c).”

10 (1) DEFINITION OF WITHHOLDING AGENT.—Section
 11 3797 (a) (16) is hereby amended by striking out “143 or
 12 144”, and by inserting in lieu thereof “143, 144, 1201, or
 13 1221”.

14 (m) EFFECTIVE DATE.—The amendments made by
 15 subsections (a) and (b) shall be applicable to taxable years
 16 beginning after December 31, 1951.

17 (23)PART II—INCREASE IN WITHHOLDING OF 18 TAX AT SOURCE ON WAGES

19 SEC. 221. PERCENTAGE METHOD OF WITHHOLDING.

20 Section 1622 (a) (relating to percentage method of
 21 withholding) is hereby amended by striking out “18 per
 22 centum” and inserting in lieu thereof “20 per centum”.

23 SEC. 222. WAGE BRACKET WITHHOLDING.

24 The tables contained in section 1622 (c) (1) (relating
 25 to wage bracket withholding) are hereby amended to read
 26 as follows:

"If the payroll period with respect to an employee is weekly

And the wages are—		And the number of withholding exemptions claimed is—										
At least	But less than	The amount of tax to be withheld shall be—										
		0	1	2	3	4	5	6	7	8	9	10 or more
\$0	\$13	20% of wages	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$13	\$14	\$2.70	.10	0	0	0	0	0	0	0	0	0
\$14	\$15	2.90	.30	0	0	0	0	0	0	0	0	0
\$15	\$16	3.10	.50	0	0	0	0	0	0	0	0	0
\$16	\$17	3.30	.70	0	0	0	0	0	0	0	0	0
\$17	\$18	3.50	.90	0	0	0	0	0	0	0	0	0
\$18	\$19	3.70	1.20	0	0	0	0	0	0	0	0	0
\$19	\$20	3.90	1.40	0	0	0	0	0	0	0	0	0
\$20	\$21	4.20	1.60	0	0	0	0	0	0	0	0	0
\$21	\$22	4.40	1.80	0	0	0	0	0	0	0	0	0
\$22	\$23	4.60	2.00	0	0	0	0	0	0	0	0	0
\$23	\$24	4.80	2.20	0	0	0	0	0	0	0	0	0
\$24	\$25	5.00	2.40	0	0	0	0	0	0	0	0	0
\$25	\$26	5.20	2.60	0	0	0	0	0	0	0	0	0
\$26	\$27	5.40	2.80	.20	0	0	0	0	0	0	0	0
\$27	\$28	5.60	3.00	.40	0	0	0	0	0	0	0	0
\$28	\$29	5.80	3.20	.60	0	0	0	0	0	0	0	0
\$29	\$30	6.00	3.40	.80	0	0	0	0	0	0	0	0
\$30	\$31	6.20	3.60	1.00	0	0	0	0	0	0	0	0
\$31	\$32	6.40	3.80	1.20	0	0	0	0	0	0	0	0
\$32	\$33	6.60	4.00	1.40	0	0	0	0	0	0	0	0
\$33	\$34	6.80	4.20	1.60	0	0	0	0	0	0	0	0
\$34	\$35	7.00	4.40	1.80	0	0	0	0	0	0	0	0
\$35	\$36	7.20	4.60	2.00	0	0	0	0	0	0	0	0
\$36	\$37	7.40	4.80	2.20	0	0	0	0	0	0	0	0
\$37	\$38	7.60	5.00	2.40	0	0	0	0	0	0	0	0
\$38	\$39	7.80	5.20	2.60	0	0	0	0	0	0	0	0
\$39	\$40	8.00	5.40	2.80	.20	0	0	0	0	0	0	0
\$40	\$41	8.20	5.60	3.00	.40	0	0	0	0	0	0	0
\$41	\$42	8.40	5.80	3.20	.60	0	0	0	0	0	0	0
\$42	\$43	8.60	6.00	3.40	.80	0	0	0	0	0	0	0
\$43	\$44	8.80	6.20	3.60	1.00	0	0	0	0	0	0	0
\$44	\$45	9.00	6.40	3.80	1.20	0	0	0	0	0	0	0
\$45	\$46	9.20	6.60	4.00	1.40	0	0	0	0	0	0	0
\$46	\$47	9.40	6.80	4.20	1.60	0	0	0	0	0	0	0
\$47	\$48	9.60	7.00	4.40	1.80	0	0	0	0	0	0	0
\$48	\$49	9.80	7.20	4.60	2.00	0	0	0	0	0	0	0
\$49	\$50	10.00	7.40	4.80	2.20	0	0	0	0	0	0	0
\$50	\$51	10.20	7.60	5.00	2.40	0	0	0	0	0	0	0
\$51	\$52	10.40	7.80	5.20	2.60	0	0	0	0	0	0	0
\$52	\$53	10.60	8.00	5.40	2.80	.20	0	0	0	0	0	0
\$53	\$54	10.80	8.20	5.60	3.00	.40	0	0	0	0	0	0
\$54	\$55	11.00	8.40	5.80	3.20	.70	0	0	0	0	0	0
\$55	\$56	11.20	8.60	6.00	3.50	.90	0	0	0	0	0	0
\$56	\$57	11.40	8.80	6.20	3.70	1.10	0	0	0	0	0	0
\$57	\$58	11.60	9.00	6.50	3.90	1.30	0	0	0	0	0	0
\$58	\$59	11.80	9.30	6.70	4.10	1.50	0	0	0	0	0	0
\$59	\$60	12.00	9.50	6.90	4.30	1.70	0	0	0	0	0	0
\$60	\$62	12.40	9.80	7.20	4.60	2.00	0	0	0	0	0	0
\$62	\$64	12.80	10.20	7.60	5.00	2.40	0	0	0	0	0	0
\$64	\$66	13.20	10.60	8.00	5.40	2.80	.20	0	0	0	0	0
\$66	\$68	13.60	11.00	8.40	5.80	3.20	.60	0	0	0	0	0
\$68	\$70	14.00	11.40	8.80	6.20	3.60	1.00	0	0	0	0	0
\$70	\$72	14.40	11.80	9.20	6.60	4.00	1.40	0	0	0	0	0
\$72	\$74	14.80	12.20	9.60	7.00	4.40	1.80	0	0	0	0	0
\$74	\$76	15.20	12.60	10.00	7.40	4.80	2.20	0	0	0	0	0
\$76	\$78	15.60	13.00	10.40	7.80	5.20	2.60	0	0	0	0	0
\$78	\$80	16.00	13.40	10.80	8.20	5.60	3.00	.40	0	0	0	0
\$80	\$82	16.40	13.80	11.20	8.60	6.00	3.40	.80	0	0	0	0
\$82	\$84	16.80	14.20	11.60	9.00	6.40	3.80	1.20	0	0	0	0
\$84	\$86	17.20	14.60	12.00	9.40	6.80	4.20	1.60	0	0	0	0
\$86	\$88	17.60	15.00	12.40	9.80	7.20	4.60	2.00	0	0	0	0
\$88	\$90	18.00	15.40	12.80	10.20	7.60	5.00	2.40	0	0	0	0
\$90	\$92	18.40	15.80	13.20	10.60	8.00	5.40	2.80	.30	0	0	0
\$92	\$94	18.80	16.20	13.60	11.00	8.40	5.80	3.20	.70	0	0	0
\$94	\$96	19.20	16.60	14.00	11.40	8.80	6.20	3.60	1.10	0	0	0
\$96	\$98	19.60	17.00	14.50	11.90	9.30	6.70	4.10	1.50	0	0	0
\$98	\$100	20.00	17.50	14.90	12.30	9.70	7.10	4.50	1.90	0	0	0
\$100	\$105	20.80	18.20	15.60	13.00	10.40	7.80	5.20	2.60	0	0	0
\$105	\$110	21.80	19.20	16.60	14.00	11.40	8.80	6.20	3.60	1.00	0	0
\$110	\$115	22.80	20.20	17.60	15.00	12.40	9.80	7.20	4.60	2.00	0	0
\$115	\$120	23.80	21.20	18.60	16.00	13.40	10.80	8.20	5.60	3.00	.40	0
\$120	\$125	24.80	22.20	19.60	17.00	14.40	11.80	9.20	6.60	4.00	1.40	0
\$125	\$130	25.80	23.20	20.60	18.00	15.40	12.80	10.20	7.60	5.00	2.50	0
\$130	\$135	26.80	24.20	21.60	19.00	16.40	13.80	11.30	8.70	6.10	3.50	.90
\$135	\$140	27.80	25.20	22.70	20.10	17.50	14.90	12.30	9.70	7.10	4.50	1.90
\$140	\$145	28.90	26.30	23.70	21.10	18.50	15.90	13.30	10.70	8.10	5.50	2.90
\$145	\$150	29.90	27.30	24.70	22.10	19.50	16.90	14.30	11.70	9.10	6.50	3.90
\$150	\$160	31.40	28.80	26.20	23.60	21.00	18.40	15.80	13.20	10.60	8.00	5.40
\$160	\$170	33.40	30.80	28.20	25.60	23.00	20.40	17.80	15.20	12.60	10.00	7.50
\$170	\$180	35.40	32.80	30.20	27.60	25.10	22.50	19.90	17.30	14.70	12.10	9.50
\$180	\$190	37.50	34.90	32.30	29.70	27.10	24.60	21.90	19.30	16.70	14.10	11.50
\$190	\$200	39.50	36.90	34.30	31.70	29.10	26.60	23.90	21.30	18.70	16.10	13.50
\$200 and over		20 percent of the excess over \$200 plus—										
		40.50	37.90	35.30	32.70	30.10	27.50	24.90	22.30	19.70	17.10	14.50

“If the payroll period with respect to an employee is biweekly

And the wages are—		And the number of withholding exemptions claimed is—										
At least	But less than	0	1	2	3	4	5	6	7	8	9	10 or more
		The amount of tax to be withheld shall be—										
		20% of wages	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$0	\$26	\$5.50	.30	0	0	0	0	0	0	0	0	0
\$26	\$28	5.90	.70	0	0	0	0	0	0	0	0	0
\$28	\$30	6.30	1.10	0	0	0	0	0	0	0	0	0
\$30	\$32	6.70	1.50	0	0	0	0	0	0	0	0	0
\$32	\$34	7.10	1.90	0	0	0	0	0	0	0	0	0
\$34	\$36	7.50	2.30	0	0	0	0	0	0	0	0	0
\$36	\$38	7.90	2.70	0	0	0	0	0	0	0	0	0
\$38	\$40	8.30	3.10	0	0	0	0	0	0	0	0	0
\$40	\$42	8.70	3.50	0	0	0	0	0	0	0	0	0
\$42	\$44	9.10	3.90	0	0	0	0	0	0	0	0	0
\$44	\$46	9.50	4.30	0	0	0	0	0	0	0	0	0
\$46	\$48	9.90	4.70	0	0	0	0	0	0	0	0	0
\$48	\$50	10.30	5.10	0	0	0	0	0	0	0	0	0
\$50	\$52	10.70	5.50	.30	0	0	0	0	0	0	0	0
\$52	\$54	11.10	5.90	.80	0	0	0	0	0	0	0	0
\$54	\$56	11.50	6.40	1.20	0	0	0	0	0	0	0	0
\$56	\$58	11.90	6.80	1.60	0	0	0	0	0	0	0	0
\$58	\$60	12.40	7.20	2.00	0	0	0	0	0	0	0	0
\$60	\$62	12.80	7.60	2.40	0	0	0	0	0	0	0	0
\$62	\$64	13.20	8.00	2.80	0	0	0	0	0	0	0	0
\$64	\$66	13.60	8.40	3.20	0	0	0	0	0	0	0	0
\$66	\$68	14.00	8.80	3.60	0	0	0	0	0	0	0	0
\$68	\$70	14.40	9.20	4.00	0	0	0	0	0	0	0	0
\$70	\$72	14.80	9.60	4.40	0	0	0	0	0	0	0	0
\$72	\$74	15.20	10.00	4.80	0	0	0	0	0	0	0	0
\$74	\$76	15.60	10.40	5.20	0	0	0	0	0	0	0	0
\$76	\$78	16.00	10.80	5.60	.40	0	0	0	0	0	0	0
\$78	\$80	16.40	11.20	6.00	.80	0	0	0	0	0	0	0
\$80	\$82	16.80	11.60	6.40	1.20	0	0	0	0	0	0	0
\$82	\$84	17.20	12.00	6.80	1.60	0	0	0	0	0	0	0
\$84	\$86	17.60	12.40	7.20	2.00	0	0	0	0	0	0	0
\$86	\$88	18.00	12.80	7.60	2.40	0	0	0	0	0	0	0
\$88	\$90	18.40	13.20	8.00	2.90	0	0	0	0	0	0	0
\$90	\$92	18.80	13.60	8.40	3.30	0	0	0	0	0	0	0
\$92	\$94	19.20	14.00	8.90	3.70	0	0	0	0	0	0	0
\$94	\$96	19.60	14.50	9.30	4.10	0	0	0	0	0	0	0
\$96	\$98	20.00	14.90	9.70	4.50	0	0	0	0	0	0	0
\$98	\$100	20.50	15.30	10.10	4.90	0	0	0	0	0	0	0
\$100	\$102	20.90	15.70	10.50	5.30	.10	0	0	0	0	0	0
\$102	\$104	21.30	16.10	10.90	5.70	.50	0	0	0	0	0	0
\$104	\$106	21.70	16.50	11.30	6.10	.90	0	0	0	0	0	0
\$106	\$108	22.10	16.90	11.70	6.50	1.30	0	0	0	0	0	0
\$108	\$110	22.50	17.30	12.10	6.90	1.70	0	0	0	0	0	0
\$110	\$112	22.90	17.70	12.50	7.30	2.10	0	0	0	0	0	0
\$112	\$114	23.30	18.10	12.90	7.70	2.50	0	0	0	0	0	0
\$114	\$116	23.70	18.50	13.30	8.10	2.90	0	0	0	0	0	0
\$116	\$118	24.10	18.90	13.70	8.50	3.30	0	0	0	0	0	0
\$118	\$120	24.70	19.50	14.30	9.10	3.90	0	0	0	0	0	0
\$120	\$124	25.50	20.30	15.10	9.90	4.70	0	0	0	0	0	0
\$124	\$128	26.30	21.10	15.90	10.70	5.60	.40	0	0	0	0	0
\$128	\$132	27.10	21.90	16.80	11.60	6.40	1.20	0	0	0	0	0
\$132	\$136	27.90	22.80	17.60	12.40	7.20	2.00	0	0	0	0	0
\$136	\$140	28.80	23.60	18.40	13.20	8.00	2.80	0	0	0	0	0
\$140	\$144	29.60	24.40	19.20	14.00	8.80	3.60	0	0	0	0	0
\$144	\$148	30.40	25.20	20.00	14.80	9.60	4.40	0	0	0	0	0
\$148	\$152	31.20	26.00	20.80	15.60	10.40	5.20	0	0	0	0	0
\$152	\$156	32.00	26.80	21.60	16.40	11.20	6.00	.80	0	0	0	0
\$156	\$160	32.80	27.60	22.40	17.20	12.00	6.80	1.70	0	0	0	0
\$160	\$164	33.60	28.40	23.20	18.00	12.80	7.70	2.50	0	0	0	0
\$164	\$168	34.40	29.20	24.00	18.80	13.70	8.50	3.30	0	0	0	0
\$168	\$172	35.20	30.00	24.90	19.70	14.50	9.30	4.10	0	0	0	0
\$172	\$176	36.00	30.90	25.70	20.50	15.30	10.10	4.90	0	0	0	0
\$176	\$180	36.90	31.70	26.50	21.30	16.10	10.90	5.70	.50	0	0	0
\$180	\$184	37.70	32.50	27.30	22.10	16.90	11.70	6.50	1.30	0	0	0
\$184	\$188	38.50	33.30	28.10	22.90	17.70	12.50	7.30	2.10	0	0	0
\$188	\$192	39.30	34.10	28.90	23.70	18.50	13.30	8.10	2.90	0	0	0
\$192	\$196	40.10	34.90	29.70	24.50	19.30	14.10	8.90	3.70	0	0	0
\$196	\$200	41.50	36.30	31.10	25.90	20.70	15.60	10.40	5.20	0	0	0
\$200	\$210	43.50	38.30	33.20	28.00	22.80	17.60	12.40	7.20	2.00	0	0
\$210	\$220	45.60	40.40	35.20	30.00	24.80	19.60	14.40	9.20	4.00	0	0
\$220	\$230	47.60	42.40	37.20	32.00	26.80	21.60	16.40	11.20	6.00	.90	0
\$230	\$240	49.60	44.40	39.20	34.00	28.80	23.70	18.50	13.30	8.10	2.90	0
\$240	\$250	51.60	46.40	41.30	36.10	30.90	25.70	20.50	15.30	10.10	4.90	0
\$250	\$260	53.70	48.50	43.30	38.10	32.90	27.70	22.50	17.30	12.10	6.90	1.70
\$260	\$270	55.70	50.50	45.30	40.10	34.90	29.70	24.50	19.30	14.10	9.00	3.80
\$270	\$280	57.70	52.50	47.30	42.10	36.90	31.80	26.60	21.40	16.20	11.00	5.80
\$280	\$290	59.70	54.50	49.40	44.20	39.00	33.80	28.60	23.40	18.20	13.00	7.80
\$290	\$300	62.80	57.60	52.40	47.20	42.00	36.80	31.60	26.40	21.20	16.00	10.90
\$300	\$320	66.80	61.60	56.40	51.20	46.10	40.90	35.70	30.50	25.30	20.10	14.90
\$320	\$340	70.90	65.70	60.50	55.30	50.10	44.90	39.70	34.50	29.30	24.10	19.00
\$340	\$360	74.90	69.70	64.50	59.30	54.20	49.00	43.80	38.60	33.40	28.20	23.00
\$360	\$380	79.00	73.80	68.60	63.40	58.20	53.00	47.80	42.60	37.40	32.20	27.10
\$400 and over		20 percent of the excess over \$400 plus—										
		81.00	75.80	70.60	65.40	60.20	55.00	49.80	44.70	39.50	34.30	29.10

"If the payroll period with respect to an employee is semimonthly

And the wages are—		And the number of withholding exemptions claimed is—										
At least	But less than	0	1	2	3	4	5	6	7	8	9	10 or more
The amount of tax to be withheld shall be—												
\$0	\$28	20% of wages	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$28	\$30	\$5.90	.20	0	0	0	0	0	0	0	0	0
\$30	\$32	6.30	.70	0	0	0	0	0	0	0	0	0
\$32	\$34	6.70	1.10	0	0	0	0	0	0	0	0	0
\$34	\$36	7.10	1.50	0	0	0	0	0	0	0	0	0
\$36	\$38	7.50	1.90	0	0	0	0	0	0	0	0	0
\$38	\$40	7.90	2.30	0	0	0	0	0	0	0	0	0
\$40	\$42	8.30	2.70	0	0	0	0	0	0	0	0	0
\$42	\$44	8.70	3.10	0	0	0	0	0	0	0	0	0
\$44	\$46	9.10	3.50	0	0	0	0	0	0	0	0	0
\$46	\$48	9.50	3.90	0	0	0	0	0	0	0	0	0
\$48	\$50	9.90	4.30	0	0	0	0	0	0	0	0	0
\$50	\$52	10.30	4.70	0	0	0	0	0	0	0	0	0
\$52	\$54	10.70	5.10	0	0	0	0	0	0	0	0	0
\$54	\$56	11.10	5.50	0	0	0	0	0	0	0	0	0
\$56	\$58	11.50	5.90	.30	0	0	0	0	0	0	0	0
\$58	\$60	11.90	6.30	.70	0	0	0	0	0	0	0	0
\$60	\$62	12.40	6.70	1.10	0	0	0	0	0	0	0	0
\$62	\$64	12.80	7.10	1.50	0	0	0	0	0	0	0	0
\$64	\$66	13.20	7.50	1.90	0	0	0	0	0	0	0	0
\$66	\$68	13.60	7.90	2.30	0	0	0	0	0	0	0	0
\$68	\$70	14.00	8.30	2.70	0	0	0	0	0	0	0	0
\$70	\$72	14.40	8.80	3.10	0	0	0	0	0	0	0	0
\$72	\$74	14.80	9.20	3.50	0	0	0	0	0	0	0	0
\$74	\$76	15.20	9.60	3.90	0	0	0	0	0	0	0	0
\$76	\$78	15.60	10.00	4.30	0	0	0	0	0	0	0	0
\$78	\$80	16.00	10.40	4.70	0	0	0	0	0	0	0	0
\$80	\$82	16.40	10.80	5.20	0	0	0	0	0	0	0	0
\$82	\$84	16.80	11.20	5.60	0	0	0	0	0	0	0	0
\$84	\$86	17.20	11.60	6.00	.30	0	0	0	0	0	0	0
\$86	\$88	17.60	12.00	6.40	.70	0	0	0	0	0	0	0
\$88	\$90	18.00	12.40	6.80	1.10	0	0	0	0	0	0	0
\$90	\$92	18.40	12.80	7.20	1.60	0	0	0	0	0	0	0
\$92	\$94	18.80	13.20	7.60	2.00	0	0	0	0	0	0	0
\$94	\$96	19.20	13.60	8.00	2.40	0	0	0	0	0	0	0
\$96	\$98	19.60	14.00	8.40	2.80	0	0	0	0	0	0	0
\$98	\$100	20.00	14.40	8.80	3.20	0	0	0	0	0	0	0
\$100	\$102	20.50	14.80	9.20	3.60	0	0	0	0	0	0	0
\$102	\$104	20.90	15.20	9.60	4.00	0	0	0	0	0	0	0
\$104	\$106	21.30	15.60	10.00	4.40	0	0	0	0	0	0	0
\$106	\$108	21.70	16.00	10.40	4.80	0	0	0	0	0	0	0
\$108	\$110	22.10	16.40	10.80	5.20	0	0	0	0	0	0	0
\$110	\$112	22.50	16.90	11.20	5.60	0	0	0	0	0	0	0
\$112	\$114	22.90	17.30	11.60	6.00	.40	0	0	0	0	0	0
\$114	\$116	23.30	17.70	12.00	6.40	.80	0	0	0	0	0	0
\$116	\$118	23.70	18.10	12.40	6.80	1.20	0	0	0	0	0	0
\$118	\$120	24.10	18.50	12.80	7.20	1.60	0	0	0	0	0	0
\$120	\$124	24.70	19.10	13.50	7.80	2.20	0	0	0	0	0	0
\$124	\$128	25.50	19.90	14.30	8.60	3.00	0	0	0	0	0	0
\$128	\$132	26.30	20.70	15.10	9.50	3.80	0	0	0	0	0	0
\$132	\$136	27.10	21.50	15.90	10.30	4.60	0	0	0	0	0	0
\$136	\$140	27.90	22.30	16.70	11.10	5.40	0	0	0	0	0	0
\$140	\$144	28.80	23.10	17.50	11.90	6.30	.60	0	0	0	0	0
\$144	\$148	29.60	23.90	18.30	12.70	7.10	1.40	0	0	0	0	0
\$148	\$152	30.40	24.80	19.10	13.50	7.90	2.30	0	0	0	0	0
\$152	\$156	31.20	25.60	19.90	14.30	8.70	3.10	0	0	0	0	0
\$156	\$160	32.00	26.40	20.70	15.10	9.50	3.90	0	0	0	0	0
\$160	\$164	32.80	27.20	21.60	15.90	10.30	4.70	0	0	0	0	0
\$164	\$168	33.60	28.00	22.40	16.70	11.10	5.50	0	0	0	0	0
\$168	\$172	34.40	28.80	23.20	17.60	11.90	6.30	.70	0	0	0	0
\$172	\$176	35.20	29.60	24.00	18.40	12.70	7.10	1.50	0	0	0	0
\$176	\$180	36.00	30.40	24.80	19.20	13.50	7.90	2.30	0	0	0	0
\$180	\$184	36.90	31.20	25.60	20.00	14.40	8.70	3.10	0	0	0	0
\$184	\$188	37.70	32.00	26.40	20.80	15.20	9.50	3.90	0	0	0	0
\$188	\$192	38.50	32.90	27.20	21.60	16.00	10.40	4.70	0	0	0	0
\$192	\$196	39.30	33.70	28.00	22.40	16.80	11.20	5.50	0	0	0	0
\$196	\$200	40.10	34.50	28.80	23.20	17.60	12.00	6.30	.70	0	0	0
\$200	\$210	41.50	35.90	30.30	24.60	19.00	13.40	7.80	2.10	0	0	0
\$210	\$220	43.50	37.90	32.30	26.70	21.00	15.40	9.80	4.20	0	0	0
\$220	\$230	45.60	39.90	34.30	28.70	23.10	17.40	11.80	6.20	.60	0	0
\$230	\$240	47.60	42.00	36.30	30.70	25.10	19.50	13.80	8.20	2.60	0	0
\$240	\$250	49.60	44.00	38.40	32.70	27.10	21.50	15.90	10.20	4.60	0	0
\$250	\$260	51.60	46.00	40.40	34.80	29.10	23.50	17.90	12.30	6.60	1.00	0
\$260	\$270	53.70	48.00	42.40	36.80	31.20	25.50	19.90	14.30	8.70	3.00	0
\$270	\$280	55.70	50.10	44.40	38.80	33.20	27.60	21.90	16.30	10.70	5.10	0
\$280	\$290	57.70	52.10	46.50	40.80	35.20	29.60	24.00	18.30	12.70	7.10	1.50
\$290	\$300	59.70	54.10	48.50	42.90	37.20	31.60	26.00	20.40	14.70	9.10	3.50
\$300	\$320	62.80	57.20	51.50	45.90	40.30	34.70	29.00	23.40	17.80	12.20	6.50
\$320	\$340	66.80	61.20	55.60	50.00	44.30	38.70	33.10	27.50	21.80	16.20	10.60
\$340	\$360	70.90	65.30	59.60	54.00	48.40	42.80	37.10	31.50	25.90	20.30	14.60
\$360	\$380	74.90	69.30	63.70	58.10	52.40	46.80	41.20	35.60	29.90	24.30	18.70
\$380	\$400	79.00	73.40	67.80	62.10	56.50	50.90	45.20	39.60	34.00	28.40	22.70
\$400	\$420	83.00	77.40	71.80	66.20	60.50	54.90	49.30	43.70	38.00	32.40	26.80
\$420	\$440	87.10	81.50	75.80	70.20	64.60	59.00	53.30	47.70	42.10	36.50	30.80
\$440	\$460	91.10	85.50	79.90	74.30	68.60	63.00	57.40	51.80	46.10	40.50	34.90
\$460	\$480	95.20	89.60	83.90	78.30	72.70	67.10	61.40	55.80	50.20	44.60	38.90
\$480	\$500	99.20	93.60	88.00	82.40	76.70	71.10	65.50	59.90	54.20	48.60	43.00
\$500 and over		20 percent of the excess over \$500 plus—										
		101.30	95.60	90.00	84.40	78.80	73.10	67.50	61.90	56.30	50.60	45.00

“If the payroll period with respect to an employee is monthly

And the wages are—		And the number of withholding exemptions claimed is—										
At least	But less than	0	1	2	3	4	5	6	7	8	9	10 or more
The amount of tax to be withheld shall be—												
		20% of wages	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$0	\$56	\$11.70	.50	0	0	0	0	0	0	0	0	0
\$56	\$60	12.60	1.30	0	0	0	0	0	0	0	0	0
\$60	\$64	13.40	2.10	0	0	0	0	0	0	0	0	0
\$64	\$68	14.20	2.90	0	0	0	0	0	0	0	0	0
\$68	\$72	15.00	3.70	0	0	0	0	0	0	0	0	0
\$72	\$76	15.80	4.50	0	0	0	0	0	0	0	0	0
\$76	\$80	16.60	5.40	0	0	0	0	0	0	0	0	0
\$80	\$84	17.40	6.20	0	0	0	0	0	0	0	0	0
\$84	\$88	18.20	7.00	0	0	0	0	0	0	0	0	0
\$88	\$92	19.00	7.80	0	0	0	0	0	0	0	0	0
\$92	\$96	19.80	8.60	0	0	0	0	0	0	0	0	0
\$96	\$100	20.70	9.40	0	0	0	0	0	0	0	0	0
\$100	\$104	21.50	10.20	0	0	0	0	0	0	0	0	0
\$104	\$108	22.30	11.00	0	0	0	0	0	0	0	0	0
\$108	\$112	23.10	11.80	.60	0	0	0	0	0	0	0	0
\$112	\$116	23.90	12.60	1.40	0	0	0	0	0	0	0	0
\$116	\$120	24.70	13.50	2.20	0	0	0	0	0	0	0	0
\$120	\$124	25.50	14.30	3.00	0	0	0	0	0	0	0	0
\$124	\$128	26.30	15.10	3.80	0	0	0	0	0	0	0	0
\$128	\$132	27.10	15.90	4.60	0	0	0	0	0	0	0	0
\$132	\$136	27.90	16.70	5.40	0	0	0	0	0	0	0	0
\$136	\$140	28.80	17.50	6.30	0	0	0	0	0	0	0	0
\$140	\$144	29.60	18.30	7.10	0	0	0	0	0	0	0	0
\$144	\$148	30.40	19.10	7.90	0	0	0	0	0	0	0	0
\$148	\$152	31.20	19.90	8.70	0	0	0	0	0	0	0	0
\$152	\$156	32.00	20.70	9.50	0	0	0	0	0	0	0	0
\$156	\$160	32.80	21.60	10.30	0	0	0	0	0	0	0	0
\$160	\$164	33.60	22.40	11.10	0	0	0	0	0	0	0	0
\$164	\$168	34.40	23.20	11.90	.70	0	0	0	0	0	0	0
\$168	\$172	35.20	24.00	12.70	1.50	0	0	0	0	0	0	0
\$172	\$176	36.00	24.80	13.50	2.30	0	0	0	0	0	0	0
\$176	\$180	36.90	25.60	14.40	3.10	0	0	0	0	0	0	0
\$180	\$184	37.70	26.40	15.20	3.90	0	0	0	0	0	0	0
\$184	\$188	38.50	27.20	16.00	4.70	0	0	0	0	0	0	0
\$188	\$192	39.30	28.00	16.80	5.50	0	0	0	0	0	0	0
\$192	\$196	40.10	28.80	17.60	6.30	0	0	0	0	0	0	0
\$196	\$200	40.90	29.70	18.40	7.20	0	0	0	0	0	0	0
\$200	\$204	41.70	30.50	19.20	8.00	0	0	0	0	0	0	0
\$204	\$208	42.50	31.30	20.00	8.80	0	0	0	0	0	0	0
\$208	\$212	43.30	32.10	20.80	9.60	0	0	0	0	0	0	0
\$212	\$216	44.10	32.90	21.60	10.40	0	0	0	0	0	0	0
\$216	\$220	45.00	33.70	22.50	11.20	0	0	0	0	0	0	0
\$220	\$224	45.80	34.50	23.30	12.00	.80	0	0	0	0	0	0
\$224	\$228	46.60	35.30	24.10	12.80	1.60	0	0	0	0	0	0
\$228	\$232	47.40	36.10	24.90	13.60	2.40	0	0	0	0	0	0
\$232	\$236	48.20	36.90	25.70	14.40	3.20	0	0	0	0	0	0
\$236	\$240	49.40	38.20	26.90	15.70	4.40	0	0	0	0	0	0
\$240	\$248	51.00	39.80	28.50	17.30	6.00	0	0	0	0	0	0
\$248	\$256	52.70	41.40	30.20	18.90	7.70	0	0	0	0	0	0
\$256	\$264	54.30	43.00	31.80	20.50	9.30	0	0	0	0	0	0
\$264	\$272	55.90	44.60	33.40	22.10	10.90	0	0	0	0	0	0
\$272	\$280	57.50	46.30	35.00	23.80	12.50	1.30	0	0	0	0	0
\$280	\$288	59.10	47.90	36.60	25.40	14.10	2.90	0	0	0	0	0
\$288	\$296	60.80	49.50	38.30	27.00	15.80	4.50	0	0	0	0	0
\$296	\$304	62.40	51.10	39.90	28.60	17.40	6.10	0	0	0	0	0
\$304	\$312	64.00	52.70	41.50	30.20	19.00	7.70	0	0	0	0	0
\$312	\$320	65.60	54.40	43.10	31.90	20.60	9.40	0	0	0	0	0
\$320	\$328	67.20	56.00	44.70	33.50	22.20	11.00	0	0	0	0	0
\$328	\$336	68.90	57.60	46.40	35.10	23.90	12.60	1.40	0	0	0	0
\$336	\$344	70.50	59.20	48.00	36.70	25.50	14.20	3.00	0	0	0	0
\$344	\$352	72.10	60.80	49.60	38.30	27.10	15.80	4.60	0	0	0	0
\$352	\$360	73.70	62.50	51.20	40.00	28.70	17.50	6.20	0	0	0	0
\$360	\$368	75.30	64.10	52.80	41.60	30.30	19.10	7.80	0	0	0	0
\$368	\$376	77.00	65.70	54.50	43.20	32.00	20.70	9.50	0	0	0	0
\$376	\$384	78.60	67.30	56.10	44.80	33.60	22.30	11.10	0	0	0	0
\$384	\$392	80.20	68.90	57.70	46.40	35.20	23.90	12.70	1.40	0	0	0
\$392	\$400	83.00	71.80	60.50	49.30	38.00	26.80	15.50	4.30	0	0	0
\$400	\$420	87.10	75.80	64.60	53.30	42.10	30.80	19.60	8.30	0	0	0
\$420	\$440	91.10	79.90	68.60	57.40	46.10	34.90	23.60	12.40	1.10	0	0
\$440	\$460	95.20	83.90	72.70	61.40	50.20	38.90	27.70	16.40	5.20	0	0
\$460	\$480	99.20	88.00	76.70	65.50	54.20	43.00	31.70	20.50	9.20	0	0
\$480	\$500	103.30	92.00	80.80	69.50	58.30	47.00	35.80	24.50	13.30	2.00	0
\$500	\$520	107.30	96.10	84.80	73.60	62.30	51.10	39.80	28.60	17.30	6.10	0
\$520	\$540	111.40	100.10	88.90	77.60	66.40	55.10	43.90	32.60	21.40	10.10	0
\$540	\$560	115.40	104.20	92.90	81.70	70.40	59.20	47.90	36.70	25.40	14.20	2.90
\$560	\$580	119.50	108.20	97.00	85.70	74.50	63.20	52.00	40.70	29.50	18.20	7.00
\$580	\$600	125.60	114.30	103.10	91.80	80.60	69.30	58.10	46.80	35.60	24.30	13.10
\$600	\$640	133.70	122.40	111.20	99.90	88.70	77.40	66.20	54.90	43.70	32.40	21.20
\$640	\$680	141.80	130.50	119.30	108.00	96.80	85.50	74.30	63.00	51.80	40.50	29.30
\$680	\$720	149.90	138.60	127.40	116.10	104.90	93.60	82.40	71.10	59.90	48.60	37.40
\$720	\$760	158.00	146.70	135.50	124.20	113.00	101.70	90.50	79.20	68.00	56.70	45.50
\$760	\$800	166.10	154.80	143.60	132.30	121.10	109.80	98.60	87.30	76.10	64.80	53.60
\$800	\$840	174.20	162.90	151.70	140.40	129.20	117.90	106.70	95.40	84.20	72.90	61.70
\$840	\$880	182.30	171.00	159.80	148.50	137.30	126.00	114.80	103.50	92.30	81.00	69.80
\$880	\$920	190.40	179.10	167.90	156.60	145.40	134.10	122.90	111.60	100.40	89.10	77.90
\$920	\$960	198.50	187.20	176.00	164.70	153.50	142.20	131.00	119.70	108.50	97.20	86.00
\$960	\$1,000											
\$1,000 and over		20 percent of the excess over \$1,000 plus—										
		202.50	191.30	180.00	168.80	157.50	146.30	135.00	123.80	112.50	101.30	90.00

“If the payroll period with respect to an employee is a daily payroll period or a miscellaneous payroll period

And the wages di- vided by the num- ber of days in such period are—		And the number of withholding exemptions claimed is—										
		0	1	2	3	4	5	6	7	8	9	10 or more
At least		But less than										
		The amount of tax to be withheld shall be the following amount multiplied by the number of days in such period—										
		20% of wages	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$0	\$2.00	\$0.45	.05	0	0	0	0	0	0	0	0	0
\$2.00	\$2.25	.50	.10	0	0	0	0	0	0	0	0	0
\$2.25	\$2.50	.55	.15	0	0	0	0	0	0	0	0	0
\$2.50	\$2.75	.60	.20	0	0	0	0	0	0	0	0	0
\$2.75	\$3.00	.65	.25	0	0	0	0	0	0	0	0	0
\$3.00	\$3.25	.70	.30	0	0	0	0	0	0	0	0	0
\$3.25	\$3.50	.75	.35	0	0	0	0	0	0	0	0	0
\$3.50	\$3.75	.80	.40	.05	0	0	0	0	0	0	0	0
\$3.75	\$4.00	.85	.45	.10	0	0	0	0	0	0	0	0
\$4.00	\$4.25	.90	.50	.15	0	0	0	0	0	0	0	0
\$4.25	\$4.50	.95	.55	.20	0	0	0	0	0	0	0	0
\$4.50	\$4.75	1.00	.60	.25	0	0	0	0	0	0	0	0
\$4.75	\$5.00	1.05	.65	.30	0	0	0	0	0	0	0	0
\$5.00	\$5.25	1.10	.70	.35	0	0	0	0	0	0	0	0
\$5.25	\$5.50	1.15	.75	.40	.05	0	0	0	0	0	0	0
\$5.50	\$5.75	1.20	.80	.45	.10	0	0	0	0	0	0	0
\$5.75	\$6.00	1.25	.85	.50	.15	0	0	0	0	0	0	0
\$6.00	\$6.25	1.30	.90	.55	.20	0	0	0	0	0	0	0
\$6.25	\$6.50	1.35	.95	.60	.25	0	0	0	0	0	0	0
\$6.50	\$6.75	1.40	1.00	.65	.30	0	0	0	0	0	0	0
\$6.75	\$7.00	1.45	1.05	.70	.35	0	0	0	0	0	0	0
\$7.00	\$7.25	1.50	1.10	.75	.40	0	0	0	0	0	0	0
\$7.25	\$7.50	1.55	1.15	.80	.45	.05	0	0	0	0	0	0
\$7.50	\$7.75	1.60	1.20	.85	.50	.10	0	0	0	0	0	0
\$7.75	\$8.00	1.65	1.30	.90	.55	.15	0	0	0	0	0	0
\$8.00	\$8.25	1.70	1.35	.95	.60	.20	0	0	0	0	0	0
\$8.25	\$8.50	1.75	1.40	1.00	.65	.25	0	0	0	0	0	0
\$8.50	\$8.75	1.80	1.45	1.05	.70	.30	0	0	0	0	0	0
\$8.75	\$9.00	1.85	1.50	1.10	.75	.35	0	0	0	0	0	0
\$9.00	\$9.25	1.90	1.55	1.15	.80	.40	.05	0	0	0	0	0
\$9.25	\$9.50	1.95	1.60	1.20	.85	.45	.10	0	0	0	0	0
\$9.50	\$9.75	2.00	1.65	1.25	.90	.50	.15	0	0	0	0	0
\$9.75	\$10.00	2.10	1.70	1.35	.95	.60	.25	0	0	0	0	0
\$10.00	\$10.50	2.20	1.80	1.45	1.05	.70	.35	0	0	0	0	0
\$10.50	\$11.00	2.30	1.90	1.55	1.15	.80	.45	.05	0	0	0	0
\$11.00	\$11.50	2.40	2.00	1.65	1.25	.90	.55	.15	0	0	0	0
\$11.50	\$12.00	2.50	2.10	1.75	1.35	1.00	.65	.25	0	0	0	0
\$12.00	\$12.50	2.60	2.20	1.85	1.45	1.10	.75	.35	0	0	0	0
\$12.50	\$13.00	2.70	2.30	1.95	1.55	1.20	.85	.45	.10	0	0	0
\$13.00	\$13.50	2.80	2.40	2.05	1.65	1.30	.95	.55	.20	0	0	0
\$13.50	\$14.00	2.90	2.50	2.15	1.80	1.40	1.05	.65	.30	0	0	0
\$14.00	\$14.50	3.00	2.60	2.25	1.90	1.50	1.15	.75	.40	.05	0	0
\$14.50	\$15.00	3.10	2.70	2.35	2.00	1.60	1.25	.85	.50	.15	0	0
\$15.00	\$15.50	3.20	2.80	2.45	2.10	1.70	1.35	.95	.60	.25	0	0
\$15.50	\$16.00	3.30	2.90	2.55	2.20	1.80	1.45	1.05	.70	.35	0	0
\$16.00	\$16.50	3.40	3.00	2.65	2.30	1.90	1.55	1.15	.80	.45	.05	0
\$16.50	\$17.00	3.50	3.10	2.75	2.40	2.00	1.65	1.25	.90	.55	.15	0
\$17.00	\$17.50	3.60	3.20	2.85	2.50	2.10	1.75	1.40	1.00	.65	.25	0
\$17.50	\$18.00	3.70	3.35	2.95	2.60	2.20	1.85	1.50	1.10	.75	.35	0
\$18.00	\$18.50	3.80	3.45	3.05	2.70	2.30	1.95	1.60	1.20	.85	.45	.10
\$18.50	\$19.00	3.90	3.55	3.15	2.80	2.40	2.05	1.70	1.30	.95	.55	.20
\$19.00	\$19.50	4.00	3.65	3.25	2.90	2.50	2.15	1.80	1.40	1.05	.65	.30
\$19.50	\$20.00	4.15	3.80	3.40	3.05	2.65	2.30	1.95	1.55	1.20	.80	.45
\$20.00	\$21.00	4.35	4.00	3.60	3.25	2.85	2.50	2.15	1.75	1.40	1.00	.65
\$21.00	\$22.00	4.55	4.20	3.80	3.45	3.10	2.70	2.35	1.95	1.60	1.25	.8
\$22.00	\$23.00	4.75	4.40	4.00	3.65	3.30	2.90	2.55	2.15	1.80	1.45	1.0
\$23.00	\$24.00	4.95	4.60	4.20	3.85	3.50	3.10	2.75	2.35	2.00	1.65	1.25
\$24.00	\$25.00	5.15	4.80	4.40	4.05	3.70	3.30	2.95	2.55	2.20	1.85	1.45
\$25.00	\$26.00	5.35	5.00	4.65	4.25	3.90	3.50	3.15	2.80	2.40	2.05	1.65
\$26.00	\$27.00	5.55	5.20	4.85	4.45	4.10	3.70	3.35	3.00	2.60	2.25	1.85
\$27.00	\$28.00	5.75	5.40	5.05	4.65	4.30	3.90	3.55	3.20	2.80	2.45	2.05
\$28.00	\$29.00	5.95	5.60	5.25	4.85	4.50	4.10	3.75	3.40	3.00	2.65	2.30
\$29.00	\$30.00											
\$30 and over		20 percent of the excess over \$30 plus—										
		6.10	5.70	5.35	4.95	4.60	4.25	3.85	3.50	3.10	2.75	2.40'

1 **SEC. 201. PERCENTAGE METHOD OF WITHHOLDING.**

2 *Section 1622 (a) (relating to percentage method of*
3 *withholding on wages) is hereby amended by inserting before*
4 *the period at the end thereof the following: “, except that in*
5 *the case of wages paid on or after November 1, 1951, and*
6 *before January 1, 1954, the tax shall be equal to 20 per*
7 *centum of such excess in lieu of 18 per centum”.*

8 **SEC. 202. WAGE BRACKET WITHHOLDING.**

9 *So much of section 1622 (c) (1) as precedes the tables*
10 *in such section is hereby amended to read as follows:*

11 *“(1) (A) Wages paid after October 31, 1951,*
12 *and before January 1, 1954.—At the election of*
13 *the employer with respect to any employee, the*
14 *employer shall deduct and withhold upon the wages*
15 *paid to such employee after October 31, 1951, and*
16 *before January 1, 1954, a tax determined in ac-*
17 *cordance with the following tables, which shall be*
18 *in lieu of the tax required to be deducted and with-*
19 *held under subsection (a):*

"If the payroll period with respect to an employee is weekly

And the wages are—		And the number of withholding exemptions claimed is—										
At least	But less than	0	1	2	3	4	5	6	7	8	9	10 or more
The amount of tax to be withheld shall be—												
		20% of wages	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$0	\$12	\$2.70	.10	0	0	0	0	0	0	0	0	0
\$12	\$14	\$2.90	.30	0	0	0	0	0	0	0	0	0
\$14	\$16	\$3.10	.50	0	0	0	0	0	0	0	0	0
\$16	\$18	\$3.30	.70	0	0	0	0	0	0	0	0	0
\$18	\$20	\$3.50	.90	0	0	0	0	0	0	0	0	0
\$20	\$22	\$3.70	1.10	0	0	0	0	0	0	0	0	0
\$22	\$24	\$3.90	1.30	0	0	0	0	0	0	0	0	0
\$24	\$26	\$4.10	1.50	0	0	0	0	0	0	0	0	0
\$26	\$28	\$4.30	1.70	0	0	0	0	0	0	0	0	0
\$28	\$30	\$4.50	1.90	0	0	0	0	0	0	0	0	0
\$30	\$32	\$4.70	2.10	0	0	0	0	0	0	0	0	0
\$32	\$34	\$4.90	2.30	0	0	0	0	0	0	0	0	0
\$34	\$36	\$5.10	2.50	0	0	0	0	0	0	0	0	0
\$36	\$38	\$5.30	2.70	.20	0	0	0	0	0	0	0	0
\$38	\$40	\$5.50	2.90	.40	0	0	0	0	0	0	0	0
\$40	\$42	\$5.70	3.10	.60	0	0	0	0	0	0	0	0
\$42	\$44	\$5.90	3.30	.80	0	0	0	0	0	0	0	0
\$44	\$46	\$6.10	3.50	1.00	0	0	0	0	0	0	0	0
\$46	\$48	\$6.30	3.70	1.20	0	0	0	0	0	0	0	0
\$48	\$50	\$6.50	3.90	1.40	0	0	0	0	0	0	0	0
\$50	\$52	\$6.70	4.10	1.60	0	0	0	0	0	0	0	0
\$52	\$54	\$6.90	4.30	1.80	0	0	0	0	0	0	0	0
\$54	\$56	\$7.10	4.50	2.00	0	0	0	0	0	0	0	0
\$56	\$58	\$7.30	4.70	2.20	0	0	0	0	0	0	0	0
\$58	\$60	\$7.50	4.90	2.40	0	0	0	0	0	0	0	0
\$60	\$62	\$7.70	5.10	2.60	0	0	0	0	0	0	0	0
\$62	\$64	\$7.90	5.30	2.80	.20	0	0	0	0	0	0	0
\$64	\$66	\$8.10	5.50	3.00	.40	0	0	0	0	0	0	0
\$66	\$68	\$8.30	5.70	3.20	.60	0	0	0	0	0	0	0
\$68	\$70	\$8.50	5.90	3.40	.80	0	0	0	0	0	0	0
\$70	\$72	\$8.70	6.10	3.60	1.00	0	0	0	0	0	0	0
\$72	\$74	\$8.90	6.30	3.80	1.20	0	0	0	0	0	0	0
\$74	\$76	\$9.10	6.50	4.00	1.40	0	0	0	0	0	0	0
\$76	\$78	\$9.30	6.70	4.20	1.60	0	0	0	0	0	0	0
\$78	\$80	\$9.50	6.90	4.40	1.80	0	0	0	0	0	0	0
\$80	\$82	\$9.70	7.10	4.60	2.00	0	0	0	0	0	0	0
\$82	\$84	\$9.90	7.30	4.80	2.20	0	0	0	0	0	0	0
\$84	\$86	\$10.10	7.50	5.00	2.40	0	0	0	0	0	0	0
\$86	\$88	\$10.30	7.70	5.20	2.60	0	0	0	0	0	0	0
\$88	\$90	\$10.50	7.90	5.40	2.80	.20	0	0	0	0	0	0
\$90	\$92	\$10.70	8.10	5.60	3.00	.40	0	0	0	0	0	0
\$92	\$94	\$10.90	8.30	5.80	3.20	.60	0	0	0	0	0	0
\$94	\$96	\$11.10	8.50	6.00	3.40	.80	0	0	0	0	0	0
\$96	\$98	\$11.30	8.70	6.20	3.60	1.00	0	0	0	0	0	0
\$98	\$100	\$11.50	8.90	6.40	3.80	1.20	0	0	0	0	0	0
\$100	\$102	\$11.70	9.10	6.60	4.00	1.40	0	0	0	0	0	0
\$102	\$104	\$11.90	9.30	6.80	4.20	1.60	0	0	0	0	0	0
\$104	\$106	\$12.10	9.50	7.00	4.40	1.80	0	0	0	0	0	0
\$106	\$108	\$12.30	9.70	7.20	4.60	2.00	0	0	0	0	0	0
\$108	\$110	\$12.50	9.90	7.40	4.80	2.20	0	0	0	0	0	0
\$110	\$112	\$12.70	10.10	7.60	5.00	2.40	.20	0	0	0	0	0
\$112	\$114	\$12.90	10.30	7.80	5.20	2.60	.40	0	0	0	0	0
\$114	\$116	\$13.10	10.50	8.00	5.40	2.80	.60	0	0	0	0	0
\$116	\$118	\$13.30	10.70	8.20	5.60	3.00	.80	0	0	0	0	0
\$118	\$120	\$13.50	10.90	8.40	5.80	3.20	1.00	0	0	0	0	0
\$120	\$122	\$13.70	11.10	8.60	6.00	3.40	1.20	0	0	0	0	0
\$122	\$124	\$13.90	11.30	8.80	6.20	3.60	1.40	0	0	0	0	0
\$124	\$126	\$14.10	11.50	9.00	6.40	3.80	1.60	0	0	0	0	0
\$126	\$128	\$14.30	11.70	9.20	6.60	4.00	1.80	0	0	0	0	0
\$128	\$130	\$14.50	11.90	9.40	6.80	4.20	2.00	0	0	0	0	0
\$130	\$132	\$14.70	12.10	9.60	7.00	4.40	2.20	0	0	0	0	0
\$132	\$134	\$14.90	12.30	9.80	7.20	4.60	2.40	0	0	0	0	0
\$134	\$136	\$15.10	12.50	10.00	7.40	4.80	2.60	0	0	0	0	0
\$136	\$138	\$15.30	12.70	10.20	7.60	5.00	2.80	.20	0	0	0	0
\$138	\$140	\$15.50	12.90	10.40	7.80	5.20	3.00	.40	0	0	0	0
\$140	\$142	\$15.70	13.10	10.60	8.00	5.40	3.20	.60	0	0	0	0
\$142	\$144	\$15.90	13.30	10.80	8.20	5.60	3.40	.80	0	0	0	0
\$144	\$146	\$16.10	13.50	11.00	8.40	5.80	3.60	1.00	0	0	0	0
\$146	\$148	\$16.30	13.70	11.20	8.60	6.00	3.80	1.20	0	0	0	0
\$148	\$150	\$16.50	13.90	11.40	8.80	6.20	4.00	1.40	0	0	0	0
\$150	\$152	\$16.70	14.10	11.60	9.00	6.40	4.20	1.60	0	0	0	0
\$152	\$154	\$16.90	14.30	11.80	9.20	6.60	4.40	1.80	0	0	0	0
\$154	\$156	\$17.10	14.50	12.00	9.40	6.80	4.60	2.00	0	0	0	0
\$156	\$158	\$17.30	14.70	12.20	9.60	7.00	4.80	2.20	0	0	0	0
\$158	\$160	\$17.50	14.90	12.40	9.80	7.20	5.00	2.40	0	0	0	0
\$160	\$162	\$17.70	15.10	12.60	10.00	7.40	5.20	2.60	.20	0	0	0
\$162	\$164	\$17.90	15.30	12.80	10.20	7.60	5.40	2.80	.40	0	0	0
\$164	\$166	\$18.10	15.50	13.00	10.40	7.80	5.60	3.00	.60	0	0	0
\$166	\$168	\$18.30	15.70	13.20	10.60	8.00	5.80	3.20	.80	0	0	0
\$168	\$170	\$18.50	15.90	13.40	10.80	8.20	6.00	3.40	1.00	0	0	0
\$170	\$172	\$18.70	16.10	13.60	11.00	8.40	6.20	3.60	1.20	0	0	0
\$172	\$174	\$18.90	16.30	13.80	11.20	8.60	6.40	3.80	1.40	0	0	0
\$174	\$176	\$19.10	16.50	14.00	11.40	8.80	6.60	4.00	1.60	0	0	0
\$176	\$178	\$19.30	16.70	14.20	11.60	9.00	6.80	4.20	1.80	0	0	0
\$178	\$180	\$19.50	16.90	14.40	11.80	9.20	7.00	4.40	2.00	0	0	0
\$180	\$182	\$19.70	17.10	14.60	12.00	9.40	7.20	4.60	2.20	0	0	0
\$182	\$184	\$19.90	17.30	14.80	12.20	9.60	7.40	4.80	2.40	0	0	0
\$184	\$186	\$20.10	17.50	15.00	12.40	9.80	7.60	5.00	2.60	0	0	0
\$186	\$188	\$20.30	17.70	15.20	12.60	10.00	7.80	5.20	2.80	.20	0	0
\$188	\$190	\$20.50	17.90	15.40	12.80	10.20	8.00	5.40	3.00	.40	0	0
\$190	\$192	\$20.70	18.10	15.60	13.00	10.40	8.20	5.60	3.20	.60	0	0
\$192	\$194	\$20.90	18.30	15.80	13.20	10.60	8.40	5.80	3.40	.80	0	0
\$194	\$196	\$21.10	18.50	16.00	13.40	10.80	8.60	6.00	3.60	1.00	0	0
\$196	\$198	\$21.30	18.70	16.20	13.60	11.00	8.80	6.20	3.80	1.20	0	0
\$198	\$200	\$21.50	18.90	16.40	13.80	11.20	9.00	6.40	4.00	1.40	0	0
\$200	\$202	\$21.70	19.10	16.60	14.00	11.40	9.20	6.60	4.20	1.60	0	0
\$202	\$204	\$21.90	19.30	16.80	14.20	11.60	9.40	6.80	4.40	1.80	0	0
\$204	\$206	\$22.10	19.50	17.00	14.40	11.80	9.60	7.00	4.60	2.00	0	0
\$206	\$208	\$22.30	19.70	17.20	14.60	12.00	9.80	7.20	4.80	2.20	0	0
\$208	\$210	\$22.50	19.90	17.40	14.80	12.20	10.00	7.40	5.00	2.40	0	0
\$210	\$212	\$22.70	20.10	17.60	15.00	12.40	10.20	7.60	5.20	2.60	.20	0
\$212	\$214	\$22.90	20.30	17.80	15.20	12.60	10.40	7.80	5.40	2.80	.40	0
\$214	\$216	\$23.10	20.50	18.00	15.40	12.80	10.60	8.00	5.60	3.00	.60	0
\$216	\$218	\$23.30	20.70	18.20	15.60	13.00	10.80	8.20	5.80	3.20	.80	0
\$218	\$220	\$23.50	20.90	18.40	15.80	13.20	11.00	8.40	6.00	3.40	1.00	0
\$220	\$222	\$23.70	21.10	18.60	16.00	13.40	11.20	8.60	6.20	3.60	1.20	0
\$222	\$224	\$23.90	21.30	18.80	16.20	13.60	11.40	8.80	6.40	3.80	1.40	0
\$224	\$226	\$24.10	21.50	19.00	16.40	13.80	11.60	9.00	6.60	4.00	1.60	0
\$226	\$228	\$24.30	21.70	19.20	16.60	14.00	11.80	9.20	6.80	4.20	1.80	0
\$228	\$230	\$24.50	21.90	19.40	16.80	14.20	12.00	9.40	7.00	4.40	2.00	0
\$230	\$232	\$24.70	22.10	19.60	17.00	14.40	12.20	9.60	7.20	4.60	2.20	0
\$232	\$234	\$24.90	22.30	19.80	17.20	14.60	12.40	9.80	7.40	4.80	2.40	0

"If the payroll period with respect to an employee is biweekly

And the wages are—		And the number of withholding exemptions claimed is—										
At least	But less than	0	1	2	3	4	5	6	7	8	9	10 or more
The amount of tax to be withheld shall be—												
\$0	\$26	20% of wages	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$26	\$28	\$5.40	.30	0	0	0	0	0	0	0	0	0
\$28	\$50	6.80	.70	0	0	0	0	0	0	0	0	0
\$50	\$52	6.20	1.10	0	0	0	0	0	0	0	0	0
\$52	\$54	6.60	1.50	0	0	0	0	0	0	0	0	0
\$54	\$56	7.00	1.90	0	0	0	0	0	0	0	0	0
\$56	\$58	7.40	2.30	0	0	0	0	0	0	0	0	0
\$58	\$60	7.80	2.70	0	0	0	0	0	0	0	0	0
\$60	\$62	8.20	3.10	0	0	0	0	0	0	0	0	0
\$62	\$64	8.60	3.50	0	0	0	0	0	0	0	0	0
\$64	\$66	9.00	3.90	0	0	0	0	0	0	0	0	0
\$66	\$68	9.40	4.30	0	0	0	0	0	0	0	0	0
\$68	\$70	9.80	4.70	0	0	0	0	0	0	0	0	0
\$70	\$72	10.20	5.10	0	0	0	0	0	0	0	0	0
\$72	\$74	10.60	5.50	.30	0	0	0	0	0	0	0	0
\$74	\$76	11.00	5.90	.70	0	0	0	0	0	0	0	0
\$76	\$78	11.40	6.30	1.10	0	0	0	0	0	0	0	0
\$78	\$80	11.80	6.70	1.50	0	0	0	0	0	0	0	0
\$80	\$82	12.20	7.10	1.90	0	0	0	0	0	0	0	0
\$82	\$84	12.60	7.50	2.30	0	0	0	0	0	0	0	0
\$84	\$86	13.00	7.90	2.70	0	0	0	0	0	0	0	0
\$86	\$88	13.40	8.30	3.10	0	0	0	0	0	0	0	0
\$88	\$90	13.80	8.70	3.50	0	0	0	0	0	0	0	0
\$90	\$92	14.20	9.10	3.90	0	0	0	0	0	0	0	0
\$92	\$94	14.60	9.50	4.30	0	0	0	0	0	0	0	0
\$94	\$96	15.00	9.90	4.70	0	0	0	0	0	0	0	0
\$96	\$98	15.40	10.30	5.10	0	0	0	0	0	0	0	0
\$98	\$100	15.80	10.70	5.50	.40	0	0	0	0	0	0	0
\$100	\$102	16.20	11.10	5.90	.80	0	0	0	0	0	0	0
\$102	\$104	16.60	11.50	6.30	1.20	0	0	0	0	0	0	0
\$104	\$106	17.00	11.90	6.70	1.60	0	0	0	0	0	0	0
\$106	\$108	17.40	12.30	7.10	2.00	0	0	0	0	0	0	0
\$108	\$110	17.80	12.70	7.50	2.40	0	0	0	0	0	0	0
\$110	\$112	18.20	13.10	7.90	2.80	0	0	0	0	0	0	0
\$112	\$114	18.60	13.50	8.30	3.20	0	0	0	0	0	0	0
\$114	\$116	19.00	13.90	8.70	3.60	0	0	0	0	0	0	0
\$116	\$118	19.40	14.30	9.10	4.00	0	0	0	0	0	0	0
\$118	\$120	19.80	14.70	9.50	4.40	0	0	0	0	0	0	0
\$120	\$122	20.20	15.10	9.90	4.80	0	0	0	0	0	0	0
\$122	\$124	20.60	15.50	10.30	5.20	.10	0	0	0	0	0	0
\$124	\$126	21.00	15.90	10.70	5.60	.50	0	0	0	0	0	0
\$126	\$128	21.40	16.30	11.10	6.00	.90	0	0	0	0	0	0
\$128	\$130	21.80	16.70	11.50	6.40	1.30	0	0	0	0	0	0
\$130	\$132	22.20	17.10	11.90	6.80	1.70	0	0	0	0	0	0
\$132	\$134	22.60	17.50	12.30	7.20	2.10	0	0	0	0	0	0
\$134	\$136	23.00	17.90	12.70	7.60	2.50	0	0	0	0	0	0
\$136	\$138	23.40	18.30	13.10	8.00	2.90	0	0	0	0	0	0
\$138	\$140	23.80	18.70	13.50	8.40	3.30	0	0	0	0	0	0
\$140	\$142	24.20	19.10	13.90	8.80	3.70	0	0	0	0	0	0
\$142	\$144	24.60	19.50	14.30	9.20	4.10	0	0	0	0	0	0
\$144	\$146	25.00	19.90	14.70	9.60	4.50	0	0	0	0	0	0
\$146	\$148	25.40	20.30	15.10	10.00	4.90	0	0	0	0	0	0
\$148	\$150	25.80	20.70	15.50	10.40	5.30	.40	0	0	0	0	0
\$150	\$152	26.20	21.10	15.90	10.80	5.70	1.20	0	0	0	0	0
\$152	\$154	26.60	21.50	16.30	11.20	6.10	1.60	0	0	0	0	0
\$154	\$156	27.00	21.90	16.70	11.60	6.50	2.00	0	0	0	0	0
\$156	\$158	27.40	22.30	17.10	12.00	6.90	2.40	0	0	0	0	0
\$158	\$160	27.80	22.70	17.50	12.40	7.30	2.80	0	0	0	0	0
\$160	\$162	28.20	23.10	17.90	12.80	7.70	3.20	0	0	0	0	0
\$162	\$164	28.60	23.50	18.30	13.20	8.10	3.60	0	0	0	0	0
\$164	\$166	29.00	23.90	18.70	13.60	8.50	4.00	0	0	0	0	0
\$166	\$168	29.40	24.30	19.10	14.00	8.90	4.40	0	0	0	0	0
\$168	\$170	29.80	24.70	19.50	14.40	9.30	4.80	0	0	0	0	0
\$170	\$172	30.20	25.10	19.90	14.80	9.70	5.20	0	0	0	0	0
\$172	\$174	30.60	25.50	20.30	15.20	10.10	5.60	.80	0	0	0	0
\$174	\$176	31.00	25.90	20.70	15.60	10.50	6.00	1.20	0	0	0	0
\$176	\$178	31.40	26.30	21.10	16.00	10.90	6.40	1.60	0	0	0	0
\$178	\$180	31.80	26.70	21.50	16.40	11.30	6.80	2.00	0	0	0	0
\$180	\$182	32.20	27.10	21.90	16.80	11.70	7.20	2.40	0	0	0	0
\$182	\$184	32.60	27.50	22.30	17.20	12.10	7.60	2.80	0	0	0	0
\$184	\$186	33.00	27.90	22.70	17.60	12.50	8.00	3.20	0	0	0	0
\$186	\$188	33.40	28.30	23.10	18.00	12.90	8.40	3.60	0	0	0	0
\$188	\$190	33.80	28.70	23.50	18.40	13.30	8.80	4.00	0	0	0	0
\$190	\$192	34.20	29.10	23.90	18.80	13.70	9.20	4.40	0	0	0	0
\$192	\$194	34.60	29.50	24.30	19.20	14.10	9.60	4.80	0	0	0	0
\$194	\$196	35.00	29.90	24.70	19.60	14.50	10.00	5.20	0	0	0	0
\$196	\$198	35.40	30.30	25.10	20.00	14.90	10.40	5.60	.50	0	0	0
\$198	\$200	35.80	30.70	25.50	20.40	15.30	10.80	6.00	1.00	0	0	0
\$200	\$202	36.20	31.10	25.90	20.80	15.70	11.20	6.40	1.40	0	0	0
\$202	\$204	36.60	31.50	26.30	21.20	16.10	11.60	6.80	1.80	0	0	0
\$204	\$206	37.00	31.90	26.70	21.60	16.50	12.00	7.20	2.20	0	0	0
\$206	\$208	37.40	32.30	27.10	22.00	16.90	12.40	7.60	2.60	0	0	0
\$208	\$210	37.80	32.70	27.50	22.40	17.30	12.80	8.00	3.00	0	0	0
\$210	\$212	38.20	33.10	27.90	22.80	17.70	13.20	8.40	3.40	0	0	0
\$212	\$214	38.60	33.50	28.30	23.20	18.10	13.60	8.80	3.80	0	0	0
\$214	\$216	39.00	33.90	28.70	23.60	18.50	14.00	9.20	4.20	0	0	0
\$216	\$218	39.40	34.30	29.10	24.00	18.90	14.40	9.60	4.60	0	0	0
\$218	\$220	39.80	34.70	29.50	24.40	19.30	14.80	10.00	5.00	0	0	0
\$220	\$222	40.20	35.10	29.90	24.80	19.70	15.20	10.40	5.40	0	0	0
\$222	\$224	40.60	35.50	30.30	25.20	20.10	15.60	10.80	5.80	0	0	0
\$224	\$226	41.00	35.90	30.70	25.60	20.50	16.00	11.20	6.20	0	0	0
\$226	\$228	41.40	36.30	31.10	26.00	20.90	16.40	11.60	6.60	0	0	0
\$228	\$230	41.80	36.70	31.50	26.40	21.30	16.80	12.00	7.00	0	0	0
\$230	\$232	42.20	37.10	31.90	26.80	21.70	17.20	12.20	7.20	0	0	0
\$232	\$234	42.60	37.50	32.30	27.20	22.10	17.60	12.40	7.40	0	0	0
\$234	\$236	43.00	37.90	32.70	27.60	22.50	18.00	12.60	7.60	0	0	0
\$236	\$238	43.40	38.30	33.10	28.00	22.90	18.40	12.80	7.80	0	0	0
\$238	\$240	43.80	38.70	33.50	28.40	23.30	18.80	13.00	8.00	0	0	0
\$240	\$242	44.20	39.10	33.90	28.80	23.70	19.20	13.20	8.20	0	0	0
\$242	\$244	44.60	39.50									

"If the payroll period with respect to an employee is semimonthly

And the wages are—		And the number of withholding exemptions claimed is—										
At least	But less than	0	1	2	3	4	5	6	7	8	9	10 or more
The amount of tax to be withheld shall be—												
\$0	\$28	20% of wages	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$28	\$30	\$5.80	.20	0	0	0	0	0	0	0	0	0
\$30	\$32	6.20	.60	0	0	0	0	0	0	0	0	0
\$32	\$34	6.60	1.00	0	0	0	0	0	0	0	0	0
\$34	\$36	7.00	1.40	0	0	0	0	0	0	0	0	0
\$36	\$38	7.40	1.80	0	0	0	0	0	0	0	0	0
\$38	\$40	7.80	2.20	0	0	0	0	0	0	0	0	0
\$40	\$42	8.20	2.60	0	0	0	0	0	0	0	0	0
\$42	\$44	8.60	3.00	0	0	0	0	0	0	0	0	0
\$44	\$46	9.00	3.40	0	0	0	0	0	0	0	0	0
\$46	\$48	9.40	3.80	0	0	0	0	0	0	0	0	0
\$48	\$50	9.80	4.20	0	0	0	0	0	0	0	0	0
\$50	\$52	10.20	4.60	0	0	0	0	0	0	0	0	0
\$52	\$54	10.60	5.00	0	0	0	0	0	0	0	0	0
\$54	\$56	11.00	5.40	0	0	0	0	0	0	0	0	0
\$56	\$58	11.40	5.80	.30	0	0	0	0	0	0	0	0
\$58	\$60	11.80	6.20	1.70	0	0	0	0	0	0	0	0
\$60	\$62	12.20	6.60	1.10	0	0	0	0	0	0	0	0
\$62	\$64	12.60	7.00	1.50	0	0	0	0	0	0	0	0
\$64	\$66	13.00	7.40	1.90	0	0	0	0	0	0	0	0
\$66	\$68	13.40	7.80	2.30	0	0	0	0	0	0	0	0
\$68	\$70	13.80	8.20	2.70	0	0	0	0	0	0	0	0
\$70	\$72	14.20	8.60	3.10	0	0	0	0	0	0	0	0
\$72	\$74	14.60	9.00	3.50	0	0	0	0	0	0	0	0
\$74	\$76	15.00	9.40	3.90	0	0	0	0	0	0	0	0
\$76	\$78	15.40	9.80	4.30	0	0	0	0	0	0	0	0
\$78	\$80	15.80	10.20	4.70	0	0	0	0	0	0	0	0
\$80	\$82	16.20	10.60	5.10	0	0	0	0	0	0	0	0
\$82	\$84	16.60	11.00	5.50	0	0	0	0	0	0	0	0
\$84	\$86	17.00	11.40	5.90	.30	0	0	0	0	0	0	0
\$86	\$88	17.40	11.80	6.30	.70	0	0	0	0	0	0	0
\$88	\$90	17.80	12.20	6.70	1.10	0	0	0	0	0	0	0
\$90	\$92	18.20	12.60	7.10	1.50	0	0	0	0	0	0	0
\$92	\$94	18.60	13.00	7.50	1.90	0	0	0	0	0	0	0
\$94	\$96	19.00	13.40	7.90	2.30	0	0	0	0	0	0	0
\$96	\$98	19.40	13.80	8.30	2.70	0	0	0	0	0	0	0
\$98	\$100	19.80	14.20	8.70	3.10	0	0	0	0	0	0	0
\$100	\$102	20.20	14.60	9.10	3.50	0	0	0	0	0	0	0
\$102	\$104	20.60	15.00	9.50	3.90	0	0	0	0	0	0	0
\$104	\$106	21.00	15.40	9.90	4.30	0	0	0	0	0	0	0
\$106	\$108	21.40	15.80	10.30	4.70	0	0	0	0	0	0	0
\$108	\$110	21.80	16.20	10.70	5.10	0	0	0	0	0	0	0
\$110	\$112	22.20	16.60	11.10	5.50	0	0	0	0	0	0	0
\$112	\$114	22.60	17.00	11.50	5.90	.40	0	0	0	0	0	0
\$114	\$116	23.00	17.40	11.90	6.30	.80	0	0	0	0	0	0
\$116	\$118	23.40	17.80	12.30	6.70	1.20	0	0	0	0	0	0
\$118	\$120	23.80	18.20	12.70	7.10	1.60	0	0	0	0	0	0
\$120	\$124	24.40	18.80	13.30	7.70	2.20	0	0	0	0	0	0
\$124	\$128	25.20	19.60	14.10	8.50	3.00	0	0	0	0	0	0
\$128	\$132	26.00	20.40	14.90	9.30	3.80	0	0	0	0	0	0
\$132	\$136	26.80	21.20	15.70	10.10	4.60	0	0	0	0	0	0
\$136	\$140	27.60	22.00	16.50	10.90	5.40	0	0	0	0	0	0
\$140	\$144	28.40	22.80	17.30	11.70	6.20	.60	0	0	0	0	0
\$144	\$148	29.20	23.60	18.10	12.50	7.00	1.40	0	0	0	0	0
\$148	\$152	30.00	24.40	18.90	13.30	7.80	2.20	0	0	0	0	0
\$152	\$156	30.80	25.20	19.70	14.10	8.60	3.00	0	0	0	0	0
\$156	\$160	31.60	26.00	20.50	14.90	9.40	3.80	0	0	0	0	0
\$160	\$164	32.40	26.80	21.30	15.70	10.20	4.60	0	0	0	0	0
\$164	\$168	33.20	27.60	22.10	16.50	11.00	5.40	0	0	0	0	0
\$168	\$172	34.00	28.40	22.90	17.30	11.80	6.20	.70	0	0	0	0
\$172	\$176	34.80	29.20	23.70	18.10	12.60	7.00	1.50	0	0	0	0
\$176	\$180	35.60	30.00	24.50	18.90	13.40	7.80	2.30	0	0	0	0
\$180	\$184	36.40	30.80	25.30	19.70	14.20	8.60	3.10	0	0	0	0
\$184	\$188	37.20	31.60	26.10	20.50	15.00	9.40	3.90	0	0	0	0
\$188	\$192	38.00	32.40	26.90	21.30	15.80	10.20	4.70	0	0	0	0
\$192	\$196	38.80	33.20	27.70	22.10	16.60	11.00	5.50	0	0	0	0
\$196	\$200	39.60	34.00	28.50	22.90	17.40	11.80	6.30	.70	0	0	0
\$200	\$210	41.00	35.40	29.90	24.30	18.80	13.20	7.70	2.10	0	0	0
\$210	\$220	43.00	37.40	31.90	26.30	20.80	15.20	9.70	4.10	0	0	0
\$220	\$230	45.00	39.40	33.90	28.30	22.80	17.20	11.70	6.10	.60	0	0
\$230	\$240	47.00	41.40	35.90	30.30	24.80	19.20	13.70	8.10	2.60	0	0
\$240	\$250	49.00	43.40	37.90	32.30	26.80	21.20	15.70	10.10	4.60	0	0
\$250	\$260	51.00	45.40	39.90	34.30	28.80	23.20	17.70	12.10	6.60	1.00	0
\$260	\$270	53.00	47.40	41.90	36.30	30.80	25.20	19.70	14.10	8.60	3.00	0
\$270	\$280	55.00	49.40	43.90	38.30	32.80	27.20	21.70	16.10	10.60	5.00	0
\$280	\$290	57.00	51.40	45.90	40.30	34.80	29.20	23.70	18.10	12.60	7.00	1.40
\$290	\$300	59.00	53.40	47.90	42.30	36.80	31.20	25.70	20.10	14.60	9.00	3.40
\$300	\$320	62.00	56.40	50.90	45.30	39.80	34.20	28.70	23.10	17.60	12.00	6.40
\$320	\$340	66.00	60.40	54.90	49.30	43.80	38.20	32.70	27.10	21.60	16.00	10.40
\$340	\$360	70.00	64.40	58.90	53.30	47.80	42.20	36.70	31.10	25.60	20.00	14.40
\$360	\$380	74.00	68.40	62.90	57.30	51.80	46.20	40.70	35.10	29.60	24.00	18.40
\$380	\$400	78.00	72.40	66.90	61.30	55.80	50.20	44.70	39.10	33.60	28.00	22.40
\$400	\$420	82.00	76.40	70.90	65.30	59.80	54.20	48.70	43.10	37.60	32.00	26.40
\$420	\$440	86.00	80.40	74.90	69.30	63.80	58.20	52.70	47.10	41.60	36.00	30.40
\$440	\$460	90.00	84.40	78.90	73.30	67.80	62.20	56.70	51.10	45.60	40.00	34.40
\$460	\$480	94.00	88.40	82.90	77.30	71.80	66.20	60.70	55.10	49.60	44.00	38.40
\$480	\$500	98.00	92.40	86.90	81.30	75.80	70.20	64.70	59.10	53.60	48.00	42.40
\$500 and over		20 percent of the excess over \$500 plus—										
		100.00	94.40	88.90	83.30	77.80	72.20	66.70	61.10	55.60	50.00	44.40

"If the payroll period with respect to an employee is monthly

And the wages are—		And the number of withholding exemptions claimed is—										
At least—	But less than—	0	1	2	3	4	5	6	7	8	9	10 or more
The amount of tax to be withheld shall be—												
\$0	\$56	20% of wages	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$56	\$60	\$11.60	1.50	0	0	0	0	0	0	0	0	0
\$60	\$64	12.40	1.90	0	0	0	0	0	0	0	0	0
\$64	\$68	13.20	2.10	0	0	0	0	0	0	0	0	0
\$68	\$72	14.00	2.90	0	0	0	0	0	0	0	0	0
\$72	\$76	14.80	3.70	0	0	0	0	0	0	0	0	0
\$76	\$80	15.60	4.50	0	0	0	0	0	0	0	0	0
\$80	\$84	16.40	5.30	0	0	0	0	0	0	0	0	0
\$84	\$88	17.20	6.10	0	0	0	0	0	0	0	0	0
\$88	\$92	18.00	6.90	0	0	0	0	0	0	0	0	0
\$92	\$96	18.80	7.70	0	0	0	0	0	0	0	0	0
\$96	\$100	19.60	8.50	0	0	0	0	0	0	0	0	0
\$100	\$104	20.40	9.30	0	0	0	0	0	0	0	0	0
\$104	\$108	21.20	10.10	0	0	0	0	0	0	0	0	0
\$108	\$112	22.00	10.90	0	0	0	0	0	0	0	0	0
\$112	\$116	22.80	11.70	.60	0	0	0	0	0	0	0	0
\$116	\$120	23.60	12.50	1.40	0	0	0	0	0	0	0	0
\$120	\$124	24.40	13.30	2.20	0	0	0	0	0	0	0	0
\$124	\$128	25.20	14.10	3.00	0	0	0	0	0	0	0	0
\$128	\$132	26.00	14.90	3.80	0	0	0	0	0	0	0	0
\$132	\$136	26.80	15.70	4.60	0	0	0	0	0	0	0	0
\$136	\$140	27.60	16.50	5.40	0	0	0	0	0	0	0	0
\$140	\$144	28.40	17.30	6.20	0	0	0	0	0	0	0	0
\$144	\$148	29.20	18.10	7.00	0	0	0	0	0	0	0	0
\$148	\$152	30.00	18.90	7.80	0	0	0	0	0	0	0	0
\$152	\$156	30.80	19.70	8.60	0	0	0	0	0	0	0	0
\$156	\$160	31.60	20.50	9.40	0	0	0	0	0	0	0	0
\$160	\$164	32.40	21.30	10.20	0	0	0	0	0	0	0	0
\$164	\$168	33.20	22.10	11.00	0	0	0	0	0	0	0	0
\$168	\$172	34.00	22.90	11.80	.70	0	0	0	0	0	0	0
\$172	\$176	34.80	23.70	12.60	1.50	0	0	0	0	0	0	0
\$176	\$180	35.60	24.50	13.40	2.30	0	0	0	0	0	0	0
\$180	\$184	36.40	25.30	14.20	3.10	0	0	0	0	0	0	0
\$184	\$188	37.20	26.10	15.00	3.90	0	0	0	0	0	0	0
\$188	\$192	38.00	26.90	15.80	4.70	0	0	0	0	0	0	0
\$192	\$196	38.80	27.70	16.60	5.50	0	0	0	0	0	0	0
\$196	\$200	39.60	28.50	17.40	6.30	0	0	0	0	0	0	0
\$200	\$204	40.40	29.30	18.20	7.10	0	0	0	0	0	0	0
\$204	\$208	41.20	30.10	19.00	7.90	0	0	0	0	0	0	0
\$208	\$212	42.00	30.90	19.80	8.70	0	0	0	0	0	0	0
\$212	\$216	42.80	31.70	20.60	9.50	0	0	0	0	0	0	0
\$216	\$220	43.60	32.50	21.40	10.30	0	0	0	0	0	0	0
\$220	\$224	44.40	33.30	22.20	11.10	0	0	0	0	0	0	0
\$224	\$228	45.20	34.10	23.00	11.90	.80	0	0	0	0	0	0
\$228	\$232	46.00	34.90	23.80	12.70	1.60	0	0	0	0	0	0
\$232	\$236	46.80	35.70	24.60	13.50	2.40	0	0	0	0	0	0
\$236	\$240	47.60	36.50	25.40	14.30	3.20	0	0	0	0	0	0
\$240	\$244	48.40	37.30	26.20	15.10	4.00	0	0	0	0	0	0
\$244	\$248	49.20	38.10	27.00	15.90	4.80	0	0	0	0	0	0
\$248	\$252	50.00	38.90	27.80	16.70	5.60	0	0	0	0	0	0
\$252	\$256	50.80	39.70	28.60	17.50	6.40	0	0	0	0	0	0
\$256	\$260	51.60	40.50	29.40	18.30	7.20	0	0	0	0	0	0
\$260	\$264	52.40	41.30	30.20	19.10	8.00	0	0	0	0	0	0
\$264	\$268	53.20	42.10	31.00	19.90	8.80	0	0	0	0	0	0
\$268	\$272	54.00	42.90	31.80	20.70	9.60	0	0	0	0	0	0
\$272	\$276	54.80	43.70	32.60	21.50	10.40	0	0	0	0	0	0
\$276	\$280	55.60	44.50	33.40	22.30	11.20	0	0	0	0	0	0
\$280	\$284	56.40	45.30	34.20	23.10	12.00	0	0	0	0	0	0
\$284	\$288	57.20	46.10	35.00	23.90	12.80	0	0	0	0	0	0
\$288	\$292	58.00	46.90	35.80	24.70	13.60	0	0	0	0	0	0
\$292	\$296	58.80	47.70	36.60	25.50	14.40	0	0	0	0	0	0
\$296	\$300	59.60	48.50	37.40	26.30	15.20	0	0	0	0	0	0
\$300	\$304	60.40	49.30	38.20	27.10	16.00	0	0	0	0	0	0
\$304	\$308	61.20	50.10	39.00	27.90	16.80	0	0	0	0	0	0
\$308	\$312	62.00	50.90	39.80	28.70	17.60	0	0	0	0	0	0
\$312	\$316	62.80	51.70	40.60	29.50	18.40	0	0	0	0	0	0
\$316	\$320	63.60	52.50	41.40	30.30	19.20	0	0	0	0	0	0
\$320	\$324	64.40	53.30	42.20	31.10	20.00	0	0	0	0	0	0
\$324	\$328	65.20	54.10	43.00	31.90	20.80	0	0	0	0	0	0
\$328	\$332	66.00	54.90	43.80	32.70	21.60	0	0	0	0	0	0
\$332	\$336	66.80	55.70	44.60	33.50	22.40	0	0	0	0	0	0
\$336	\$340	67.60	56.50	45.40	34.30	23.20	0	0	0	0	0	0
\$340	\$344	68.40	57.30	46.20	35.10	24.00	0	0	0	0	0	0
\$344	\$348	69.20	58.10	47.00	35.90	24.80	0	0	0	0	0	0
\$348	\$352	70.00	58.90	47.80	36.70	25.60	0	0	0	0	0	0
\$352	\$356	70.80	59.70	48.60	37.50	26.40	0	0	0	0	0	0
\$356	\$360	71.60	60.50	49.40	38.30	27.20	0	0	0	0	0	0
\$360	\$364	72.40	61.30	50.20	39.10	28.00	0	0	0	0	0	0
\$364	\$368	73.20	62.10	51.00	39.90	28.80	0	0	0	0	0	0
\$368	\$372	74.00	62.90	51.80	40.70	29.60	0	0	0	0	0	0
\$372	\$376	74.80	63.70	52.60	41.50	30.40	0	0	0	0	0	0
\$376	\$380	75.60	64.50	53.40	42.30	31.20	0	0	0	0	0	0
\$380	\$384	76.40	65.30	54.20	43.10	32.00	0	0	0	0	0	0
\$384	\$388	77.20	66.10	55.00	43.90	32.80	0	0	0	0	0	0
\$388	\$392	78.00	66.90	55.80	44.70	33.60	0	0	0	0	0	0
\$392	\$396	78.80	67.70	56.60	45.50	34.40	0	0	0	0	0	0
\$396	\$400	79.60	68.50	57.40	46.30	35.20	0	0	0	0	0	0
\$400	\$404	80.40	69.30	58.20	47.10	36.00	0	0	0	0	0	0
\$404	\$408	81.20	70.10	59.00	47.90	36.80	0	0	0	0	0	0
\$408	\$412	82.00	70.90	59.80	48.70	37.60	0	0	0	0	0	0
\$412	\$416	82.80	71.70	60.60	49.50	38.40	0	0	0	0	0	0
\$416	\$420	83.60	72.50	61.40	50.30	39.20	0	0	0	0	0	0
\$420	\$424	84.40	73.30	62.20	51.10	40.00	0	0	0	0	0	0
\$424	\$428	85.20	74.10	63.00	51.90	40.80	0	0	0	0	0	0
\$428	\$432	86.00	74.90	63.80	52.70	41.60	0	0	0	0	0	0
\$432	\$436	86.80	75.70	64.60	53.50	42.40	0	0	0	0	0	0
\$436	\$440	87.60	76.50	65.40	54.30	43.20	0	0	0	0	0	0
\$440	\$444	88.40	77.30	66.20	55.10	44.00	0	0	0	0	0	0
\$444	\$448	89.20	78.10	67.00	55.90	44.80	0	0	0	0	0	0
\$448	\$452	90.00	78.90	67.80	56.70	45.60	0	0	0	0	0	0
\$452	\$456	90.80	79.70	68.60	57.50	46.40	0	0	0	0	0	0
\$456	\$460	91.60										

“If the payroll period with respect to an employee is a daily payroll period or a miscellaneous payroll period

And the wages divided by the number of days in such period are—		And the number of withholding exemptions claimed is—										
		0	1	2	3	4	5	6	7	8	9	10 or more
At least—	But less than—	The amount of tax to be withheld shall be the following amount multiplied by the number of days in such period—										
\$0	\$2.00	10% of wages	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$2.00	\$2.25	\$0.40	.05	0	0	0	0	0	0	0	0	0
\$2.25	\$2.50	.45	.10	0	0	0	0	0	0	0	0	0
\$2.50	\$2.75	.50	.15	0	0	0	0	0	0	0	0	0
\$2.75	\$3.00	.55	.20	0	0	0	0	0	0	0	0	0
\$3.00	\$3.25	.60	.25	0	0	0	0	0	0	0	0	0
\$3.25	\$3.50	.65	.30	0	0	0	0	0	0	0	0	0
\$3.50	\$3.75	.70	.35	0	0	0	0	0	0	0	0	0
\$3.75	\$4.00	.75	.40	.05	0	0	0	0	0	0	0	0
\$4.00	\$4.25	.80	.45	.10	0	0	0	0	0	0	0	0
\$4.25	\$4.50	.85	.50	.15	0	0	0	0	0	0	0	0
\$4.50	\$4.75	.90	.55	.20	0	0	0	0	0	0	0	0
\$4.75	\$5.00	.95	.60	.25	0	0	0	0	0	0	0	0
\$5.00	\$5.25	1.00	.65	.30	0	0	0	0	0	0	0	0
\$5.25	\$5.50	1.05	.70	.35	0	0	0	0	0	0	0	0
\$5.50	\$5.75	1.10	.75	.40	.05	0	0	0	0	0	0	0
\$5.75	\$6.00	1.15	.80	.45	.10	0	0	0	0	0	0	0
\$6.00	\$6.25	1.20	.85	.50	.15	0	0	0	0	0	0	0
\$6.25	\$6.50	1.25	.90	.55	.20	0	0	0	0	0	0	0
\$6.50	\$6.75	1.30	.95	.60	.25	0	0	0	0	0	0	0
\$6.75	\$7.00	1.35	1.00	.65	.30	0	0	0	0	0	0	0
\$7.00	\$7.25	1.40	1.05	.70	.35	0	0	0	0	0	0	0
\$7.25	\$7.50	1.45	1.10	.75	.40	0	0	0	0	0	0	0
\$7.50	\$7.75	1.50	1.15	.80	.45	.05	0	0	0	0	0	0
\$7.75	\$8.00	1.55	1.20	.85	.50	.10	0	0	0	0	0	0
\$8.00	\$8.25	1.60	1.25	.90	.55	.15	0	0	0	0	0	0
\$8.25	\$8.50	1.65	1.30	.95	.60	.20	0	0	0	0	0	0
\$8.50	\$8.75	1.70	1.35	1.00	.65	.25	0	0	0	0	0	0
\$8.75	\$9.00	1.75	1.40	1.05	.70	.30	0	0	0	0	0	0
\$9.00	\$9.25	1.80	1.45	1.10	.75	.35	0	0	0	0	0	0
\$9.25	\$9.50	1.85	1.50	1.15	.80	.40	.05	0	0	0	0	0
\$9.50	\$9.75	1.90	1.55	1.20	.85	.45	.10	0	0	0	0	0
\$9.75	\$10.00	1.95	1.60	1.25	.90	.50	.15	0	0	0	0	0
\$10.00	\$10.50	2.05	1.70	1.30	.95	.60	.20	0	0	0	0	0
\$10.50	\$11.00	2.15	1.80	1.40	1.05	.70	.30	0	0	0	0	0
\$11.00	\$11.50	2.25	1.90	1.50	1.15	.80	.40	.05	0	0	0	0
\$11.50	\$12.00	2.35	2.00	1.60	1.25	.90	.50	.15	0	0	0	0
\$12.00	\$12.50	2.45	2.10	1.70	1.35	1.00	.60	.25	0	0	0	0
\$12.50	\$13.00	2.55	2.20	1.80	1.45	1.10	.70	.35	0	0	0	0
\$13.00	\$13.50	2.65	2.30	1.90	1.55	1.20	.80	.45	.10	0	0	0
\$13.50	\$14.00	2.75	2.40	2.00	1.65	1.30	.90	.55	.20	0	0	0
\$14.00	\$14.50	2.85	2.50	2.10	1.75	1.40	1.00	.65	.30	0	0	0
\$14.50	\$15.00	2.95	2.60	2.20	1.85	1.50	1.10	.75	.40	.05	0	0
\$15.00	\$15.50	3.05	2.70	2.30	1.95	1.60	1.20	.85	.50	.15	0	0
\$15.50	\$16.00	3.15	2.80	2.40	2.05	1.70	1.30	.95	.60	.25	0	0
\$16.00	\$16.50	3.25	2.90	2.50	2.15	1.80	1.40	1.05	.70	.35	0	0
\$16.50	\$17.00	3.35	3.00	2.60	2.25	1.90	1.50	1.15	.80	.45	.05	0
\$17.00	\$17.50	3.45	3.10	2.70	2.35	2.00	1.60	1.25	.90	.55	.15	0
\$17.50	\$18.00	3.55	3.20	2.80	2.45	2.10	1.70	1.35	1.00	.65	.25	0
\$18.00	\$18.50	3.65	3.30	2.90	2.55	2.20	1.80	1.45	1.10	.75	.35	0
\$18.50	\$19.00	3.75	3.40	3.00	2.65	2.30	1.90	1.55	1.20	.85	.45	.10
\$19.00	\$19.50	3.85	3.50	3.10	2.75	2.40	2.00	1.65	1.30	.95	.55	.20
\$19.50	\$20.00	3.95	3.60	3.20	2.85	2.50	2.10	1.75	1.40	1.05	.65	.30
\$20.00	\$21.00	4.10	3.75	3.35	3.00	2.65	2.25	1.90	1.55	1.20	.80	.45
\$21.00	\$22.00	4.30	3.95	3.55	3.20	2.85	2.45	2.10	1.75	1.40	1.00	.65
\$22.00	\$23.00	4.50	4.15	3.75	3.40	3.05	2.65	2.30	1.95	1.60	1.20	.85
\$23.00	\$24.00	4.70	4.35	3.95	3.60	3.25	2.85	2.50	2.15	1.80	1.40	1.05
\$24.00	\$25.00	4.90	4.55	4.15	3.80	3.45	3.05	2.70	2.35	2.00	1.60	1.25
\$25.00	\$26.00	5.10	4.75	4.35	4.00	3.65	3.25	2.90	2.55	2.20	1.80	1.45
\$26.00	\$27.00	5.30	4.95	4.55	4.20	3.85	3.45	3.10	2.75	2.40	2.00	1.65
\$27.00	\$28.00	5.50	5.15	4.75	4.40	4.05	3.65	3.30	2.95	2.60	2.20	1.85
\$28.00	\$29.00	5.70	5.35	4.95	4.60	4.25	3.85	3.50	3.15	2.80	2.40	2.05
\$29.00	\$30.00	5.90	5.55	5.15	4.80	4.45	4.05	3.70	3.35	3.00	2.60	2.25
\$30 and over		20 percent of the excess over \$30 plus—										
		6.00	5.65	5.25	4.90	4.55	4.15	3.80	3.45	3.10	2.70	2.35

1 “(B) Wages paid after December 31, 1953.—

2 At the election of the employer with respect to any

3 employee, the employer shall deduct and withhold

4 upon the wages paid to such employee after Decem-

ber 31, 1953, a tax determined in accordance with the following tables, which shall be in lieu of the tax required to be deducted and withheld under subsection (a):”.

SEC. (24)²²³ 203. ADDITIONAL WITHHOLDING OF TAX ON WAGES UPON AGREEMENT BY EMPLOYER AND EMPLOYEE.

Section 1622 (relating to income tax collected at source on wages) is hereby amended by adding at the end thereof the following new subsection:

“(k) ADDITIONAL WITHHOLDING.—The Secretary is authorized by regulations to provide, under such conditions and to such extent as he deems proper, for withholding in addition to that otherwise required under this section in cases in which the employer and the employee agree (in such form as the Secretary may by regulations prescribe) to such additional withholding. Such additional withholding shall for all purposes be considered tax required to be deducted and withheld under this subchapter.”

SEC. (25)²²⁴ 204. EFFECTIVE DATE.

The amendments made by this (26)^{part} title shall be applicable only with respect to wages paid on or after (27)^{September} November 1, 1951.

TITLE III—MISCELLANEOUS INCOME TAX AMENDMENTS

SEC. 301. TAX TREATMENT IN CASE OF HEAD OF HOUSEHOLD.

(a) SURTAX IN CASE OF HEAD OF HOUSEHOLD.—Section 12 (c) is hereby amended to read as follows:

(28)“(c) HEAD OF HOUSEHOLD.—

“(1) RATES OF SURTAX.—In the case of taxable years beginning after August 31, 1951, there shall be levied, collected, and paid for each taxable year upon the surtax net income of every individual who is the head of a household the surtax shown in the following table:

If the surtax net income is:	The surtax shall be:
Not over \$2,000-----	17% of the surtax net income.
Over \$2,000 but not over \$4,000---	\$240, plus 18% of excess over \$2,000.
Over \$4,000 but not over \$6,000---	\$700, plus 21% of excess over \$4,000.
Over \$6,000 but not over \$8,000---	\$1,120, plus 23% of excess over \$6,000.
Over \$8,000 but not over \$10,000--	\$1,580, plus 27% of excess over \$8,000.
Over \$10,000 but not over \$12,000--	\$2,120, plus 29% of excess over \$10,000.
Over \$12,000 but not over \$14,000--	\$2,700, plus 33% of excess over \$12,000.
Over \$14,000 but not over \$16,000--	\$3,360, plus 36% of excess over \$14,000.
Over \$16,000 but not over \$18,000--	\$4,080, plus 39% of excess over \$16,000.
Over \$18,000 but not over \$20,000--	\$4,860, plus 40% of excess over \$18,000.
Over \$20,000 but not over \$22,000--	\$5,660, plus 44% of excess over \$20,000.

If the surtax net income is:	The surtax shall be:
Over \$22,000 but not over \$24,000.	\$6,540, plus 46% of excess over \$22,000.
Over \$24,000 but not over \$26,000.	\$7,460, plus 48% of excess over \$24,000.
Over \$26,000 but not over \$28,000.	\$8,420, plus 49% of excess over \$26,000.
Over \$28,000 but not over \$32,000.	\$9,400, plus 52% of excess over \$28,000.
Over \$32,000 but not over \$36,000.	\$11,480, plus 54% of excess over \$32,000.
Over \$36,000 but not over \$40,000.	\$13,640, plus 57% of excess over \$36,000.
Over \$40,000 but not over \$44,000.	\$15,920, plus 60% of excess over \$40,000.
Over \$44,000 but not over \$50,000.	\$18,320, plus 62% of excess over \$44,000.
Over \$50,000 but not over \$60,000.	\$22,040, plus 65% of excess over \$50,000.
Over \$60,000 but not over \$70,000.	\$28,540, plus 68% of excess over \$60,000.
Over \$70,000 but not over \$80,000.	\$35,340, plus 71% of excess over \$70,000.
Over \$80,000 but not over \$90,000.	\$42,440, plus 74% of excess over \$80,000.
Over \$90,000 but not over \$100,000.	\$49,840, plus 76% of excess over \$90,000.
Over \$100,000 but not over \$120,000.	\$57,440, plus 79% of excess over \$100,000.
Over \$120,000 but not over \$150,000.	\$73,240, plus 81% of excess over \$120,000.
Over \$150,000 but not over \$160,000.	\$97,540, plus 83% of excess over \$150,000.
Over \$160,000 but not over \$180,000.	\$105,840, plus 84% of excess over \$160,000.
Over \$180,000 but not over \$200,000.	\$122,640, plus 85% of excess over \$180,000.
Over \$200,000 but not over \$300,000.	\$139,640, plus 87% of excess over \$200,000.
Over \$300,000 -----	\$226,640, plus 88% of excess over \$300,000.

- 1 In the case of the head of a household whose surtax
- 2 net income for the taxable year is over \$90,000, this
- 3 paragraph shall not apply if the defense tax provided in
- 4 section 16 is applicable to such taxable year. For per-
- 5 centage increase in the amount of tax imposed by this
- 6 subsection, see section 16.

“(2) **SURTAX NET INCOME OVER \$9,000.**—In the case of a taxable year beginning after August 31, 1951, to which the defense tax provided in section 16 is applicable, if the surtax net income for the taxable year of an individual who is the head of a household is over \$90,000, there shall be levied, collected, and paid for such taxable year upon the surtax net income of such individual the surtax shown in the following table:

If the surtax net income is:		The surtax shall be:	
Over \$90,000 but not over \$100,000.	but not over	\$19,810, plus 75% of excess over \$90,000.	over
Over \$100,000 but not over \$120,000.	but not over	\$57,310, plus 76% of excess over \$100,000.	over
Over \$120,000 but not over \$140,000.	but not over	\$72,510, plus 78% of excess over \$120,000.	over
Over \$140,000 but not over \$160,000.	but not over	\$88,110, plus 80% of excess over \$140,000.	over
Over \$160,000 -----		\$104,110, plus 81% of excess over \$160,000.	over

“(c) **RATES OF SURTAX—HEAD OF HOUSEHOLD.**—

“(1) **TAXABLE YEARS BEGINNING AFTER OCTOBER 31, 1951 AND BEFORE JANUARY 1, 1954.**—In the case of taxable years beginning after October 31, 1951, and before January 1, 1954, there shall be levied, collected, and paid for each taxable year upon the surtax net income of every individual who is the head of a household the surtax shown in the following table:

If the surtax net income is:		The surtax shall be:	
Not over \$2,000-----		19.2% of the surtax net income.	
Over \$2,000 but not over \$4,000---		\$384, plus 20.8% of excess over \$2,000.	
Over \$4,000 but not over \$6,000---		\$800, plus 25% of excess over \$4,000.	

<i>"If the surtax net income is:</i>	<i>The surtax shall be:</i>
<i>Over \$6,000 but not over \$8,000---</i>	<i>\$1,300, plus 28% of excess over \$6,000.</i>
<i>Over \$8,000 but not over \$10,000--</i>	<i>\$1,860, plus 33% of excess over \$8,000.</i>
<i>Over \$10,000 but not over \$12,000-</i>	<i>\$2,520, plus 35% of excess over \$10,000.</i>
<i>Over \$12,000 but not over \$14,000-</i>	<i>\$3,220, plus 41% of excess over \$12,000.</i>
<i>Over \$14,000 but not over \$16,000-</i>	<i>\$4,040, plus 45% of excess over \$14,000.</i>
<i>Over \$16,000 but not over \$18,000-</i>	<i>\$4,940, plus 48% of excess over \$16,000.</i>
<i>Over \$18,000 but not over \$20,000-</i>	<i>\$5,900, plus 51% of excess over \$18,000.</i>
<i>Over \$20,000 but not over \$22,000-</i>	<i>\$6,920, plus 54% of excess over \$20,000.</i>
<i>Over \$22,000 but not over \$24,000-</i>	<i>\$8,000, plus 56% of excess over \$22,000.</i>
<i>Over \$24,000 but not over \$28,000-</i>	<i>\$9,120, plus 58% of excess over \$24,000.</i>
<i>Over \$28,000 but not over \$32,000-</i>	<i>\$11,440, plus 60% of excess over \$28,000.</i>
<i>Over \$32,000 but not over \$36,000-</i>	<i>\$13,840, plus 62% of excess over \$32,000.</i>
<i>Over \$36,000 but not over \$40,000-</i>	<i>\$16,320, plus 64% of excess over \$36,000.</i>
<i>Over \$40,000 but not over \$44,000-</i>	<i>\$18,880, plus 67% of excess over \$40,000.</i>
<i>Over \$44,000 but not over \$50,000-</i>	<i>\$21,560, plus 68% of excess over \$44,000.</i>
<i>Over \$50,000 but not over \$60,000-</i>	<i>\$25,640, plus 71% of excess over \$50,000.</i>
<i>Over \$60,000 but not over \$70,000-</i>	<i>\$32,740, plus 74% of excess over \$60,000.</i>
<i>Over \$70,000 but not over \$80,000-</i>	<i>\$40,140, plus 76% of excess over \$70,000.</i>
<i>Over \$80,000 but not over \$90,000-</i>	<i>\$47,740, plus 79% of excess over \$80,000.</i>
<i>Over \$90,000 but not over \$100,000-</i>	<i>\$55,640, plus 81% of excess over \$90,000.</i>
<i>Over \$100,000 but not over \$130,000.</i>	<i>\$63,740, plus 84% of excess over \$100,000.</i>
<i>Over \$130,000 but not over \$160,000.</i>	<i>\$88,940, plus 85% of excess over \$130,000.</i>
<i>Over \$160,000 but not over \$200,000.</i>	<i>\$114,440, plus 87% of excess over \$160,000.</i>
<i>Over \$200,000 but not over \$250,000.</i>	<i>\$149,240, plus 88% of excess over \$200,000.</i>
<i>Over \$250,000-----</i>	<i>\$193,240, plus 88.7% of excess over \$250,000.</i>

1 “(2) TAXABLE YEARS BEGINNING AFTER DECEM-
2 BER 31, 1953.—In the case of taxable years beginning

- 1 after December 31, 1953, there shall be levied, collected,
 2 and paid for each taxable year upon the surtax net
 3 income of every individual who is the head of a household
 4 the surtax shown in the following table:

<i>"If the surtax net income is:</i>	<i>The surtax shall be:</i>
<i>Not over \$2,000-----</i>	<i>17% of the surtax net income.</i>
<i>Over \$2,000 but not over \$4,000----</i>	<i>\$340, plus 18.5% of excess over \$2,000.</i>
<i>Over \$4,000 but not over \$6,000----</i>	<i>\$710, plus 22% of excess over \$4,000.</i>
<i>Over \$6,000 but not over \$8,000----</i>	<i>\$1,150, plus 25% of excess over \$6,000.</i>
<i>Over \$8,000 but not over \$10,000----</i>	<i>\$1,650, plus 29% of excess over \$8,000.</i>
<i>Over \$10,000 but not over \$12,000----</i>	<i>\$2,230, plus 32% of excess over \$10,000.</i>
<i>Over \$12,000 but not over \$14,000----</i>	<i>\$2,870, plus 37% of excess over \$12,000.</i>
<i>Over \$14,000 but not over \$16,000----</i>	<i>\$3,610, plus 40% of excess over \$14,000.</i>
<i>Over \$16,000 but not over \$18,000----</i>	<i>\$4,410, plus 43% of excess over \$16,000.</i>
<i>Over \$18,000 but not over \$20,000----</i>	<i>\$5,270, plus 45% of excess over \$18,000.</i>
<i>Over \$20,000 but not over \$22,000----</i>	<i>\$6,170, plus 48% of excess over \$20,000.</i>
<i>Over \$22,000 but not over \$24,000----</i>	<i>\$7,130, plus 51% of excess over \$22,000.</i>
<i>Over \$24,000 but not over \$26,000----</i>	<i>\$8,150, plus 52% of excess over \$24,000.</i>
<i>Over \$26,000 but not over \$28,000----</i>	<i>\$9,190, plus 54% of excess over \$26,000.</i>
<i>Over \$28,000 but not over \$32,000----</i>	<i>\$10,270, plus 55% of excess over \$28,000.</i>
<i>Over \$32,000 but not over \$38,000----</i>	<i>\$12,470, plus 59% of excess over \$32,000.</i>
<i>Over \$38,000 but not over \$44,000----</i>	<i>\$16,010, plus 62% of excess over \$38,000.</i>
<i>Over \$44,000 but not over \$50,000----</i>	<i>\$19,730, plus 66% of excess over \$44,000.</i>
<i>Over \$50,000 but not over \$60,000----</i>	<i>\$23,690, plus 69% of excess over \$50,000.</i>
<i>Over \$60,000 but not over \$70,000----</i>	<i>\$30,590, plus 71% of excess over \$60,000.</i>
<i>Over \$70,000 but not over \$80,000----</i>	<i>\$37,690, plus 74% of excess over \$70,000.</i>
<i>Over \$80,000 but not over \$90,000----</i>	<i>\$45,090, plus 78% of excess over \$80,000.</i>
<i>Over \$90,000 but not over \$100,000----</i>	<i>\$52,890, plus 80% of excess over \$90,000.</i>
<i>Over \$100,000 but not over \$110,000----</i>	<i>\$60,890, plus 82% of excess over \$100,000.</i>

"If the surtax net income is:***The surtax shall be:***

<i>Over \$110,000 but not over \$130,000.</i>	<i>over \$69,090, plus 83% of excess over \$110,000.</i>
<i>Over \$130,000 but not over \$150,000.</i>	<i>over \$85,690, plus 84% of excess over \$130,000.</i>
<i>Over \$150,000 but not over \$170,000.</i>	<i>over \$102,490, plus 85% of excess over \$150,000.</i>
<i>Over \$170,000 but not over \$200,000.</i>	<i>over \$119,490, plus 86% of excess over \$170,000.</i>
<i>Over \$200,000 but not over \$250,000.</i>	<i>over \$145,290, plus 87% of excess over \$200,000.</i>
<i>Over \$250,000-----</i>	<i>\$188,790, plus 88% of excess over \$250,000.</i>

1 “(3) DEFINITION OF HEAD OF HOUSEHOLD.—For
2 the purposes of this chapter, an individual shall be
3 considered a head of a household if, and only if, such
4 individual is not married at the close of his taxable year
5 and maintains as his home a household which constitutes
6 for such taxable year the principal place of abode, as a
7 member of such household, of:

8 “(A) (29) ~~A son or daughter (including a step-~~
9 ~~son or stepdaughter)~~ of the taxpayer, or a descend-
10 ~~ant of such son or daughter, but if such son, daughter,~~
11 A son, stepson, daughter, or stepdaughter of the tax-
12 payer, or a descendant of a son or daughter of the
13 taxpayer, but if such son, stepson, daughter, step-
14 daughter, or descendant is married at the close of the
15 taxpayer's taxable year, only if the taxpayer is en-
16 titled to an exemption for the taxable year for such
17 person under section 25 (b) ; or

18 “(B) Any other person who is a dependent
19 of the taxpayer, if the taxpayer is entitled to an

1 exemption for the taxable year for such person
2 under section 25 (b).

3 An individual shall be considered as maintaining a house-
4 hold only if over half of the cost of maintaining the
5 household during the taxable year is furnished by such
6 individual.

7 “(4) DETERMINATION OF STATUS.—For the pur-
8 poses of this subsection—

9 “(A) a legally adopted child of a person shall
10 be considered a child of such person by blood;

11 “(B) an individual who is legally separated
12 from his spouse under a decree of divorce or of
13 separate maintenance shall not be considered as
14 married;

15 “(C) a taxpayer shall be considered as not
16 married at the close of his taxable year if at any
17 time during the taxable year his spouse is a non-
18 resident alien; and

19 “(D) a taxpayer shall be considered as married
20 at the close of his taxable year if his spouse (other
21 than a spouse described in subparagraph (C)) died
22 during the taxable year.

23 “(5) NONRESIDENT ALIEN.—For the purposes of
24 this chapter a taxpayer shall in no case be considered

1 a head of a household if at any time during the taxable
2 year he is a nonresident alien.”

3 **(30)(b) EFFECTIVE DATE.**—The amendment made by sub-
4 section ~~(a)~~ shall be applicable only with respect to taxable
5 years beginning after August 31, 1951.

6 **(b) COMPUTATION OF TAX BY COLLECTOR.**—

7 (1) Section 51 (f) (1) (relating to tax computed
8 by collector in case of wage earners) is hereby amended
9 by adding at the end thereof the following: “In the case
10 of a head of a household electing the benefits of this
11 subsection, the tax shall be computed by the collector
12 under Supplement T without regard to the taxpayer’s
13 status as head of a household.”

14 (2) Section 402 (relating to effect of election to
15 pay the tax imposed by Supplement T) is hereby
16 amended by adding at the end thereof the following:
17 “In the case of a head of a household electing to have
18 his tax computed by the collector pursuant to the pro-
19 visions of section 51 (f), the tax imposed by section 400
20 shall be computed without regard to the status of the
21 taxpayer as a head of a household.”

22 **(c) EFFECTIVE DATE.**—The amendments made by this
23 section shall be applicable only with respect to taxable years
24 beginning after October 31, 1951.

1 **(31)**SEC. 302. PAYMENTS TO BENEFICIARIES OF DECEASED
2 EMPLOYEES.

3 (a) AMENDMENT OF SECTION 22 (b) (1).—Section
4 22 (b) (1) (relating to exclusion of life insurance proceeds
5 from gross income) is hereby amended to read as follows:

6 “(1) LIFE INSURANCE, ETC.—Amounts received—

7 “(A) under a life insurance contract, paid by
8 reason of the death of the insured; or

9 “(B) under a contract of an employer pro-
10 viding for the payment of such amounts to the
11 beneficiaries of an employee, paid by reason of the
12 death of the employee;

13 whether in a single sum or otherwise (but if such
14 amounts are held by the insurer, or the employer, under
15 an agreement to pay interest thereon, the interest pay-
16 ments shall be included in gross income). The aggregate
17 of the amounts excludible under subparagraph (B) by
18 all the beneficiaries of the employee under all such con-
19 tracts of any one employer may not exceed \$5,000.”

20 (b) EFFECTIVE DATE.—The amendment made by this
21 section shall be applicable with respect to taxable years be-
22 ginning after December 31, 1950.

23 **(32)**SEC. 303. JOINT AND SURVIVOR ANNUITIES.

24 (a) AMENDMENT OF SECTION 22 (b) (2).—Section

1 22 (b) (2) is amended by adding at the end thereof the
2 following new subparagraph:

3 “(C) *Joint and Survivor Annuities.*—For pur-
4 poses of subparagraphs (A) and (B) of this para-
5 graph, where amounts are received by a surviving
6 annuitant under a joint and survivor’s annuity con-
7 tract and the basis of such survivor annuitant’s
8 interest is determined under section 113 (a) (5)
9 the consideration paid for such survivor’s annuity
10 shall be considered to be an amount equal to such
11 basis.”

12 (b) *AMENDMENT OF SECTION 113 (a) (5).*—Section
13 113 (a) (5) is amended by adding at the end thereof the
14 following: “For the purposes of this paragraph, the survivor’s
15 interest in a joint and survivor’s annuity shall be considered
16 to be property ‘acquired by bequest, devise, or inheritance’
17 from the decedent if the death of the decedent was after
18 December 31, 1950, and if the value of any part of such
19 interest was required to be included in determining the value
20 of the decedent’s gross estate under section 811.”

21 (c) *EFFECTIVE DATES.*—The amendments made by this
22 section shall be applicable to taxable years ending after
23 December 31, 1950.

1 **(33) SEC. 304. INCOME FROM DISCHARGE OF INDEBTEDNESS.**

2 (a) *AMENDMENT OF SECTION 22 (b) (9).*—Effective
 3 with respect to discharges of indebtedness occurring within
 4 taxable years ending after December 31, 1950, section 22
 5 (b) (9) (relating to income from discharge of indebtedness)
 6 is hereby amended (1) by striking out “if the taxpayer
 7 makes and files at the time of filing the return, in such
 8 manner as the Commissioner, with the approval of the Secre-
 9 tary, by regulations prescribes, its consent” and inserting in
 10 lieu thereof “if the taxpayer, at such time and in such
 11 manner as the Secretary by regulations prescribes, makes
 12 and files its consent”, and (2) by striking out the last sen-
 13 tence thereof.

14 (b) *AMENDMENT OF SECTION 22 (b) (10).*—Section
 15 22 (b) (10) (relating to income from discharge of indebted-
 16 ness of a railroad corporation) is hereby amended by striking
 17 out “December 31, 1951” and inserting in lieu thereof “De-
 18 cember 31, 1954”.

19 **(34) SEC. 305. COMPENSATION OF CERTAIN MEMBERS OF THE**
 20 **ARMED FORCES.**

21 (a) *AMENDMENT OF SECTION 22 (b) (13).*—Section
 22 22 (b) (13) (relating to exclusion from gross income of
 23 compensation of certain members of the armed forces) is

1 *hereby amended by striking out subparagraphs (A) and*
2 *(B) and inserting in lieu thereof the following:*

3 “(A) *Enlisted Personnel.—Compensation re-*
4 *ceived for active service as a member below the*
5 *grade of commissioned officer in the armed forces*
6 *of the United States for any month during any*
7 *part of which such member—*

8 “(i) *served in a combat zone after June*
9 *24, 1950, and prior to January 1, 1954, or*

10 “(ii) *was hospitalized as a result of*
11 *wounds, disease, or injury incurred while serv-*
12 *ing in a combat zone prior to January 1, 1954;*
13 *but this clause shall not apply for any month*
14 *during any part of which there are no combat-*
15 *ant activities in any combat zone as determined*
16 *under subparagraph (C) (iii) of this para-*
17 *graph.*

18 “(B) *Commissioned Officers.—So much of the*
19 *compensation as does not exceed \$200 received for*
20 *active service as a commissioned officer in the armed*
21 *forces of the United States for any month during*
22 *any part of which such officer—*

23 “(i) *served in a combat zone after June*
24 *24, 1950, and prior to January 1, 1954, or*

25 “(ii) *was hospitalized as a result of wounds,*

disease, or injury incurred while serving in a combat zone prior to January 1, 1954; but this clause shall not apply for any month during any part of which there are no combatant activities in any combat zone as determined under subparagraph (C) (iii) of this paragraph."

(b) *DEFINITION OF SERVICE IN COMBAT ZONE.*—

Clause (iii) of section 22 (b) (13) (C) is hereby amended by striking out "such zone; and" and inserting in lieu thereof "such zone, except that June 25, 1950, shall be considered the date of the commencing of combatant activities in the combat zone designated in Executive Order 10195; and".

(c) *WITHHOLDING ON WAGES.*—Section 1621 (a)

(1) (relating to definition of the term "wages") is hereby amended to read as follows:

"(1) for active service as a member of the armed forces of the United States performed prior to January 1, 1954, in a month for which such member is entitled to the benefits of section 22 (b) (13), or".

(d) *EFFECTIVE DATES.*—The amendments made by

subsections (a) and (b) shall be applicable to taxable years ending after June 24, 1950. The amendment made by subsection (c) shall be applicable with respect to wages paid after the tenth day following the date of the enactment of this Act.

1 (35)SEC. 306. INVOLUNTARY LIQUIDATION AND REPLACE-
2 MENT OF INVENTORY.

3 (a) AMENDMENT OF SECTION 22 (d) (6) (F) (iii).—
4 Section 22 (d) (6) (F) (iii) (relating to replacement of
5 inventory involuntarily liquidated) is hereby amended by
6 striking out the last sentence and inserting in lieu thereof
7 the following: "If, for any taxable year ending after June
8 30, 1950, and prior to January 1, 1953, subparagraph
9 (C) is applicable with respect to involuntary liquidations
10 of goods of the same class subject to the provisions of both
11 subparagraph (A) and this subparagraph, the involuntary
12 liquidations of such goods subject to the provisions of this
13 subparagraph shall be considered for the purpose of sub-
14 paragraph (C) as having occurred prior to the involuntary
15 liquidations of such goods subject to the provisions of sub-
16 paragraph (A). For the purpose of this clause, and with
17 respect to the taxable years covered by this subparagraph, the
18 reference in subparagraph (E) to section 734 (d) shall be
19 taken as a reference to section 452 (d)."

(b) *EFFECTIVE DATE.*—The amendment made by subsection (a) shall be applicable with respect to taxable years ending after June 30, 1950.

23 (36)SEC. 307. MEDICAL EXPENSES.

24 (a) AMENDMENT OF SECTION 23 (x).—Section 23

1 (x) (relating to medical, dental, etc., expenses) is hereby
2 amended to read as follows:

3 “(x) *MEDICAL, DENTAL, ETC., EXPENSES.*—Ex-
4 penses paid during the taxable year, not compensated for by
5 insurance or otherwise, for medical care of the taxpayer, his
6 spouse, or a dependent specified in section 25 (b) (3)—

7 “(1) If neither the taxpayer nor his spouse has
8 attained the age of 65 before the close of the taxable year,
9 to the extent that such expenses exceed 5 per centum of
10 the adjusted gross income; or

11 “(2) If either the taxpayer or his spouse has at-
12 tained the age of 65 before the close of the taxable year,
13 (A) the amount of such expenses for the care of
14 the taxpayer and his spouse, and (B) the amount by
15 which such expenses for the care of such dependents
16 exceed 5 per centum of the adjusted gross income.

17 The deduction under this subsection shall not be in excess of
18 \$1,250 multiplied by the number of exemptions allowed under
19 section 25 (b) for the taxable year (exclusive of exemptions
20 allowed under section 25 (b) (1) (B) or (C)), with a
21 maximum deduction of \$2,500, except that the maximum de-
22 duction shall be \$5,000 in the case of a joint return of hus-
23 band and wife under section 51 (b). The term ‘medical
24 care’, as used in this subsection, shall include amounts paid

1 for the diagnosis, cure, mitigation, treatment, or prevention of
 2 disease, or for the purpose of affecting any structure or
 3 function of the body (including amounts paid for accident
 4 or health insurance). The determination of whether an indi-
 5 vidual is married at any time during the taxable year shall
 6 be made in accordance with the provisions of section 51
 7 (b) (5).”

8 (b) *EFFECTIVE DATE.*—The amendment made by
 9 this section shall be applicable with respect to taxable years
 10 beginning after December 31, 1950.

11 **(37) SEC. 308. STANDARD DEDUCTION.**

12 (a) *METHOD OF ELECTION.*—Subparagraphs (A) and
 13 (B) of section 23 (aa) (3) (relating to optional standard
 14 deduction for individuals) are hereby amended by striking
 15 out the word “only”; and subparagraph (C) of section 23
 16 (aa) (3) is hereby amended to read as follows:

17 “(C) If the taxpayer upon making his return
 18 fails to signify, in the manner provided by sub-
 19 paragraph (A) or (B), his election to take the
 20 standard deduction, such failure shall be considered
 21 his election not to take the standard deduction.”

22 (b) *CHANGE OF ELECTION.*—Section 23 (aa) is
 23 hereby amended by adding at the end thereof the following
 24 new paragraph:

25 “(7) *CHANGE OF ELECTION.*—Under regulations

1 *prescribed by the Secretary, a change of an election to*
2 *take, or not to take, the standard deduction for any tax-*
3 *able year may be made after the filing of the return for*
4 *such year. If the spouse of the taxpayer filed a separate*
5 *return for any taxable year corresponding, for the pur-*
6 *poses of paragraph (4), to the taxable year of the tax-*
7 *payer, the change shall not be allowed unless, in accord-*
8 *ance with such regulations—*

9 *“(A) the spouse makes a change of election*
10 *with respect to the standard deduction for the tax-*
11 *able year covered in such separate return, consistent*
12 *with the change of election sought by the taxpayer,*
13 *and*

14 *“(B) the taxpayer and his spouse consent in*
15 *writing to the assessment, within such period as*
16 *may be agreed upon with the Secretary, of any de-*
17 *ficiency, to the extent attributable to such change of*
18 *election, even though at the time of the filing of*
19 *such consent the assessment of such deficiency would*
20 *otherwise be prevented by the operation of any law*
21 *or rule of law.*

22 *This paragraph shall not apply if the tax liability*
23 *of the taxpayer's spouse, for the taxable year correspond-*
24 *ing (for the purposes of paragraph (4)) to the taxable*

1 *year of the taxpayer, has been compromised under the*
2 *provisions of section 3761.”*

3 (c) *EFFECTIVE DATE.*—The amendments made by this
4 section shall be applicable only with respect to taxable years
5 beginning after December 31, 1949.

6 SEC. (38)302 309. EXPENDITURES IN THE DEVELOPMENT
7 OF MINES.

8 **(39)(a) DEDUCTION OF EXPENDITURES.**—Section 23 (a)
9 (1) (relating to deductions from gross income) is hereby
10 amended by adding at the end thereof the following new
11 subparagraph:

“(D) DEVELOPMENT OF MINES.—Expenditures paid or incurred after December 31, 1950, in the development of a mine or other natural deposit (other than an oil or gas well), to the extent paid or incurred after the existence of ores or minerals in commercially marketable quantities has been disclosed, shall be deductible, on a ratable basis, as the units of produced ores or minerals benefited by such expenditures are sold. Such expenditures, and the adjustments to basis provided in section 113 (b) (1) (J), shall not be taken into account in determining the adjusted basis of the property for the purpose of computing depletion under section 114. This subparagraph shall not apply to expend-

itures for the acquisition or improvement of property of a character which is subject to the allowance for depreciation provided in section 23 (1). For purposes of this subparagraph, allowances for depreciation shall be considered as expenditures."

(a) *DEDUCTION OF EXPENDITURES.*—Section 23 (relating to deductions from gross income) is hereby amended by adding at the end thereof the following new subsection:

"(cc) *DEVELOPMENT OF MINES.*—

"(1) *IN GENERAL.*—Except as provided in paragraph (2), all expenditures paid or incurred during the taxable year for the development of a mine or other natural deposit (other than an oil or gas well) if paid or incurred after December 31, 1950, and after the existence of ores or minerals in commercially marketable quantities has been disclosed. This subsection shall not apply to expenditures for the acquisition or improvement of property of a character which is subject to the allowance for depreciation provided in section 23 (1), but allowances for depreciation shall be considered, for the purposes of this subsection, as expenditures.

"(2) *ELECTION OF TAXPAYER.*—At the election of the taxpayer, made in accordance with regulations prescribed by the Secretary, expenditures described in paragraph (1) paid or incurred during the taxable

1 year shall be treated as deferred expenses and shall
2 be deductible on a ratable basis as the units of pro-
3 duced ores or minerals benefited by such expenditures
4 are sold. In the case of such expenditures paid or
5 incurred during the development stage of the mine or
6 deposit, the election shall apply only with respect to the
7 excess of such expenditures during the taxable year over
8 the net receipts during the taxable year from the ores
9 or minerals produced from such mine or deposit. The
10 election under this paragraph, if made, must be for
11 the total amount of such expenditures, or the total amount
12 of such excess, as the case may be, with respect to the
13 mine or deposit, and shall be binding for such taxable
14 year.

15 “(3) ADJUSTED BASIS OF MINE OR DEPOSIT.—
16 The amount of expenditures which are treated under
17 paragraph (2) as deferred expenses shall be taken into
18 account in computing the adjusted basis of the mine or
19 deposit, except that such amount, and the adjustments
20 to basis provided in section 113 (b) (1) (J), shall be dis-
21 regarded in determining the adjusted basis of the prop-
22 erty for the purpose of computing a deduction for deple-
23 tion under section 114.”

1 (b) ADJUSTED BASIS FOR DETERMINING GAIN OR
 2 LOSS UPON SALE OR EXCHANGE.—Section 113 (b) (1)
 3 (relating to adjusted basis of property) is hereby amended
 4 by adding at the end thereof the following subparagraph:

5 “(J) for amounts allowed as deductions ~~(40)~~
 6 ~~der section 23 (a) (1) (D)~~ *as deferred expenses*
 7 *under section 23 (cc) (2)* (relating to certain ex-
 8 penditures in the development of mines) and result-
 9 ing in a reduction of the taxpayer’s taxes under this
 10 chapter, but not less than the amounts allowable
 11 under such section for the taxable year and prior
 12 years.”

13 (c) TECHNICAL AMENDMENT.—Section 24 (a) (2)
 14 (relating to items not deductible) is hereby amended by
 15 adding after the word “estate” the following: “, except
 16 expenditures for the development of mines or deposits
 17 deductible under section 23 ~~(41)~~~~(a) (1) (D)~~ (cc)”.

18 (d) EFFECTIVE DATE.—The amendments made by this
 19 section shall be applicable to taxable years ending after
 20 December 31, 1950.

21 ~~(42)~~SEC. 310. GROSS INCOME OF DEPENDENT OF TAXPAYER.

22 (a) INCREASE IN AMOUNT OF GROSS INCOME PER-
 23 Mitted.—Section 25 (b) (1) (D) (relating to exemptions

1 for dependents of taxpayer) is hereby amended by striking
2 out “\$500” and inserting in lieu thereof “\$600”.

3 (b) *EFFECTIVE DATE.*—The amendment made by sub-
4 section (a) shall be applicable only with respect to taxable
5 years beginning after December 31, 1950.

6 (43)SEC. 311. CREDIT FOR DIVIDENDS RECEIVED.

7 (a) *DIVIDENDS FROM FOREIGN CORPORATION EN-*
8 *GAGED IN TRADE OR BUSINESS IN THE UNITED STATES.*—
9 Section 26 (b) (relating to dividends received credit) is
10 hereby amended by inserting after paragraph (2) the follow-
11 ing new paragraph:

12 “(3) *DIVIDENDS RECEIVED FROM CERTAIN*
13 *FOREIGN CORPORATIONS.*—In the case of dividends
14 received from a foreign corporation (other than a for-
15 eign personal holding company) which is subject to tax-
16 ation under this chapter, if, for an uninterrupted period
17 of not less than 36 months ending with the close of such
18 foreign corporation’s taxable year preceding the declara-
19 tion of such dividends (or if the corporation has not been
20 in existence for 36 months at the close of the taxable
21 year preceding the declaration of such dividends, for the
22 period the foreign corporation has been in existence)—

23 “(A) such foreign corporation has been en-

1 *gaged in trade or business within the United States;*

2 *and*

3 *“(B) 50 per centum or more of the gross*
4 *income of such foreign corporation has been derived*
5 *from sources within the United States,*

6 *85 per centum of the amount received as dividends from*
7 *earnings or profits accumulated during such uninter-*
8 *rupted period but not in excess of an amount which bears*
9 *the same ratio to 85 per centum of the amount received*
10 *as dividends from earnings or profits accumulated during*
11 *such uninterrupted period as the normal-tax net income*
12 *of such foreign corporation for such uninterrupted*
13 *period from sources within the United States bears to its*
14 *entire normal-tax net income for such uninterrupted*
15 *period.”*

16 *(b) TECHNICAL AMENDMENT.—Section 119 (a) (2)*

17 *(B) (relating to rules as to source of income in the case of*
18 *dividends) is hereby amended by inserting before the semi-*
19 *colon at the end thereof the following: “to the extent exceeding*
20 *the amount which is 100/85ths of the amount of the credit*
21 *allowable under section 26 (b) in respect of such dividends”.*

22 *(c) EFFECTIVE DATE.—The amendments made by this*
23 *section shall be applicable only with respect to taxable years*
24 *beginning after December 31, 1950.*

1 (44) SEC. 312. JOINT RETURN AFTER FILING SEPARATE RE-
2 TURN.

3 (a) CHANGE OF ELECTION.—Section 51 of the In-
4 ternal Revenue Code (relating to making of individual re-
5 turns) is hereby amended by adding at the end thereof the
6 following new subsection:

7 “(g) JOINT RETURN AFTER FILING SEPARATE RE-
8 TURN.—

9 “(1) IN GENERAL.—If an individual has filed a
10 separate return for a taxable year for which a joint
11 return could have been made by him and his spouse under
12 subsection (b) of this section, and the time prescribed
13 by law for filing the return for such taxable year has
14 expired, such individual and his spouse may nevertheless
15 make a joint return for such taxable year. A joint re-
16 turn filed by the husband and wife in such a case shall
17 constitute the return of the husband and wife for such
18 taxable year, and all payments, credits, refunds, or other
19 repayments made or allowed with respect to the separate
20 return of either spouse for such taxable year shall be
21 taken into account in determining the extent to which
22 the tax based upon the joint return has been paid.

23 “(2) PAYMENTS REQUIRED BEFORE JOINT RE-
24 TURN CAN BE MADE.—A joint return can be made under

1 paragraph (1) only if there is paid in full at or before
2 the time of the filing of the joint return—

3 “(A) all amounts previously assessed with re-
4 spect to either spouse for such taxable year;

5 “(B) all amounts shown as the tax by either
6 spouse upon his separate return for such taxable
7 year; and

8 “(C) any amount determined, at the time of
9 the filing of the joint return, as a deficiency with
10 respect to either spouse for such taxable year if,
11 prior to such filing, a notice under section 272 (a)
12 of such deficiency has been mailed.

13 “(3) TIME FOR MAKING JOINT RETURN.—A
14 joint return cannot be made under paragraph (1)—

15 “(A) after the expiration of three years from
16 the last date prescribed by law for filing the return
17 for such taxable year (determined without regard
18 to any extension of time granted to either spouse);

19 “(B) after there has been mailed to either
20 spouse, with respect to such taxable year, a notice
21 of deficiency under section 272 (a), if the spouse,
22 as to such notice, files a petition with the Tax Court
23 of the United States within the time prescribed in
24 such section;

25 “(C) after either spouse has commenced a suit

1 *in any court for the recovery of any part of the*
2 *tax for such taxable year; or*

3 “(D) *after either spouse has entered into a*
4 *closing agreement under section 3760 with respect*
5 *to such taxable year, or after any civil or crimi-*
6 *nal case arising against either spouse with respect*
7 *to such taxable year has been compromised under*
8 *section 3761.*

9 “(4) *ELECTIONS MADE IN SEPARATE RETURN.—*
10 *If a joint return is made under this subsection, any*
11 *election (other than the election to file a separate return)*
12 *made by either spouse in his separate return for such*
13 *taxable year with respect to the treatment of any income,*
14 *deduction, or credit of such spouse shall not be changed*
15 *in the making of the joint return where such election*
16 *would have been irrevocable if the joint return had not*
17 *been made.*

18 “(5) *DEATH OF SPOUSE.—If a joint return is*
19 *made under this subsection after the death of either*
20 *spouse, such return with respect to the decedent can be*
21 *made only by his executor or administrator.*

22 “(6) *ADDITIONS TO THE TAX.—Where the amount*
23 *shown as the tax by the husband and wife on a joint*
24 *return made under this subsection exceeds the aggregate*

1 of the amounts shown as the tax upon the separate return
2 of each spouse—

3 “(A) *Negligence.*—If any part of such excess
4 is attributable to negligence or intentional disregard
5 of rules and regulations (but without intent to de-
6 fraud) at the time of the making of such separate
7 return, then 5 per centum of the total amount of
8 such excess shall be assessed, collected, and paid in
9 the same manner as if it were a deficiency;

10 “(B) *FRAUD.*—If any part of such excess is
11 attributable to fraud with intent to evade tax at
12 the time of the making of such separate return, then
13 50 per centum of the total amount of such excess
14 shall be so assessed, collected, and paid, in lieu of
15 the 50 per centum addition to the tax provided in
16 section 3612 (d) (2).

17 “(7) *RULES FOR APPLICATION OF SECTIONS 275*
18 *AND 291.*—For the purposes of section 275 (relating to
19 period of limitations upon assessment and collection).
20 and for the purposes of section 291 (relating to delin-
21 quent returns), a joint return made under this subsection
22 shall be deemed to have been filed—

23 “(A) where both spouses filed separate returns
24 prior to making the joint return—on the date the

1 last separate return was filed (but not earlier than
2 the last date prescribed by law for filing the return
3 of either spouse);

4 “(B) where only one spouse filed a separate
5 return prior to the making of the joint return, and
6 the other spouse had less than \$600 of gross income
7 for such taxable year—on the date of the filing of
8 such separate return (but not earlier than the last
9 date prescribed by law for the filling of such sepa-
10 rate return); or

11 “(C) where only one spouse filed a separate
12 return prior to the making of the joint return, and
13 the other spouse had gross income of \$600 or more
14 for such taxable year—on the date of the filing of
15 such joint return.

16 “(8) *RULE FOR APPLICATION OF SECTION 322.*—
17 For the purposes of section 322 (relating to refunds
18 and credits), a joint return made under this subsection
19 shall be deemed to have been filed on the last date pre-
20 scribed by law for filing the return for such taxable
21 year (determined without regard to any extension of
22 time granted to either spouse).

23 “(9) *ADDITIONAL TIME FOR ASSESSMENT.*—If a
24 joint return is made under this subsection, the period of

limitations provided in sections 275 and 276 on the making of assessments and the beginning of distraint or a proceeding in court for collection shall with respect to such return include one year immediately after the date of the filing of such joint return (computed without regard to the provisions of paragraph (7) of this subsection).

“(10) *RULE FOR APPLICATION OF SECTION 3809 (a).*—For the purposes of section 3809 (a) (relating to criminal penalties in the case of fraudulent returns) the term ‘return’ includes a separate return filed by a spouse with respect to a taxable year for which a joint return is made under this subsection after the filing of such separate return.”

(b) *EFFECTIVE DATE.*—The amendment made by subsection (a) shall be applicable only with respect to taxable years beginning after December 31, 1950.

(45) SEC. 313. *MUTUAL SAVINGS BANKS, BUILDING AND LOAN ASSOCIATIONS, COOPERATIVE BANKS.*

(a) *MUTUAL SAVINGS BANKS.*—Section 101 (2) (relating to exemption from tax of mutual savings banks) is hereby repealed.

(b) *BUILDING AND LOAN ASSOCIATIONS AND COOPERATIVE BANKS.*—Section 101 (4) (relating to exemption

1 from tax of building and loan associations and cooperative
2 banks) is hereby amended to read as follows:

3 “(4) Credit unions without capital stock organized
4 and operated for mutual purposes and without profit;”.

5 (c) *FEDERAL SAVINGS AND LOAN ASSOCIATIONS.*—
6 Section 5 (h) of the Home Owners’ Loan Act of 1933, as
7 amended (12 U. S. C. 1464 (h)), is hereby amended by
8 striking out “date)” and inserting in lieu thereof the follow-
9 ing: “date, and except, in the case of taxable years beginning
10 after December 31, 1951, income, war-profits, and excess-
11 profits taxes)”.

12 (d) *BAD DEBT RESERVES.*—Section 23 (k) (1) (re-
13 lating to deduction from gross income of bad debts) is
14 hereby amended by adding at the end thereof the following:
15 “In the case of a mutual savings bank not having capital
16 stock represented by shares, a domestic building and loan
17 association, and a cooperative bank without capital stock
18 organized and operated for mutual purposes and without
19 profit, the reasonable addition to a reserve for bad debts
20 shall be determined with due regard to the amount of the
21 taxpayer’s surplus or bad debt reserves existing at the close
22 of December 31, 1951. In no case shall the reasonable addi-
23 tion to a reserve for bad debts determined under the preceding
24 sentence be less for any taxable year than 15 per centum of
25 the taxpayer’s net earnings during such taxable year (com-

1 *puted without the deduction of such addition to reserves), but*
 2 *an excess of such 15 per centum amount shall be allowable*
 3 *if it is determined by the institution that an additional amount*
 4 *is necessary to require an adequate reserve except that such*
 5 *an addition to a reserve shall not be deductible under this*
 6 *sentence if the total amount of the taxpayer's surplus, undi-*
 7 *vided profits, and reserves (computed without the amount of*
 8 *the addition) equals or exceeds 10 per centum of the tax-*
 9 *payer's total deposits or accounts on the last day of its taxable*
 10 *year."*

11 *(e) DIVIDENDS PAID TO DEPOSITORS.—Section 23*
 12 *(r) (relating to the deduction from gross income of certain*
 13 *dividends paid by banking corporations) is hereby amended*
 14 *to read as follows:*

15 *"(r) DIVIDENDS PAID BY BANKING CORPORA-*
 16 *TIONS.—*

17 *"(1) In the case of mutual savings banks, coopera-*
 18 *tive banks, and domestic building and loan associations,*
 19 *amounts paid to depositors or credited to the accounts of*
 20 *depositors as dividends on their deposits or withdrawable*
 21 *accounts.*

22 *"(2) For deduction of dividends paid by certain*
 23 *other banking corporations, see section 121."*

24 *(f) DEDUCTION FOR REPAYMENT TO THE UNITED*
 25 *STATES OF CERTAIN LOANS.—Section 23 (relating to de-*

1 ductions from gross income) is hereby amended by adding at
2 the end thereof the following:

3 “(dd) *REPAYMENT BY MUTUAL SAVINGS BANKS OF*
4 *CERTAIN LOANS.*—In the case of a mutual savings bank not
5 having capital stock represented by shares, amounts paid by
6 the taxpayer during the taxable year in repayment of loans
7 made prior to September 1, 1951 by the United States or
8 any agency or instrumentality thereof which is wholly owned
9 by the United States or by any mutual fund established under
10 the authority of the laws of any State.”

11 “(g) *DEFINITION OF BANK.*—Section 104 (a) (relat-
12 ing to definition of bank) is hereby amended by inserting at
13 the end thereof the following: “Such term also means a
14 domestic building and loan association.”

15 “(h) *DEFINITION OF DOMESTIC BUILDING AND LOAN*
16 *ASSOCIATION.*—Section 3797 (a) (relating to definitions for
17 the purposes of the Internal Revenue Code) is hereby
18 amended by adding at the end thereof the following new
19 paragraph:

20 “(19) *DOMESTIC BUILDING AND LOAN ASSOCIA-*
21 *TION.*—The term ‘domestic building and loan associa-
22 tion’ means a domestic building and loan association, a
23 domestic savings and loan association, and a Federal
24 savings and loan association, substantially all the busi-
25 ness of which is confined to making loans to members.”

1 *(i) EFFECTIVE DATE.*—*The amendments made by this*
 2 *section shall be applicable only with respect to taxable years*
 3 *beginning after December 31, 1951.*

4 **(46) SEC. 314. INCOME TAX TREATMENT OF EXEMPT COOPER-**
 5 **ATIVES.**

6 *(a) AMENDMENT OF SECTION 101 (12).*—*Section 101*
 7 *(12) is hereby amended as follows:*

8 *(1) By inserting after “(12)” the following:*
 9 *“(A)”.*

10 *(2) By inserting after such paragraph the fol-*
 11 *lowing:*

12 *“(B) An organization exempt from taxation under*
 13 *the provisions of subparagraph (A) shall be subject to*
 14 *the taxes imposed by sections 13 and 15, or section 117*
 15 *(c) (1), except that in computing the net income of such*
 16 *an organization there shall be allowed as deductions from*
 17 *gross income (in addition to other deductions allowable*
 18 *under section 23)—*

19 *“(i) amounts paid as dividends during the tax-*
 20 *able year upon its capital stock, and*

21 *“(ii) amounts allocated during the taxable year*
 22 *to patrons with respect to its income not derived from*
 23 *patronage (whether or not such income was derived*
 24 *during such taxable year) whether paid in cash,*

1 merchandise, capital stock, revolving fund certifi-
2 cates, retain certificates, certificates of indebtedness,
3 letters of advice, or in some other manner that dis-
4 closes to each patron the dollar amount allocated to
5 him.

6 Patronage dividends, refunds, and rebates to patrons
7 with respect to their patronage (whether paid in
8 cash, merchandise, capital stock, revolving fund cer-
9 tificates, retain certificates, certificates of indebted-
10 ness, letters of advice, or in some other manner that
11 discloses to each patron the dollar amount of such
12 dividend, refund, or rebate) shall be taken into account
13 in computing net income in the same manner as in the
14 case of a cooperative organization not exempt under
15 subparagraph (A). Such dividends, refunds, and re-
16 bates made after the close of the taxable year and on
17 or before the 15th day of the ninth month following the
18 close of such year shall be considered as made on the
19 last day of such taxable year to the extent the dividends,
20 refunds, or rebates, are attributable to patronage occurring
21 before the close of such year.”

22 (b) *TECHNICAL AMENDMENTS.*—

23 (1) Section 101 is hereby amended by striking out
24 “Except as provided in supplement U” and inserting in

1 *lieu thereof the following: "Except as provided in para-*
2 *graph (12) (B) and in supplement U".*

3 *(2) The last sentence of section 101 is hereby*
4 *amended by striking out "Notwithstanding supplement*
5 *U" and inserting in lieu thereof "Notwithstanding para-*
6 *graph (12) (B) and supplement U".*

7 *(c) INFORMATION RETURNS.—Section 148 (relating*
8 *to information by corporations) is hereby amended by adding*
9 *at the end thereof the following:*

10 *"(f) PATRONAGE DIVIDENDS.—Any corporation allo-*
11 *cating amounts as patronage dividends, rebates, or refunds*
12 *(whether in cash, merchandise, capital stock, revolving fund*
13 *certificates, retain certificates, certificates of indebtedness,*
14 *letters of advice, or in some other manner that discloses to*
15 *each patron the amount of such dividend, refund, or rebate)*
16 *shall render a correct return stating (1) the name and*
17 *address of each patron to whom it has made such allocations*
18 *amounting to \$100 or more during the calendar year, and*
19 *(2) the amount of such allocations to each patron. If re-*
20 *quired by the Secretary, any such corporation shall render*
21 *a correct return of all patronage dividends, rebates, or*
22 *refunds made during the calendar year to its patrons."*

23 *(d) WITHHOLDING OF TAX AT SOURCE.—If any law*
24 *(other than sections 143 and 144 of the Internal Revenue*

1 *Code) enacted by Congress requires the withholding at source*
 2 *of tax on corporate dividends paid in cash, patronage divi-*
 3 *dends, rebates, and refunds (whether paid in cash, merchan-*
 4 *dise, capital stock, revolving fund certificates, retain certifi-*
 5 *cates, or otherwise) shall be subject to the provisions of such*
 6 *law in the same manner and to the same extent as provided*
 7 *in such law with respect to corporate dividends paid in cash.*

8 *(e) EFFECTIVE DATE.—The amendments made by sub-*
 9 *sections (a) and (b) of this section shall be applicable only*
 10 *with respect to taxable years beginning after December 31,*
 11 *1951. The amendment made by subsection (c) shall be ap-*
 12 *plicable to the calendar year 1951 and subsequent calendar*
 13 *years.*

14 **(47)SEC. 315. SURTAX ON CORPORATIONS IMPROPERLY ACCU-**
 15 **MULATING SURPLUS.**

16 *(a) LONG-TERM CAPITAL GAINS.—Section 102 (d)*
 17 *(1) (relating to definition of section 102 net income) is hereby*
 18 *amended by adding at the end thereof the following new sub-*
 19 *paragraph:*

20 *“(D) Long-Term Capital Gains.—The excess*
 21 *of the net long-term capital gain for the taxable year*
 22 *over the net short-term capital loss for such year, minus*
 23 *the taxes imposed by this chapter attributable to such*
 24 *excess. The taxes attributable to such excess shall*
 25 *be an amount equal to the difference between (i) the*

taxes imposed by this chapter (except the tax imposed by this section) for such year and (ii) such taxes computed for such year without including such excess in net income.”

(b) *EFFECTIVE DATE*.—The amendment made by subsection (a) shall be applicable only with respect to taxable years beginning after December 31, 1950.

(48) SEC. 316. ELECTION AS TO RECOGNITION OF GAIN IN CERTAIN CORPORATE LIQUIDATIONS.

(a) *AMENDMENT OF SECTION 112 (b) (7)*.—Section 112 (b) (7) (relating to recognition of gain in certain corporate liquidations) is hereby amended by striking out in subparagraph (A) (ii) “1951” and by inserting in lieu thereof “1951 or 1952”.

(b) *BASIS OF PROPERTY*.—Section 113 (a) (18) (relating to basis of property received in certain corporate liquidations) is amended by striking out “the Revenue Act of 1950” and by inserting in lieu thereof “any revenue act”.

(c) *EFFECTIVE DATE*.—The amendments made by this section shall be applicable only to taxable years ending after December 31, 1951.

(49) SEC. 317. CERTAIN DISTRIBUTIONS OF STOCK ON REORGANIZATION.

(a) *DISTRIBUTIONS NOT IN LIQUIDATION*.—Section 112 (b) (relating to nonrecognition of gain or loss in the

1 case of certain exchanges) is hereby amended by adding at
2 the end thereof the following new paragraph:

3 “(11) *DISTRIBUTION OF STOCK NOT IN LIQUIDA-*
4 *TION.*—If there is distributed, in pursuance of a plan
5 of reorganization, to a shareholder of a corporation
6 which is a party to the reorganization, stock (other than
7 preferred stock) in another corporation which is a party
8 to the reorganization, without the surrender by such
9 shareholder of stock, no gain to the distributee from the
10 receipt of such stock shall be recognized unless it appears
11 that (A) any corporation which is a party to such re-
12 organization was not intended to continue the active con-
13 duct of a trade or business after such reorganization, or
14 (B) the corporation whose stock is distributed was used
15 principally as a device for the distribution of earnings
16 and profits to the shareholders of any corporation a
17 party to the reorganization.”

18 (b) *BASIS OF STOCK.*—Section 113 (a) (relating to
19 unadjusted basis for determining gain or loss) is hereby
20 amended by adding at the end thereof the following new
21 paragraph:

22 “(23) *TAX-FREE DISTRIBUTIONS.*—If the property
23 consists of stock distributed after the date of the enact-
24 ment of the Revenue Act of 1951 to a taxpayer in con-
25 nection with a transaction described in section 112 (b)

(11) (hereinafter in this paragraph called 'new stock'), or consists of stock in respect of which such distribution was made (hereinafter in this paragraph called 'old stock'), then the basis of the new stock and of the old stock, respectively, shall, in the shareholder's hands, be determined by allocating between the old stock and the new stock the adjusted basis of the old stock; such allocation to be made under regulations prescribed by the Secretary."

(c) *EFFECTIVE DATE.*—The amendments made by this section shall be applicable with respect to taxable years ending after the date of the enactment of this Act, but shall apply only with respect to distributions of stock made after such date.

SEC. (50)~~303~~ 318. GAIN FROM SALE OR EXCHANGE OF TAX-PAYER'S RESIDENCE.

(a) *NONRECOGNITION OF GAIN IN CERTAIN CASES.*—Section 112 (relating to recognition of gain or loss) is hereby amended by adding at the end thereof the following new subsection:

"(n) *GAIN FROM SALE OR EXCHANGE OF RESIDENCE.*—

"(1) *NONRECOGNITION OF GAIN.*—If property (hereinafter in this subsection called 'old residence') used by the taxpayer as his principal residence is sold by him and, within a period beginning one year prior

1 to the date of such sale and ending one year after such
2 date, property (hereinafter in this subsection called 'new
3 residence') is purchased and used by the taxpayer as
4 his principal residence, gain (if any) from such sale
5 shall be recognized only to the extent that the taxpayer's
6 selling price of the old residence exceeds the taxpayer's
7 cost of purchasing the new residence.

8 “(2) RULES FOR APPLICATION OF SUBSECTION.—

9 For the purposes of this subsection:

10 “(A) An exchange by the taxpayer of his
11 residence for other property shall be considered as
12 a sale of such residence, and the acquisition of a
13 residence upon the exchange of property shall be
14 considered as a purchase of such residence.

15 “(B) If the taxpayer's residence (as a result
16 of its destruction in whole or in part, theft, or
17 seizure) is compulsorily or involuntarily converted
18 into property or into money, such destruction, theft,
19 or seizure shall be considered as a sale of the resi-
20 dence; and if the residence is so converted into
21 property which is used by the taxpayer as his resi-
22 dence, such conversion shall be considered as a
23 purchase of such property by the taxpayer.

24 “(C) In the case of an exchange or conversion
25 described in subparagraph (A) or (B), in deter-

1 mining the extent to which the selling price of the
2 old residence exceeds the taxpayer's cost of purchas-
3 ing the new residence, the amount realized by the
4 taxpayer upon such exchange or conversion shall be
5 considered the selling price of the old residence.

6 “(D) A residence any part of which was con-
7 structed or reconstructed by the taxpayer shall be
8 considered as purchased by the taxpayer. In de-
9 termining the taxpayer's cost of purchasing a resi-
10 dence, there shall be included only so much of his
11 cost as is attributable to the acquisition, construc-
12 tion, reconstruction, and improvements made which
13 are properly chargeable to capital account, during
14 the period specified in paragraph (1).

15 “(E) If a residence is purchased by the tax-
16 payer prior to the date of his sale of the old resi-
17 dence, the purchased residence shall not be
18 treated as his new residence if sold or otherwise
19 disposed of by him prior to the date of the sale of
20 the old residence.

21 “(F) If the taxpayer, during the period de-
22 scribed in paragraph (1), purchases more than one
23 residence which is used by him as his principal
24 residence at some time within one year after the date
25 of the sale of the old residence, only the last of such

1 residences so used by him after the date of such
2 sale shall constitute the new residence. If within
3 the one year referred to in the preceding sentence
4 property used by the taxpayer as his principal resi-
5 dence is destroyed, stolen, seized, requisitioned, or
6 condemned, or is sold or exchanged under threat
7 or imminence thereof, then for the purposes of
8 the preceding sentence such one year shall be con-
9 sidered as ending with the date of such destruction,
10 theft, seizure, requisition, condemnation, sale, or
11 exchange.

12 **(51)**“(G) *In the case of a new residence the con-*
13 *struction of which was commenced by the taxpayer*
14 *prior to the expiration of one year after the date*
15 *of the sale of the old residence, the period specified*
16 *in paragraph (1), and the one year referred to in*
17 *subparagraph (F) of this paragraph, shall be con-*
18 *sidered as including a period of 18 months be-*
19 *ginning with the date of the sale of the old*
20 *residence.*

21 “(3) **LIMITATION.**—The provisions of paragraph
22 (1) shall not be applicable with respect to the
23 sale of the taxpayer’s residence if within one year prior
24 to the date of such sale the taxpayer sold at a gain other
25 property used by him as his principal residence, and any

1 part of such gain was not recognized by reason of the
2 provisions of paragraph (1). For the purposes of this
3 paragraph, the destruction, theft, seizure, requisition, or
4 condemnation of property or the sale or exchange of
5 property under threat or imminence thereof, shall not be
6 considered as a sale of such property.

7 “(4) BASIS OF NEW RESIDENCE.—Where the pur-
8 chase of a new residence results, under paragraph (1),
9 in the nonrecognition of gain upon the sale of an old
10 residence, in determining the adjusted basis of the new
11 residence as of any time following the sale of the old
12 residence, the adjustments to basis shall include a reduc-
13 tion by an amount equal to the amount of the gain not
14 so recognized upon the sale of the old residence. For
15 this purpose, the amount of the gain not so recognized
16 upon the sale of the old residence includes only so much
17 of such gain as is not recognized by reason of the cost,
18 up to such time, of purchasing the new residence.

19 “(5) TENANT-STOCKHOLDER IN A COOPERATIVE
20 APARTMENT CORPORATION.—For the purposes of this
21 subsection, section 113 (b) (1) (K), and section 117
22 (h) (7), references to property used by the taxpayer
23 as his principal residence, and references to the residence
24 of a taxpayer, shall include stock held by a tenant-

1 stockholder (as defined in section 23 (z) (2)) in a
2 cooperative apartment (as defined in such section) if—

3 “(A) in the case of stock sold, the apartment
4 which the taxpayer was entitled to occupy as such
5 stockholder was used by him as his principal resi-
6 dence, and

7 “(B) in the case of stock purchased, the tax-
8 payer used as his principal residence the apartment
9 which he was entitled to occupy as such stockholder.

10 “(6) HUSBAND AND WIFE.—If the taxpayer and
11 his spouse, in accordance with regulations which shall
12 be prescribed by the Secretary pursuant to this para-
13 graph, consent to the application of subparagraph (B)
14 of this paragraph, then—

15 “(A) for the purposes of this subsection, the
16 words ‘taxpayer’s selling price of the old residence’
17 shall mean the selling price (of the taxpayer, or
18 of the taxpayer and his spouse) of the old residence,
19 and the words ‘taxpayer’s cost of purchasing the
20 new residence’ shall mean the cost (to the tax-
21 payer, his spouse, or both) of purchasing the new
22 residence (whether held by the taxpayer, his spouse,
23 or the taxpayer and his spouse) ; and

24 “(B) so much of the gain upon the sale of the
25 old residence as is not recognized solely by reason

1 of this paragraph, and so much of the adjustment
2 under paragraph (4) to the basis of the new resi-
3 dence as results solely from this paragraph, shall
4 be allocated between the taxpayer and his spouse as
5 provided in such regulations.

6 This paragraph shall apply only if the old residence and
7 the new residence are each used by the taxpayer and his
8 spouse as their principal residence. In case the tax-
9 payer and his spouse do not consent to the application
10 of subparagraph (B) of this paragraph, then the recog-
11 nition of gain upon the sale of the old residence shall be
12 determined under this subsection without regard to the
13 rules provided in this paragraph.

14 “(7) STATUTE OF LIMITATIONS.—If the taxpayer
15 during a taxable year sells at a gain property used by
16 him as his principal residence, then—

17 “(A) the statutory period for the assessment
18 of any deficiency attributable to any part of such
19 gain shall not expire prior to the expiration of three
20 years from the date the Secretary is notified by the
21 taxpayer (in such manner as the Secretary may by
22 regulations prescribe) of—

23 “(i) the taxpayer’s cost of purchasing the
24 new residence which the taxpayer claims re-
25 sults in nonrecognition of any part of such gain,

1 “(ii) the taxpayer’s intention not to pur-
2 chase a new residence within the period speci-
3 fied in paragraph (1), or

4 “(iii) a failure to make such purchase
5 within such period; and

6 “(B) such deficiency may be assessed prior to
7 the expiration of such three-year period notwith-
8 standing the provisions of any other law or rule of
9 law which would otherwise prevent such assess-
10 ment.”

11 (b) TECHNICAL AMENDMENTS.—

12 (1) Section 112 (f) (relating to involuntary con-
13 versions) is hereby amended by adding at the end
14 thereof the following: “This subsection shall not apply,
15 in the case of property used by the taxpayer as his
16 principal residence, if the destruction, theft, seizure,
17 requisition, or condemnation of the residence, or the
18 sale or exchange of such residence under threat or
19 imminence thereof, occurred after December 31, 1950.”

20 (2) Section 113 (a) (9) (relating to basis of
21 property acquired as a result of involuntary conversions)
22 is hereby amended by adding at the end thereof the
23 following: “This paragraph shall not apply in respect
24 of property acquired as a result of a compulsory or
25 involuntary conversion of property used by the taxpayer

1 as his principal residence if the destruction, theft, seizure,
2 requisition, or condemnation of such residence, or the
3 sale or exchange of such residence under threat or
4 imminence thereof, occurred after December 31, 1950.”

5 (3) Section 113 (b) (1) (relating to adjusted
6 basis of property) is hereby amended by adding at the
7 end thereof the following new subparagraph:

8 “(K) in the case of a residence the acquisition
9 of which resulted, under the provisions of section
10 112 (n), in the nonrecognition of any part of the
11 gain realized upon the sale, exchange, or involun-
12 tary conversion of another residence, to the extent
13 provided in section 112 (n) (4).”

14 (4) Section 117 (h) (relating to determination of
15 holding period) is hereby amended by adding at the end
16 thereof the following new paragraph:

17 “(7) In determining the period for which the tax-
18 payer has held a residence, the acquisition of which
19 resulted under section 112 (n) in the nonrecognition of
20 any part of the gain realized on the sale, exchange, or
21 involuntary conversion of another residence, there shall
22 be included the period for which such other residence
23 had been held as of the date of such sale, exchange, or
24 involuntary conversion.”

25 (5) Section 276 (relating to period of limitation

1 upon assessment and collection) is hereby amended by
2 adding at the end thereof the following:

3 “(e) GAIN UPON SALE OR EXCHANGE OF RESI-
4 DENCE.—In the case of a deficiency described in section
5 112 (n) (7), such deficiency may be assessed at any time
6 prior to the expiration of the time therein provided.”

7 (c) EFFECTIVE DATE.—The amendments made by this
8 section shall be applicable to taxable years ending after
9 December 31, 1950, but the provisions of section 112 (n)
10 (1) and (6) of the Internal Revenue Code shall apply only
11 with respect to residences sold (within the meaning of such
12 section) after such date.

13 SEC. ~~(52)~~³⁰⁴ 319. PERCENTAGE DEPLETION.

14 (a) ALLOWANCE OF PERCENTAGE DEPLETION.—So
15 much of paragraph (4) of section 114 (b) as precedes the
16 last sentence of subparagraph (A) is hereby amended to
17 read as follows:

18 “(4) PERCENTAGE DEPLETION FOR COAL AND
19 METAL MINES AND FOR CERTAIN OTHER MINES AND
20 NATURAL MINERAL DEPOSITS.—

21 “(A) IN GENERAL.—The allowance for deple-
22 tion under section 23 (m) in the case of the follow-
23 ing mines and other natural deposits shall be—

24 ~~(53)~~“(i) in the case of asbestos, sand, gravel,
25 stone (including pumice, scoria, and slate),

brick and tile clay, shale, oyster shell, clam shell, granite, and marble, 5 per centum,

“(ii) in the case of coal, 10 per centum,

“(iii) in the case of metal mines, bauxite, fluorspar, flake graphite, vermiculite, beryl, feldspar, mica, talc (including pyrophyllite), lepidolite, spodumene, barite, ball and sagger clay, china clay, phosphate rock, rock asphalt, trona, bentonite, gilsonite, thenardite (including thenardite from brines or mixtures of brine), potash, borax, fuller's earth, tripoli, refractory and fire clay, quartzite, perlite, diatomaceous earth, metallurgical grade limestone, and chemical grade limestone, 15 per centum, and

“(i) in the case of sand, gravel, slate, stone (including pumice and scoria), brick and tile clay, shale, oyster shell, clam shell, granite, marble, sodium chloride, and, if from brine wells, calcium chloride, magnesium chloride, potassium chloride, and bromine, 5 per centum,

“(ii) in the case of coal, asbestos, brucite, dolomite, magnesite, wollastonite, borax, fuller's earth, tripoli, refractory and fire alloy, quartzite,

1 *perlite, diatomaceous earth, metallurgical grade*
 2 *limestone, chemical grade limestone, and calcium*
 3 *and magnesium carbonates, 10 per centum,*

4 “(iii) in the case of metal mines, *aplite,*
 5 *bauxite, fluorspar, flake graphite, vermiculite,*
 6 *beryl, feldspar, mica, talc (including pyro-*
 7 *phyllite), lepidolite, spodumene, barite, ball clay,*
 8 *sagger clay, china clay, phosphate rock, rock*
 9 *asphalt, trona, bentonite, gilsonite, thenardite,*
 10 *and potash, 15 per centum, and*

11 “(iv) in the case of sulfur, 23 per centum,
 12 of the gross income from the property during
 13 the taxable year, excluding from such gross in-
 14 come an amount equal to any rents or royalties
 15 paid or incurred by the taxpayer in respect of
 16 the property.”

17 (b) TECHNICAL AMENDMENT.—So much of para-
 18 graph (2) of section 114 (b) as precedes “discovered by
 19 the taxpayer after February 28, 1913” is hereby amended
 20 to read as follows:

21 “(2) DISCOVERY VALUE IN THE CASE OF
 22 MINES.—In the case of mines (except mines in respect
 23 of which percentage depletion is allowable under para-
 24 graph (4) of this subsection)”.
 25 (c) EFFECTIVE DATE.—The amendments made by this

1 section shall be applicable only with respect to taxable
2 years beginning after December 31, 1950.

3 **(54) SEC. 320. REDEMPTION OF STOCK TO PAY DEATH TAXES.**

4 (a) *AMENDMENT OF SECTION 115 (g) (3).*—Section
5 115 (g) (3) (relating to redemption of stock to pay death
6 taxes) is hereby amended by striking out “50 per centum”
7 and inserting in lieu thereof “25 per centum”.

8 (b) *EFFECTIVE DATE.*—The amendment made by sub-
9 section (a) shall be applicable to taxable years ending on or
10 after the date of the enactment of this Act, but shall apply
11 only to amounts distributed on or after such date.

12 **(55) SEC. 321. EARNED INCOME FROM SOURCES WITHOUT THE**
13 **UNITED STATES.**

14 (a) *EXCLUSIVE FROM GROSS INCOME.*—Section 116
15 (a) (relating to earned income from sources without the
16 United States) is hereby amended by striking out para-
17 graphs (1) and (2) and inserting in lieu thereof the
18 following:

19 “(1) *BONA FIDE RESIDENT OF FOREIGN COUN-*
20 *TRY.*—In the case of an individual citizen of the United
21 States, who establishes to the satisfaction of the Secretary
22 that he has been a bona fide resident of a foreign country
23 or countries for an uninterrupted period which includes
24 an entire taxable year, amounts received from sources
25 without the United States (except amounts paid by the

United States or any agency thereof) if such amounts constitute earned income (as defined in paragraph (3)) attributable to such period; but such individual shall not be allowed as a deduction from his gross income any deductions properly allocable to or chargeable against amounts excluded from gross income under this paragraph.

“(2) *PRESENCE IN FOREIGN COUNTRY FOR 17 MONTHS.*—In the case of an individual citizen of the United States, who during any period of 18 consecutive months is present in a foreign country or countries during at least 510 full days in such period, amounts received from sources without the United States (except amounts paid by the United States or any agency thereof) if such amounts constitute earned income (as defined in paragraph (3)) attributable to such period; but such individual shall not be allowed as a deduction from his gross income any deductions properly allocable to or chargeable against amounts excluded from gross income under this paragraph.”

(b) *WITHHOLDING OF TAX ON WAGES.*—Section 1621 (a) (8) (A) (relating to definition of wages) is hereby amended to read as follows:

“(A) for services for an employer (other than the United States or any agency thereof) performed

in a foreign country by a citizen of the United States, if at the time of the payment of such remuneration the employer is required by the law of any foreign country to withhold income tax upon such remuneration, or it is reasonable to believe that such remuneration will be excluded from gross income under the provisions of section 116 (a) (1) or (2), or”.

(c) *EFFECTIVE DATES.*—The amendment made by subsection (a) shall be applicable to taxable years beginning after December 31, 1950. The amendment made by subsection (b) shall be applicable with respect to wages paid on or after January 1, 1952.

SEC. ~~(56)~~³⁰⁵ 322. CAPITAL GAINS AND LOSSES.

(a) TREATMENT OF LONG-TERM CAPITAL GAINS AND LOSSES.—

(1) AMENDMENT OF SECTION 23.—Section 23 (relating to deductions from gross income) is hereby amended by adding at the end thereof the following new subsection:

“(57)~~(ee)~~ ~~(ee)~~ LONG-TERM CAPITAL GAINS.—In the case of a taxpayer other than a corporation, the deduction for long-term capital gains provided in section 117 (b).”

(2) AMENDMENT OF SECTION 117 (b).—Section 117 (b) (relating to treatment of long-term capital gains and losses) is hereby amended to read as follows:

1 “(b) DEDUCTION FROM GROSS INCOME.—In the case
 2 of a taxpayer other than a corporation, if for any taxable
 3 year the net long-term capital gain exceeds the net short-
 4 term capital loss, 50 per centum of the amount of such
 5 excess shall be a deduction from gross income. In the case
 6 of an estate or trust, the deduction shall be computed by
 7 excluding the portion (if any), of the gains for the taxable
 8 year from sales or exchanges of capital assets, which, under
 9 section 162 (b) or (c), is includible by the income bene-
 10 ficiaries as gain derived from the sale or exchange of capital
 11 assets.”

12 (b) ALTERNATIVE TAX.—Section 117 (c) (2) (re-
 13 lating to alternative tax) is hereby amended to read as
 14 follows:

15 “(2) OTHER TAXPAYERS.—If for any taxable year
 16 the net long-term capital gain of any taxpayer (other
 17 than a corporation) exceeds the net short-term capital
 18 loss, there shall be levied, collected, and paid, in lieu
 19 of the tax imposed by sections 11 and 12 (or, in the
 20 case of certain tax-exempt trusts, in lieu of the tax
 21 imposed by section 421), a tax determined as follows,
 22 if and only if such tax is less than the tax imposed by
 23 such ~~(58)section~~ sections:

24 “(A) A partial tax shall first be computed
 25 upon the net income reduced by an amount equal

to 50 per centum of such excess, at the rates and in the manner as if this subsection had not been enacted.

“(B) There shall then be ascertained an amount equal to 25 per centum of the excess of the net long-term capital gain over the net short-term capital loss. ~~(59)~~In the case of taxable years to which the defense tax provided in section 16 ~~(e)~~ is applicable, such amount shall be increased by the percentage specified in such section.

“(C) The total tax shall be the partial tax computed under subparagraph (A) plus the amount computed under subparagraph (B).”

(c) TECHNICAL AMENDMENTS.—

(1) AMENDMENT OF SECTION 22 (n).—Section 22 (n) (relating to the definition of adjusted gross income) is hereby amended by striking out the word “and” at the end of paragraph (5), by striking out the period at the end of paragraph (6) and inserting in lieu thereof “; and”, and by inserting after paragraph (6) the following new paragraph:

“(7) LONG-TERM CAPITAL GAINS.—The deduction allowed by section 23 ~~(60)~~~~(ee)~~ (ee).”

(2) AMENDMENT OF SECTION 117 (a).—Paragraphs (2) and (4) of section 117 (a) (relating to definitions

1 of short-term capital gain and long-term capital gain)
 2 are each hereby amended by striking out “net income”
 3 and inserting in lieu thereof “gross income”.

4 (3) AMENDMENT OF SECTION 117 (j).—Section
 5 117 (j) (2) (A) (relating to gains and losses from
 6 involuntary conversion and from the sale or exchange
 7 of certain property used in the trade or business) is
 8 hereby amended to read as follows:

9 “(A) In determining under this paragraph
 10 whether gains exceed losses, the gains described
 11 therein shall be included only if and to the extent
 12 taken into account in computing gross income and
 13 the losses described therein shall be included only
 14 if and to the extent taken into account in computing
 15 net income, except that subsection (d) shall not
 16 apply.”

17 (4) AMENDMENT OF SECTION 122 (d) (4).—Section
 18 122 (d) (4) (relating to computation of net operating
 19 loss deduction) is hereby amended to read as follows:

20 “(4) The amount deductible on account of losses
 21 from sales or exchanges of capital assets shall not exceed
 22 the amount includible on account of gains from such
 23 sales or exchanges. The deduction provided in section
 24 23 (61)(ee) (ee) shall not be allowed.”

25 (5) AMENDMENT OF SECTION 162 (a).—Section

1 162 (a) (relating to computation of net income of
 2 estates and trusts) is hereby amended by striking out
 3 the semicolon and inserting in lieu thereof a period and
 4 the following: "Where any amount of the income so
 5 paid or set aside is attributable to gain from the sale
 6 or exchange of capital assets held for more than six
 7 months, proper adjustment of the deduction otherwise
 8 allowable under this subsection shall be made for any
 9 deduction allowable to the trust under section 23
 10 ~~(62)(ee)~~. (ee);"

11 (d) EFFECTIVE DATE.—The amendments made by this
 12 section shall be applicable only with respect to taxable years
 13 beginning on or after the date of the enactment of this Act.
 14 In determining under section 117 (e) of the Internal Rev-
 15 enue Code the amount of the carryover to a taxable year
 16 beginning on or after such date, of the capital loss for a
 17 taxable year beginning before such date, such amendments
 18 shall not affect the computation of the amount of the net
 19 capital loss or of the net capital gain for any taxable year
 20 beginning before such date.

21 ~~(63)~~SEC. 323. SALE OF LAND WITH UNHARVESTED CROP.

22 (a) TREATMENT OF GAIN OR LOSS.—Section 117 (j)
 23 (relating to sale or exchange of property used in the trade
 24 or business) is hereby amended—

25 (1) By inserting immediately before the period at

1 *the end of the second sentence of paragraph (1) thereof*
 2 *the following: “and unharvested crops to which para-*
 3 *graph (3) is applicable”; and*

4 *(2) By adding at the end thereof a new paragraph*
 5 *to read as follows:*

6 *“(3) SALE OF LAND WITH UNHARVESTED CROP.—*

7 *In the case of an unharvested crop on land used in*
 8 *the trade or business and held for more than 6 months,*
 9 *if the crop and the land are sold or exchanged (or com-*
 10 *pulsorily or involuntarily converted as described in*
 11 *paragraph (2)) at the same time and to the same person,*
 12 *the crop shall be considered as ‘property used in the*
 13 *trade or business’.”*

14 *(b) TREATMENT OF DEDUCTIONS.—*

15 *(1) AMENDMENT OF SECTION 24.—Section 24 (re-*
 16 *lating to items not deductible) is hereby amended by*
 17 *adding at the end thereof a new subsection to read as*
 18 *follows:*

19 *“(f) SALE OF LAND WITH UNHARVESTED CROP.—*

20 *Where an unharvested crop sold by the taxpayer is con-*
 21 *sidered under the provisions of section 117 (j) (3) as*
 22 *‘property used in the trade or business’, in computing net*
 23 *income no deduction (whether or not for the taxable year*
 24 *of the sale and whether for expenses, depreciation, or other-*

1 wise) attributable to the production of such crop shall be
2 allowed.”

3 (2) AMENDMENT OF SECTION 113 (b) (1).—Section
4 113 (b) (1) (relating to adjustments to basis) is hereby
5 amended by adding at the end thereof a new subpara-
6 graph to read as follows:

7 “(L) for deductions to the extent disallowed
8 under section 24 (f), notwithstanding the provisions
9 of any other subparagraph of this paragraph.”

10 (c) EFFECTIVE DATE.—The amendment made by sub-
11 section (a) shall be applicable only with respect to sales, ex-
12 changes, and conversions, occurring in taxable years be-
13 ginning after December 31, 1950. The amendments made
14 by subsection (b) shall be applicable to any taxable year
15 for which a deduction is disallowed by reason of sales, ex-
16 changes, or conversions to which subsection (a) is applicable.

17 **(64)SEC. 306. SALES OF LIVESTOCK.**

18 Effective with respect to taxable years beginning after
19 December 31, 1950, section 117 (j) (1) is hereby amended
20 by adding at the end thereof the following new sentence:
21 “Such term also includes livestock held by the taxpayer for
22 draft, breeding, or dairy purposes for 12 months or more.”

23 **SEC. 324. SALES OF LIVESTOCK.**

24 Section 117 (j) (1) is hereby amended by adding at the

1 *end thereof the following new sentences: "Such term also*
 2 *includes livestock, regardless of age, held by the taxpayer for*
 3 *draft, breeding, or dairy purposes, and held by him for 12*
 4 *months or more from the date of acquisition. Such term does*
 5 *not include poultry; except that such term includes turkeys,*
 6 *regardless of age, held by the taxpayer for breeding purposes,*
 7 *and held by him for 12 months or more from the date of*
 8 *acquisition."* The first sentence added to section 117 (j)
 9 (1) by the amendment made by this section shall be applicable
 10 with respect to taxable years beginning after December 31,
 11 1941, except that the extension of the holding period from
 12 6 to 12 months shall be applicable only with respect to taxable
 13 years beginning after December 31, 1950. The second sen-
 14 tence added to section 117 (j) (1) by the amendment made
 15 by this section shall be applicable only with respect to taxable
 16 years beginning after December 31, 1950.

17 **SEC. (65)307 325. TAX TREATMENT OF COAL ROYALTIES.**

18 (a) **DEFINITION OF PROPERTY USED IN THE TRADE OR**
 19 **BUSINESS.**—Section 117 (j) (1) (relating to the definition
 20 of property used in the trade or business) is hereby amended
 21 by adding after the word "timber" in the second sentence
 22 thereof the following: "or coal".

23 (b) **GAIN OR LOSS UPON CERTAIN DISPOSALS OF**
 24 **TIMBER OR COAL.**—Section 117 (k) (2) (relating to the
 25 disposal of timber) is hereby amended to read as follows:

1 “(2) In the case of the disposal of timber or coal
 2 ~~(66)~~~~(held for more than 6 months prior to such disposal)~~
 3 *(including lignite), held for more than 6 months prior*
 4 *to such disposal, by the owner thereof under any form or*
 5 type of contract by virtue of which the owner retains an
 6 economic interest in such timber or coal, the difference
 7 between the amount received for such timber or coal
 8 and the adjusted depletion basis thereof shall be con-
 9 sidered as though it were a gain or loss, as the case may
 10 be, upon the sale of such timber or coal. Such owner
 11 shall not be entitled to the allowance for percentage
 12 depletion provided for in section 114 (b) (4) with
 13 respect to such coal. ~~(67)~~In the case of coal, this para-
 14 graph shall not apply if such owner is personally
 15 obligated to pay a share of the cost of mining opera-
 16 tions. *This paragraph shall not apply to income*
 17 *realized by the owner as a co-adventurer, partner,*
 18 *or principal in the cutting of such timber or in the*
 19 *mining of such coal. The date of disposal of such timber*
 20 *or coal shall be deemed to be the date such timber is cut*
 21 *or such coal is mined. In determining the gross income,*
 22 *the adjusted gross income, or the net income of the lessee,*
 23 *the deductions allowable with respect to rents and royal-*
 24 *ties shall be determined without regard to the provisions*
 25 *of this paragraph.”*

1 '(c) CLERICAL AMENDMENT.—The heading to section
 2 117 (k) (relating to the gain or loss upon the cutting of
 3 timber) is hereby amended to read as follows: “(k) GAIN
 4 OR LOSS IN THE CASE OF TIMBER OR COAL.—”.

5 (68)(d) TECHNICAL AMENDMENT.—Section 841 (a) (4)
 6 is hereby amended by striking out “cutting or disposal of
 7 timber” and inserting in lieu thereof “cutting of timber, or
 8 the disposal of timber or coal,”.

9 (69)(e) CONFORMING AMENDMENTS.—

10 (1) Section 433 (relating to computation of excess
 11 profits net income) is hereby amended by inserting at the
 12 end thereof the following new subsection:

13 “(d) GAIN OR LOSS UPON CERTAIN DISPOSALS OF
 14 COAL IN BASE PERIOD.—For the purpose of subsection (b),
 15 the excess profits net income shall be computed as if the
 16 provisions of section 117 (j) and (k) (2) which relate to
 17 disposals of coal were a part of the law applicable to the
 18 taxable year for which excess profits net income is computed.”

19 (2) Section 440 (a) (1) (relating to definition of
 20 “inadmissible assets”) is hereby amended by striking
 21 out “and” at the end of subparagraph (A); by striking
 22 out the period at the end of subparagraph (B) and
 23 inserting in lieu thereof “; and”; and by adding at the
 24 end thereof the following new subparagraph:

25 “(C) The economic interest referred to in the

provisions of section 117 (k) (2) relating to coal if the taxpayer is subject to such provisions with respect to the income from such coal."

(3) The amendments made by this subsection shall be applicable in computing the tax under subchapter D of chapter 1 for taxable years ending after December 31, 1950.

~~(70)(d)~~ (f) EFFECTIVE DATE.—~~(71)~~The Except as provided in subsection (e), the amendments made by this section shall be applicable only with respect to taxable years ending after December 31, 1950 (whether the ~~(72)~~disposal of the coal occurred contract was made on, before, or after such date), but shall apply only with respect to amounts received or accrued after such date.

SEC. ~~(73)~~308 326. COLLAPSIBLE CORPORATIONS.

(a) DEFINITIONS WITH RESPECT TO COLLAPSIBLE CORPORATIONS.—Section 117 (m) (2) (relating to definitions with respect to collapsible corporations) is hereby amended to read as follows:

"(2) DEFINITIONS.—

"(A) For the purposes of this subsection, the term 'collapsible corporation' means a corporation formed or availed of principally for the manufacture, construction, or production of property, for the purchase of property which (in the hands of the cor-

poration) is properly described in subsection (a) (1) (A), or for the holding of stock in a corporation so formed or availed of, with a view to—

“(i) the sale or exchange of stock by its shareholders (whether in liquidation or otherwise), or a distribution to its shareholders, prior to the realization by the corporation manufacturing, constructing, producing, or purchasing the property of a substantial part of the net income to be derived from such property, and

“(ii) the realization by such shareholders of gain attributable to such property.

“(B) For the purposes of subparagraph (A), a corporation shall be deemed to have manufactured, constructed, produced, or purchased property, if—

“(i) it engaged in the manufacture, construction, or production of such property to any extent,

“(ii) it holds property having a basis determined, in whole or in part, by reference to the cost of such property in the hands of a person who manufactured, constructed, produced, or purchased the property, or

“(iii) it holds property having a basis

determined, in whole or in part, by reference to the cost of property manufactured, constructed, produced, or purchased by the corporation."

(b) LIMITATIONS ON APPLICATION OF SECTION 117

(m).—Subparagraphs (A), (B), and (C) of section 117

(m) (3) (relating to the limitations on the application of section 117 (m)) are hereby amended to read as follows:

"(A) this subsection shall not apply unless, at any time after the commencement of the manufacture, construction, or production of the property, or at the time of the purchase of the property described in subsection (a) (1) (A) or at any time thereafter, such shareholder (i) owned (or was considered as owning) more than 10 per centum in value of the outstanding stock of the corporation or (ii) owned stock which was considered as owned at such time by another shareholder who then owned (or was considered as owning) more than 10 per centum in value of the outstanding stock of the corporation;

"(B) this subsection shall not apply to the gain recognized during a taxable year unless more than 70 per centum of such gain is attributable to

1 the property so manufactured, constructed, pro-
2 duced, or purchased; and

3 “(C) this subsection shall not apply to gain
4 realized after the expiration of three years following
5 the completion of such manufacture, construction,
6 production, or purchase.”

7 **(74)(c) EFFECTIVE DATE.**—The amendment made by this
8 section shall be applicable to taxable years beginning after
9 December 31, 1950. The determination of the tax treat-
10 ment of gains realized in taxable years beginning prior to
11 January 1, 1951, shall be made as if this section had not
12 been enacted and without inferences drawn from the fact
13 that the amendment to section 117 (m) made by this sec-
14 tion is not expressly made applicable to gains realized in
15 taxable years beginning prior to such date and without
16 inferences drawn from the limitations contained in section
17 117 (m), as amended by this section.

18 (c) *EFFECTIVE DATE.*—The amendments made by this
19 section shall be applicable to taxable years ending after
20 August 31, 1951, but shall be applicable only with respect to
21 gains realized after such date. The determination of the
22 tax treatment of gains realized prior to September 1, 1951,
23 shall be made as if this section had not been enacted and
24 without inferences drawn from the fact that the amendments
25 to section 117 (m) made by this section are not expressly

1 *made applicable to gains realized prior to September 1, 1951,*
 2 *and without inferences drawn from the limitations contained*
 3 *in section 117 (m), as amended by this section.*

4 SEC. (75)~~309~~ 327. DEALERS IN SECURITIES—CAPITAL
 5 GAINS AND ORDINARY LOSSES.

6 Effective with respect to sales or exchanges made after
 7 the expiration of the thirtieth day after the date of the enact-
 8 ment of this Act, section 117 is hereby amended by adding
 9 at the end thereof the following new subsection:

10 “(n) DEALERS IN SECURITIES.—

11 “(1) CAPITAL GAINS.—Gain by a dealer in securi-
 12 ties from the sale or exchange of any security shall in no
 13 event be considered as gain from the sale or exchange
 14 of a capital asset unless—

15 “(A) the security was, prior to the expiration
 16 of the thirtieth day after the date of its acquisition or
 17 after the date of the enactment of the Revenue Act
 18 of 1951 (whichever is the later), clearly identified
 19 in the dealer’s records as a security held for invest-
 20 ment; and

21 “(B) the security was not, at any time after
 22 the expiration of such thirtieth day, held by such
 23 dealer primarily for sale to customers in the ordinary
 24 course of his trade or business.

25 “(2) ORDINARY LOSSES.—Loss by a dealer in securi-

1 ties from the sale or exchange of any security ~~(76)~~shall
 2 *shall, except as otherwise provided in subsection (i)*
 3 *(relating to bond, etc., losses of banks)*, in no event be
 4 considered as loss from the sale or exchange of property
 5 which is not a capital asset if at any time after the
 6 thirtieth day following the date of the enactment of the
 7 Revenue Act of 1951 the security was clearly identified
 8 in the dealer's records as a security held for investment.

9 “(3) DEFINITION OF SECURITY.—For the purposes
 10 of this subsection the term ‘security’ means any share
 11 of stock in any corporation, certificate of stock or in-
 12 terest in any corporation, note, bond, debenture, or evi-
 13 dence of indebtedness, or any evidence of an interest
 14 in or right to subscribe to or purchase any of the
 15 foregoing.”

16 **(77) SEC. 310. TREATMENT OF GAIN ON SALES OF CERTAIN**
 17 **PROPERTY BETWEEN SPOUSES AND BE-**
 18 **TWEEN AN INDIVIDUAL AND A CON-**
 19 **TROLLED CORPORATION.**

20 **~~(a)~~ DISALLOWANCE OF CAPITAL GAIN TREATMENT.—**
 21 Section 117 ~~(relating to capital gains and losses)~~ is hereby
 22 amended by adding at the end thereof the following new
 23 subsection:

1 “(o) GAIN FROM SALE OF CERTAIN PROPERTY BE-
2 TWEEN SPOUSES OR BETWEEN AN INDIVIDUAL AND A
3 CONTROLLED CORPORATION.—

4 “(1) TREATMENT OF GAIN AS ORDINARY IN-
5 COME.—In the case of a sale or exchange, directly or
6 indirectly, of property described in paragraph (2)—

7 “(A) between a husband and wife; or

8 “(B) between an individual and a corporation
9 more than 50 per centum in value of the outstand-
10 ing stock of which is owned, directly or indirectly,
11 by or for such individual,

12 any gain recognized to the transferor from the sale or
13 exchange of such property shall be considered as gain
14 from the sale or exchange of property which is neither a
15 capital asset nor property described in subsection (j):

16 “(2) SUBSECTION APPLICABLE ONLY TO SALES OR
17 EXCHANGES OF DEPRECIABLE PROPERTY.—This subsec-
18 tion shall apply only in the case of a sale or exchange of
19 property by a transferor which in the hands of the trans-
20 feree is property of a character which is subject to the
21 allowance for depreciation provided in section 23 (1):

22 “(3) STOCK OWNERSHIP.—For the purposes of
23 determining, in applying paragraph (1) (B), the
24 ownership of stock—

1 ~~“(A) stock owned, directly or indirectly, by or~~
2 ~~for a corporation, partnership, estate, or trust, shall~~
3 ~~be considered as being owned proportionately by or~~
4 ~~for its shareholders, partners, or beneficiaries;~~

5 ~~“(B) an individual shall be considered as own-~~
6 ~~ing the stock owned, directly or indirectly, by or for~~
7 ~~his spouse;~~

8 ~~“(C) if an individual owns more than 10 per~~
9 ~~centum in value of the outstanding stock of a cor-~~
10 ~~poration (including stock considered as owned by~~
11 ~~him under subparagraphs (A) and (B)), such~~
12 ~~individual shall be considered as owning the stock~~
13 ~~owned in such corporation, directly or indirectly,~~
14 ~~by or for his brothers and sisters (whether by the~~
15 ~~whole or the half blood), ancestors, and lineal~~
16 ~~descendants;~~

17 ~~“(D) stock constructively owned by a person~~
18 ~~by reason of the application of subparagraph (A)~~
19 ~~shall, for the purpose of applying subparagraph~~
20 ~~(A), (B), or (C), be treated as actually owned~~
21 ~~by such person, but stock constructively owned by~~
22 ~~an individual by reason of the application of sub-~~
23 ~~paragraph (B) or (C) shall not be treated as~~
24 ~~owned by him for the purpose of applying either~~

such subparagraph in order to make another the constructive owner of such stock.”

~~(b)~~ **EFFECTIVE DATE.**—The amendment made by subsection ~~(a)~~ shall be applicable with respect to taxable years ending after April 30, 1951, but shall apply only with respect to sales or exchanges made after May 3, 1951.

SEC. 328. RECEIPTS OF CERTAIN TERMINATION PAYMENTS BY EMPLOYEE.

(a) TAXABILITY TO EMPLOYEE AS CAPITAL GAIN.—Section 117 of the Internal Revenue Code is hereby amended by adding at the end thereof the following subsection:

“(o) **TAXABILITY TO EMPLOYEE OF TERMINATION PAYMENT.**—Amounts received from the assignment or release by an employee, after more than twenty years’ employment, of all his rights to receive, after termination of his employment, a percentage of future profits or receipts of his employer shall be considered an amount received from the sale or exchange of a capital asset held for more than six months, if such rights were included in the terms of the employment of such employee for not less than twelve years. and if the total of the amounts received for such assignment or release are received in one taxable year and after the termination of such employment.”

1 (b) *EFFECTIVE DATE.*—The amendment made by this
 2 section shall be applicable with respect to taxable years begin-
 3 ning after December 31, 1950.

4 (79)SEC. 329. NET OPERATING LOSS CARRY-OVER.

5 (a) *LOSS FOR TAXABLE YEAR BEGINNING BEFORE*
 6 *1948.*—So much of subparagraph (A) of section 122 (b)
 7 (2) (relating to the amount of carry-overs) as precedes
 8 “the taxpayer” is hereby amended to read as follows:

9 “(A) Loss for Taxable Year Beginning Before
 10 1948.—Except as provided in subparagraph (D),
 11 if for any taxable year beginning before January
 12 1, 1948,”.

13 (b) *ALLOWANCE OF FOUR-YEAR LOSS CARRY-OVER*
 14 *FROM TAXABLE YEARS 1948-1949.*—Section 122 (b) (2)
 15 (relating to the amount of carry-over) is hereby amended by
 16 adding after subparagraph (B) the following new sub-
 17 paragraphs:

18 “(C) Loss for Taxable Year Beginning After
 19 December 31, 1947, and Before January 1, 1950.—
 20 If for any taxable year beginning after December
 21 31, 1947, and before January 1, 1950, the tax-
 22 payer has a net operating loss, such net operating loss
 23 shall be a net operating loss carry-over for each of the
 24 four succeeding taxable years, except that the carry-

1 *over in the case of each such succeeding taxable year*
2 *(other than the first succeeding taxable year) shall*
3 *be the excess, if any, of the amount of such net*
4 *operating loss over the sum of the net income for each*
5 *of the intervening years computed—*

6 *“(i) with the exceptions, additions, and*
7 *limitations provided in subsection (d) (1), (2),*
8 *(4), and (6), and*

9 *“(ii) by determining the net operating loss*
10 *deduction for each intervening taxable year*
11 *without regard to such net operating loss or to*
12 *the net operating loss for any succeeding taxable*
13 *year and without regard to any reduction*
14 *specified in subsection (c).*

15 *For the purpose of the preceding sentence, the net*
16 *operating loss for any taxable year beginning after*
17 *December 31, 1947 and before January 1, 1950*
18 *shall be reduced by the sum of the net income for*
19 *each of the two preceding taxable years computed—*

20 *“(iii) with the exceptions, additions, and*
21 *limitations provided in subsection (d) (1),*
22 *(2), (4), and (6), and*

23 *“(iv) by determining the net operating*
24 *loss deduction without regard to such net*

1 operating loss or to the net operating loss for
2 the succeeding taxable year, and without regard
3 to any reduction specified in subsection (c).

4 “(D) *Loss for Taxable Year Beginning After*
5 *December 31, 1945 and Before January 1, 1948*
6 *in the Case of a Corporation Which Commenced*
7 *Business After December 31, 1945.*—If for any
8 taxable year beginning after December 31, 1945,
9 and before January 1, 1948, a corporation which
10 commenced business after December 31, 1945, has
11 a net operating loss, such net operating loss shall be
12 a net operating loss carry-over for each of the four
13 succeeding taxable years, except that the carry-over
14 in the case of each such succeeding taxable year
15 (other than the first succeeding taxable year) shall
16 be the excess, if any, of the amount of such net operat-
17 ing loss over the sum of the net income for each of the
18 intervening years computed—

19 “(i) with the exceptions, additions, and
20 limitations provided in subsection (d) (1),
21 (2), (4), and (6), and

22 “(ii) by determining the net operating loss
23 deduction for each intervening taxable year
24 without regard to such net operating loss or to
25 the net operating loss for any succeeding taxable

year and without regard to any reduction specified in subsection (c).

For the purpose of the preceding sentence, the net operating loss for any taxable year beginning after December 31, 1945, shall be reduced by the sum of the net income for each of the two preceding taxable years computed—

“(iii) with the exceptions, additions, and limitations provided in subsection (d) (1), (2), (4), and (6), and

“(iv) by determining the net operating loss deduction without regard to such net operating loss or to the net operating loss for the succeeding taxable year, and without regard to any reduction specified in subsection (c).”

(c) *EFFECTIVE DATE.*—The amendments made by this section shall be applicable in computing the net operating loss deduction for taxable years beginning after December 31, 1948.

(80) SEC. 330. STOCK OPTIONS.

(a) *OPTION SUBJECT TO STOCKHOLDER APPROVAL.*—Section 130A (d) (relating to definition of restricted stock option) is hereby amended by striking out “As used in” and inserting “For the purposes of” and by adding at the end thereof the following:

1 “(5) *STOCKHOLDER APPROVAL*.—If the grant of
2 an option is subject to approval by stockholders, the date
3 of grant of the option shall be determined as if the option
4 had not been subject to such approval.”

5 (b) *EFFECTIVE DATE*.—The amendment made by sub-
6 section (a) shall be effective as if it had been enacted as part
7 of section 218 of the Revenue Act of 1950.

8 (81) *SEC. 331. CREDIT FOR TAXES OF FOREIGN CORPORATIONS.*

9 (a) *FOREIGN SUBSIDIARY OF A DOMESTIC CORPORA-*
10 *TION*.—Effective with respect to dividends received by a
11 domestic corporation from a foreign corporation during tax-
12 able years beginning after December 31, 1950, the first sen-
13 tence of section 131 (f) (1) is hereby amended by striking
14 out “a majority” and inserting in lieu thereof “at least 10
15 per centum”.

16 (b) *FOREIGN SUBSIDIARY OF A FOREIGN CORPORA-*
17 *TION*.—Effective with respect to dividends received by a
18 foreign corporation from another foreign corporation in
19 taxable years beginning after December 31, 1950, section 131
20 (f) (2) is hereby amended by striking out “all the voting
21 stock (except qualifying shares)” and inserting in lieu thereof
22 “a majority of the voting stock”.

23 (c) *CLERICAL AMENDMENT*.—So much of section 131

1 *(f) (1) as precedes the first sentence thereof is hereby*
 2 *amended to read as follows:*

3 “(f) *TAXES OF FOREIGN CORPORATION.—*

4 “(1) *TREATMENT OF TAXES PAID BY FOREIGN*
 5 *CORPORATION.—*”.

6 (82)SEC. 332. *INFORMATION AT SOURCE ON PAYMENTS OF*
 7 *INTEREST.*

8 *Section 147 (a) is hereby amended by striking out*
 9 *“interest,” in the first sentence. Section 147 (b) is hereby*
 10 *amended to read as follows:*

11 “(b) *RETURNS REGARDLESS OF AMOUNT OF PAY-*
 12 *MENT.—Such returns may be required, regardless of amounts,*
 13 *(1) in the case of payments of interest, and (2) in the case*
 14 *of collections of items (not payable in the United States) of*
 15 *interest upon the bonds of foreign countries and interest upon*
 16 *the bonds of and dividends from foreign corporations by per-*
 17 *sons undertaking as a matter of business or for profit the col-*
 18 *lection of foreign payments of such interest or dividends by*
 19 *means of coupons, checks, or bills of exchange.”*

20 (83)SEC. 333. *ABATEMENT OF INCOME TAX FOR CERTAIN*
 21 *MEMBERS OF ARMED FORCES UPON DEATH.*

22 *Supplement D of chapter 1 of the Internal Revenue*
 23 *Code (relating to returns and payment of tax) is hereby*

1 *amended by adding at the end thereof the following new*
2 *section:*

3 **"SEC. 154. INCOME TAXES OF MEMBERS OF ARMED FORCES UPON**
4 **DEATH.**

5 *"In the case of any individual who dies after June 24,*
6 *1950, and prior to January 1, 1954, while in active service*
7 *as a member of the Armed Forces of the United States, if*
8 *such death occurred while serving in a combat zone (as*
9 *determined under section 22 (b) (13)) or as a result of*
10 *wounds, disease, or injury incurred while so serving—*

11 *"(a) the tax imposed by this chapter shall not apply*
12 *with respect to the taxable year in which falls the date*
13 *of his death, or with respect to any prior taxable year*
14 *ending on or after the first day he so served in a combat*
15 *zone after June 24, 1950; and*

16 *"(b) the tax under this chapter and under the cor-*
17 *responding title of each prior revenue law for taxable*
18 *years preceding those specified in clause (a) which is*
19 *unpaid at the date of his death (including interest, addi-*
20 *tions to the tax, and additional amounts) shall not be*
21 *assessed, and if assessed the assessment shall be abated,*
22 *and if collected shall be credited or refunded as an*
23 *overpayment."*

1 **(84)SEC. 334. EMPLOYEES' TRUSTS.**

2 (a) *AMENDMENT OF SECTION 165 (b).*—Section 165

3 (b) (relating to taxability of beneficiary on distributions from
4 an employees' trust) is hereby amended by adding at the
5 end thereof the following new sentence: "Where such total
6 distributions include securities of the employer corporation,
7 there shall be excluded from such excess the net unrealized
8 appreciation attributable to that part of the total distributions
9 which consists of the securities of the employer corporation
10 so distributed. The amount of such net unrealized appre-
11 ciation and the resulting adjustments to basis of the securities
12 of the employer corporation so distributed shall be determined
13 in accordance with regulations which shall be prescribed by
14 the Secretary. For purposes of this subsection, the term
15 'securities' means only shares of stock and bonds or debentures
16 issued by a corporation with interest coupons or in registered
17 form".

18 (b) *EFFECTIVE DATE.*—The amendment made by this
19 section shall be applicable with respect to distributions made
20 after December 31, 1950.

21 **(85)SEC. 311. LIFE INSURANCE COMPANIES.**

22 ~~(a) RESERVE AND OTHER POLICY LIABILITY CREDIT~~
23 ~~FOR 1951.~~—So much of section 202 (b) (2) (relating to

1 definition of reserve and other policy liability credit) as
 2 precedes subparagraph (A) thereof is hereby amended to
 3 read as follows:

4 “(2) SPECIAL RULE FOR 1949, 1950, AND 1951.—

5 In the case of the taxes imposed for a taxable year
 6 beginning in 1949, 1950, or 1951, the figure to be used
 7 for such year shall be computed as provided in paragraph
 8 (1) except that—”

9 (b) EFFECTIVE DATE.—The amendment made by
 10 subsection (a) shall be applicable to taxable years beginning
 11 in 1951.

12 SEC. 335. LIFE INSURANCE COMPANIES.

13 (a) TAX FOR 1951.—Section 201 (a) (1) (relating
 14 to imposition of tax on life insurance companies) is hereby
 15 amended by adding at the end thereof the following: “In lieu
 16 of the taxes imposed by the preceding sentence, there shall
 17 be levied, collected, and paid for taxable years beginning in
 18 1951 upon the 1951 adjusted normal-tax net income (as
 19 defined in section 203A) of every life insurance company a
 20 tax equal to the sum of the following:

21 “ $3\frac{3}{4}$ per centum of the amount thereof not in excess
 22 of \$200,000, plus

23 “ $6\frac{1}{2}$ per centum of the amount thereof in excess
 24 of \$200,000.”

1 (b) *ADJUSTED NORMAL-TAX NET INCOME FOR*
 2 *1951.*—Chapter 1 is hereby amended by inserting after
 3 *section 203 the following new section:*

4 “SEC. 203A. *1951 ADJUSTED NORMAL-TAX NET INCOME.*

5 “(a) *1951 ADJUSTED NORMAL-TAX NET INCOME.*—
 6 *For the purposes of section 201, the term ‘1951 adjusted nor-*
 7 *mal-tax net income’ means the normal-tax net income plus*
 8 *eight times the amount of the adjustment for certain reserves*
 9 *provided in section 202 (c) and minus the reserve interest*
 10 *credit, if any, provided in subsection (b) of this section.*

11 “(b) *RESERVE INTEREST CREDIT.*—*For the purposes*
 12 *of subsection (a), the reserve interest credit shall be an*
 13 *amount determined as follows:*

14 “(1) *Divide the amount of the adjusted net income*
 15 *(as defined in subsection (c)) by the amount of the*
 16 *required interest (as defined in subsection (d)).*

17 “(2) *If the quotient obtained in paragraph (1)*
 18 *is 1.05 or more, the reserve interest credit shall be zero.*

19 “(3) *If the quotient obtained in paragraph (1) is*
 20 *1.00 or less, the reserve interest credit shall be an amount*
 21 *equal to 50 per centum of the normal-tax net income.*

22 “(4) *If the quotient obtained in paragraph (1)*
 23 *is more than 1.00 but less than 1.05, the reserve interest*

1 credit shall be the amount obtained by multiplying the
2 normal-tax net income by 10 times the difference be-
3 tween the figures 1.05 and such quotient.

4 “(c) *ADJUSTED NET INCOME*.—For the purposes of
5 subsection (b) (1), the term ‘adjusted net income’ means
6 the net income computed without any deduction for tax-free
7 interest minus 50 per centum of the amount of the adjustment
8 for certain reserves provided in section 202 (c).

9 “(d) *REQUIRED INTEREST*.—For the purposes of sub-
10 section (b) (1), the term ‘required interest’ means the
11 total of—

12 “(1) The sum of the amounts obtained by multi-
13 plying (A) each rate of interest assumed in computing
14 the taxpayer’s life insurance reserves by (B) the means
15 of the amounts of the taxpayer’s adjusted reserves com-
16 puted at that rate at the beginning and end of the tax-
17 able year,

18 “(2) 2 per centum of the reserve for deferred divi-
19 dends, and

20 “(3) Interest paid.”

21 (c) *TECHNICAL AMENDMENTS*.—

22 (1) Section 433 (a) (1) (H) (relating to excess
23 profits net income of life insurance companies) is hereby
24 amended by changing the semicolon at the end thereof
25 to a period and by inserting thereafter the following:

“In the case of taxable years beginning in 1951, there shall be used, in lieu of the figure referred to in clause (i) of the first sentence of this subparagraph, the figure .87;”.

(2) Section 201 (f) (relating to disallowance of double deductions) is hereby amended by striking out “or 203” and inserting in lieu thereof “, 203, or 203A”.

(d) *EFFECTIVE DATE.*—The amendments made by this section shall be applicable to taxable years beginning in 1951.

SEC. (86)~~342~~ 336. TAX TREATMENT OF CERTAIN INVESTMENT COMPANIES.

(a) INCLUSION OF CERTAIN REGISTERED MANAGEMENT COMPANIES IN THE DEFINITION OF REGULATED INVESTMENT COMPANY.—Section 361 (relating to definition of regulated investment companies) is hereby amended by adding at the end thereof the following new subsection:

(87)~~“(e)~~ CERTAIN INVESTMENT COMPANIES.—If the Securities and Exchange Commission determines in accordance with regulations issued by it, and certifies to the Secretary not more than 60 days prior to the close of the taxable year of a registered management company, that such investment company is principally engaged in the furnishing of capital to other corporations which are principally engaged in the development or exploitation of inventions, technological developments, new processes, or products not

1 previously generally available, such investment company
2 may, in the computation of 50 per centum of the value of
3 its assets under subparagraph (A) of subsection (b) (3)
4 for any quarter of such taxable year, include with respect
5 to any issuer securities which constitute more than (10) per
6 centum of the outstanding voting securities of such issuer if
7 the investment company has not continuously held any
8 security of such issuer (or of any predecessor company
9 of such issuer as determined under regulations prescribed
10 by the Secretary) for 10 or more years preceding such
11 quarter of such taxable year. The provisions of this sub-
12 section shall not apply at the close of any quarter of a tax-
13 able year to an investment company if at the close of such
14 quarter more than 25 per centum of the value of its total
15 assets is represented by securities of issuers with respect
16 to each of which the investment company holds more than
17 10 per centum of the outstanding voting securities of such
18 issuer and in respect of each of which or any predecessor
19 thereof the investment company has continuously held any
20 security for 10 or more years preceding such quarter unless
21 the value of its total assets so represented is reduced to
22 25 per centum or less within 30 days after the close of such
23 quarter. The terms used in this subsection shall have the
24 same meaning as in subsection (b) (3) of this section. For
25 the purposes of this subsection, a corporation shall be con-

1 sidered to be principally engaged in the development or
2 exploitation of inventions, technological improvements, new
3 processes, or products not previously generally available, for
4 at least 10 years after the date of the first acquisition of any
5 security in such corporation or any predecessor thereof by
6 such investment company if at the date of such acquisition
7 the corporation or its predecessor was principally so en-
8 gaged. For the purposes of the certification hereunder, the
9 Securities and Exchange Commission shall have authority to
10 issue such rules, regulations and orders, and to conduct such
11 investigations and hearings, either public or private, as it
12 may deem appropriate.”

13 “(c) CERTAIN INVESTMENT COMPANIES.—If the Se-
14 curities and Exchange Commission determines in accordance
15 with regulations issued by it, and certifies to the Secretary
16 not more than 60 days prior to the close of the taxable year
17 of a registered management investment company, that such
18 investment company is principally engaged in the furnishing
19 of capital to other corporations which are principally engaged
20 in the development or exploitation of inventions, technological
21 improvements, new processes, or products not previously gen-
22 erally available, such investment company may, in the com-
23 putation of 50 per centum of the value of its assets under
24 subparagraph (A) of subsection (b) (3) for any quarter
25 of such taxable year, include the value of any securities of

1 an issuer, notwithstanding the fact that such investment com-
2 pany holds more than 10 per centum of the outstanding
3 voting securities of such issuer, but only if the investment
4 company has not continuously held any security of such
5 issuer (or of any predecessor company of such issuer as
6 determined under regulations prescribed by the Secretary)
7 for 10 or more years preceding such quarter of such taxable
8 year. The provisions of this subsection shall not apply at the
9 close of any quarter of a taxable year to an investment
10 company if at the close of such quarter more than 25 per
11 centum of the value of its total assets is represented by
12 securities of issuers with respect to each of which the invest-
13 ment company holds more than 10 per centum of the out-
14 standing voting securities of such issuer and in respect of
15 each of which or any predecessor thereof the investment
16 company has continuously held any security for 10 or more
17 years preceding such quarter unless the value of its total
18 assets so represented is reduced to 25 per centum or less
19 within 30 days after the close of such quarter. The terms
20 used in this subsection shall have the same meaning as in
21 subsection (b) (3) of this section. For the purposes of
22 this subsection, unless the Securities and Exchange Com-
23 mission determines otherwise, a corporation shall be considered
24 to be principally engaged in the development or exploitation

1 of inventions, technological improvements, new processes,
2 or products not previously generally available, for at least
3 10 years after the date of the first acquisition of any security
4 in such corporation or any predecessor thereof by such in-
5 vestment company if at the date of such acquisition the
6 corporation or its predecessor was principally so engaged,
7 and an investment company shall be considered at any date
8 to be furnishing capital to any company whose securities it
9 holds if within 10 years prior to such date it has acquired
10 any of such securities, or any securities surrendered in ex-
11 change therefor, from such other company or predecessor
12 thereof. For the purposes of the certification hereunder, the
13 Securities and Exchange Commission shall have authority
14 to issue such rules, regulations and orders, and to conduct
15 such investigations and hearings, either public or private, as
16 it may deem appropriate.”

17 (b) TECHNICAL AMENDMENT. Section 361 (b) (3)
18 (A) is hereby amended by inserting after “the total assets
19 of the taxpayer and” the following: “, except and to the
20 extent provided in subsection (c),”.

21 (c) EFFECTIVE DATE.—The amendments made by this
22 section shall be applicable only with respect to taxable years
23 beginning after December 31, 1950.

1 **(88)SEC. 337. EXCHANGES AND DISTRIBUTIONS IN OBEDIENCE**
 2 **TO ORDERS OF SECURITIES AND EXCHANGE**
 3 **COMMISSION.**

4 *(a) DEFINITION OF SYSTEM GROUP.—Section 373*

5 *(d) (1) (relating to the definition of the term “system*
 6 *group”)* *is hereby amended to read as follows:*

7 *“(1) At least 90 per centum of each class of the*
 8 *stock (other than (A) stock which is preferred as to both*
 9 *dividends and assets, and (B) stock which is limited*
 10 *and preferred as to dividends but which is not preferred*
 11 *as to assets but only if the total value of such stock*
 12 *is less than 1 per centum of the aggregate value of all*
 13 *classes of stock which are not preferred as to both divi-*
 14 *dends and assets) of each of the corporations (except the*
 15 *common parent corporation) is owned directly by one*
 16 *or more of the other corporations; and”.*

17 *(b) EFFECTIVE DATE.—The amendment made by sub-*
 18 *section (a) shall be applicable with respect to taxable years*
 19 *affected by an exchange or distribution made after December*
 20 *31, 1947.*

21 **(89)SEC. 338. TAXATION OF BUSINESS INCOME OF STATE COL-**
 22 **LEGES AND UNIVERSITIES.**

23 *(a) AMENDMENT OF SECTION 421 (b).—Section 421*

24 *(b) (1) (organizations subject to tax under Supplement U)*
 25 *is hereby amended to read as follows:*

1 “(1) ORGANIZATIONS TAXABLE AS CORPORA-
2 TIONS.—

3 “(A) Organizations Exempt Under Section
4 101 (1), (6), (7) and (14).—The taxes imposed
5 by subsection (a) (1) shall apply in the case of any
6 organization (other than a church, a convention or
7 association of churches, or a trust described in para-
8 graph (2)) which is exempt, except as provided in
9 this supplement, from taxation under this chapter
10 by reason of paragraph (1), (6), or (7) of section
11 101. Such taxes shall also apply in the case of a
12 corporation described in section 101 (14) if the
13 income is payable to an organization which itself is
14 subject to the tax imposed by subsection (a) or to a
15 church or to a convention or association of churches.

16 “(B) State Colleges and Universities.—The
17 taxes imposed by subsection (a) (1) shall apply in
18 the case of any college or university which is an
19 agency or instrumentality of any government or any
20 political subdivision thereof, or which is owned or
21 operated by a government or any political subdivision
22 thereof or by any agency or instrumentality of any
23 one or more governments or political subdivisions.
24 Such taxes shall also apply in the case of any cor-

1 poration wholly owned by one or more such colleges
2 or universities.”

3 (b) *UNRELATED TRADE OR BUSINESS.*—Section 422
4 (b) (definition of unrelated trade or business) is hereby
5 amended as follows:

6 (1) By inserting after “under section 101” the
7 following: “(or, in the case of an organization described
8 in section 421 (b) (1) (B), to the exercise or perform-
9 ance of any purpose or function described in section
10 101 (6))”.

11 (2) By inserting in paragraph (2) thereof after
12 “section 101 (6)” the following: “or in the case of a
13 college or university described in section 421 (b) (1)
14 (B)”.

15 (c) *EFFECTIVE DATE.*—The amendments made by this
16 section shall be applicable only with respect to taxable years
17 beginning after December 31, 1951.

18 **SEC. (90)~~313~~ 339. FAMILY PARTNERSHIPS.**

19 (a) *DEFINITION OF PARTNER.*—Section 3797 (a) (2)
20 is hereby amended by adding at the end thereof the follow-
21 ing: “A person shall be recognized as a partner for income
22 tax purposes if he owns a capital interest in a partnership in
23 which capital is a material income-producing factor, whether
24 or not such interest was derived by purchase or gift from
25 any other person.”

1 (b) ALLOCATION OF PARTNERSHIP INCOME.—Sup-
2 plement F of chapter 1 is hereby amended by adding at
3 the end thereof the following new section:

4 **“SEC. 191. FAMILY PARTNERSHIPS.**

5 “In the case of any partnership interest created by
6 gift, the distributive share of the donee under the partner-
7 ship agreement shall be includible in his gross income, except
8 to the extent that such share is determined without allow-
9 ance of reasonable compensation for services rendered to
10 the partnership by the donor, and except to the extent that
11 the portion of such share attributable to donated capital is
12 proportionately greater than the share of the donor attribut-
13 able to the donor’s capital. The distributive share of a part-
14 ner in the earnings of the partnership shall not be dimin-
15 ished because of absence due to military service. For the
16 purpose of this section, an interest purchased by one mem-
17 ber of a family from another shall be considered to be created
18 by gift from the seller, and the fair market value of the pur-
19 chased interest shall be considered to be donated capital.
20 The ‘family’ of any individual shall include only his spouse,
21 ancestors, and lineal descendants, and any trust for the
22 primary benefit of such persons.”

23 **(91)(c) EFFECTIVE DATE.**—The amendments made by this
24 section shall be applicable with respect to taxable years
25 beginning after December 31, 1950. The determination

1 as to whether a person shall be recognized as a partner for
2 income tax purposes for any taxable year beginning before
3 January 1, 1951 shall be made as if this section had not
4 been enacted and without inferences drawn from the fact
5 that this section is not expressly made applicable with
6 respect to taxable years beginning before January 1, 1951.

7 (c) *EFFECTIVE DATE.*—

8 (1) *GENERAL RULE.*—*Except as otherwise provided*
9 *in this subsection, the amendments made by this section*
10 *shall be applicable only with respect to taxable years be-*
11 *ginning after December 31, 1950.*

12 (2) *RETROACTIVE APPLICATIONS.*—*At the elec-*
13 *tion of a taxpayer made in accordance with regulations*
14 *prescribed by the Secretary, the amendments made by*
15 *this section shall also be applicable with respect to such*
16 *taxable years beginning after December 31, 1938, and*
17 *before January 1, 1951, as are specified by the taxpayer*
18 *in making such election. Such election for any taxable*
19 *year shall not be valid unless, prior to the expiration*
20 *of ninety days after the filing of such election (or such*
21 *longer period as the Secretary may by regulations pre-*
22 *scribe) each family partner of the taxpayer files, in*
23 *accordance with such regulations, a written consent to*
24 *the application of such amendments to his taxable years*
25 *corresponding to the taxable years for which the election*

1 is made by the taxpayer. In lieu of such consent by
2 any family partner, there may be paid, under regula-
3 tions prescribed by the Secretary and within the time
4 provided for filing such consent, an amount equal to
5 the deficiency and interest which would be assessed with
6 respect to such family partner if he filed such consent.
7 Such election, and any consent filed in respect of such
8 election, shall be applicable only to such partnerships
9 as are specified in the election. For the purpose of
10 this subsection, the term "family partner" means any
11 person who upon the filing of such consent would be
12 liable for a deficiency attributable to income considered,
13 but for the application of the amendments made by this
14 section, as income of the taxpayer. The period of limi-
15 tations provided in sections 275 and 276 of the Internal
16 Revenue Code on the making of assessments and the
17 beginning of distraint or a proceeding in court for
18 collection shall with respect to any deficiency and inter-
19 est thereon resulting from any such election or consent
20 include one year immediately following the date such
21 election or consent is filed, and such assessment and
22 collection may be made notwithstanding any provision
23 of law or any rule of law which otherwise would prevent
24 such assessment and collection. If an election by a tax-
25 payer should be filed for a taxable year for which allow-

1 *ance of credit or refund of an overpayment is barred*
 2 *(at the time of such filing) by any law or rule of law,*
 3 *any consent filed by a family partner of the taxpayer*
 4 *with respect to such year shall be void.*

5 (3) *TAXABLE YEAR OF PARTNER DIFFERENT*
 6 *FROM TAXABLE YEAR OF PARTNERSHIP.—In applying*
 7 *paragraphs (1) and (2) of this subsection where the*
 8 *taxable year of the taxpayer or a family partner is*
 9 *different from the taxable year of the partnership—*

10 (A) *if a taxable year of the partnership ending*
 11 *in 1951 ends within or with a taxable year of the*
 12 *taxpayer or a family partner which began before*
 13 *January 1, 1951, the amendments made by this*
 14 *section shall be applicable, with respect to the dis-*
 15 *tributive shares of income derived by the taxpayer*
 16 *and the family partners from such taxable year of*
 17 *the partnership, only pursuant to the provisions of*
 18 *paragraph (2) of this subsection, notwithstanding*
 19 *that paragraph (1) of this subsection might other-*
 20 *wise be applicable to some of the partners.*

21 (B) *if a taxable year of the partnership end-*
 22 *ing in 1939 ended within or with a taxable year of*
 23 *the taxpayer or a family partner which began before*
 24 *January 1, 1939, the amendments made by this sec-*
 25 *tion shall not be applicable with respect to any of*

the distributive shares of income derived by the taxpayer and the family partners from such taxable year of the partnership, notwithstanding that paragraph (2) of this subsection might otherwise be applicable to some of the partners.

(92) SEC. 340. WAR LOSSES.

(a) TAX UPON WAR LOSS RECOVERY.—Section 127

(c) (relating to recoveries included in gross income) is hereby amended to read as follows:

“(c) RECOVERIES.—

“(1) GENERAL RULE.—Upon the recovery in the taxable year of any money or property in respect of property considered under subsection (a) as destroyed or seized in any prior taxable year, the amount of such recovery shall be included in gross income to the extent provided in paragraph (2), unless the provisions of paragraph (3) are applicable to the taxable year pursuant to an election made by the taxpayer under the provisions of paragraph (5).

“(2) INCLUSION IN GROSS INCOME.—

“(A) Amount of Recovery.—The amount of the recovery of any money or property in respect of property considered under subsection (a) as destroyed or seized in any prior taxable year shall be an amount equal to the aggregate of such money and

1 *the fair market value of such property, determined*
2 *as of the date of the recovery.*

3 *“(B) Amount of Gain Includible.—To the*
4 *extent that the amount of the recovery plus the*
5 *aggregate of the amounts of previous such recoveries*
6 *do not exceed that part of the aggregate of the allow-*
7 *able deductions in prior taxable years on account*
8 *of the destruction or seizure of property described*
9 *in subsection (a) which did not result in a reduc-*
10 *tion of any tax of the taxpayer under this chapter*
11 *or chapter 2, such amount shall not be includible in*
12 *gross income and shall not be deemed gain upon*
13 *the involuntary conversion of property as a result*
14 *of its destruction or seizure. To the extent that such*
15 *amount plus the aggregate of the amounts of pre-*
16 *vious such recoveries exceed that part of the aggregate*
17 *of such deductions, which did not result in a reduc-*
18 *tion of any tax of the taxpayer under this chapter*
19 *or chapter 2 and do not exceed that part of the*
20 *aggregate of such deductions which did result in*
21 *a reduction of any tax of the taxpayer under this*
22 *chapter or chapter 2, such amount shall be included*
23 *in gross income but shall not be deemed a gain*
24 *upon the involuntary conversion of property as a*
25 *result of its destruction or seizure. To the extent*

1 that such amount plus the aggregate of the amounts
2 of previous such recoveries exceed the aggregate of
3 the allowable deductions in prior taxable years on
4 account of the destruction or seizure of property
5 described in subsection (a), such amount shall be
6 considered a gain upon the involuntary conversion
7 of property as a result of its destruction or seizure
8 and shall be recognized or not recognized as provided
9 in section 112 (f). If for any previous taxable
10 year the taxpayer chooses under subsection (b) to
11 treat any obligations and liabilities as discharged
12 or satisfied out of the property or interest described
13 in subsection (a), and if such obligations and
14 liabilities were not so discharged or satisfied, the
15 amount of such obligations and liabilities treated as
16 discharged or satisfied under subsection (b) shall
17 be considered for the purposes of this section as a
18 deduction by reason of this section which did not
19 result in a reduction of any tax of the taxpayer
20 under this chapter or chapter 2. For the purposes
21 of this paragraph an allowable deduction for any
22 taxable year on account of the destruction or seizure
23 of property described in subsection (a) shall, to
24 the extent not allowed in computing the tax of the

1 taxpayer for such taxable year, be considered an
2 allowable deduction which did not result in a reduc-
3 tion of any tax of the taxpayer under this chapter
4 or chapter 2.

5 “(3) TAX ADJUSTMENT MEASURED BY PRIOR
6 BENEFITS.—If the provisions of this paragraph are
7 applicable to the taxable year pursuant to an election
8 made by the taxpayer under the provisions of para-
9 graph (5)—

10 “(A) Amount of Recovery.—The amount of
11 the recovery in the taxable year of any money or
12 property in respect of property considered under
13 subsection (a) as destroyed or seized in any prior
14 taxable year shall be an amount equal to the aggre-
15 gate of such money and the fair market value of
16 such property, determined as of the date of the
17 recovery. For the purpose of this paragraph, in the
18 case of the recovery of the same property or interest
19 considered under subsection (a) as destroyed or
20 seized, the fair market value of such property or
21 interest shall not exceed the adjusted basis (for de-
22 termining loss) of such property or interest in the
23 hands of the taxpayer on the date of the loss.

24 “(B) Adjustment for Prior Tax Bene-
25 fits.—That part of the amount of the recovery, in

1 *respect of any property considered under subsection*
2 *(a) as destroyed or seized, which is not in excess of*
3 *the allowable deductions in prior taxable years on*
4 *account of such destruction or seizure of the property*
5 *(the amount of such allowable deductions being*
6 *first reduced by the aggregate amount of any prior*
7 *recoveries in respect of the same property) shall not*
8 *be included in gross income for the taxable year of*
9 *the recovery for the purpose of computing the tax*
10 *under this chapter and chapter 2; but there shall*
11 *be added to, and assessed and collected as a part of,*
12 *the tax under this chapter for the taxable year of*
13 *the recovery the total increase in the tax under this*
14 *chapter and chapter 2 for all taxable years which*
15 *would result by decreasing, in an amount equal to*
16 *such part of the recovery, such deductions allowable*
17 *in the prior taxable years with respect to the de-*
18 *struction or seizure of the property. Such increase*
19 *in the tax for each such year so resulting shall be*
20 *computed in accordance with regulations prescribed*
21 *by the Secretary. Such regulations shall give effect*
22 *to previous recoveries of any kind with respect to*
23 *any prior year, and shall provide for the case where*
24 *there was no tax for the prior year, but shall other-*
25 *wise treat the tax previously determined for any*

1 year in accordance with the principles set forth in
2 section 3801 (d). All credits allowable against the
3 tax for any year and all carry-overs and carry-
4 backs affected by so decreasing the allowable deduc-
5 tions shall be taken into account in computing the
6 increase in the tax.

7 “(C) Gain Upon Recovery.—The amount of
8 any recovery or part thereof, in respect of property
9 considered under subsection (a) as destroyed or
10 seized which is not subject to the provisions of sub-
11 paragraph (B) shall be considered for the taxable
12 year of the recovery as gain on the involuntary con-
13 version of property as a result of its destruction or
14 seizure and shall be recognized or not recognized as
15 provided in section 112 (f).

16 “(D) Recoveries Treated as Gross Income for
17 Certain Purposes.—For the purposes of sections 51,
18 52, and 3801 (b) the recovery in the taxable year
19 of any money or property in respect of property
20 considered under subsection (a) as destroyed or
21 seized in any prior taxable year shall be deemed to
22 be an item includible in gross income for the taxable
23 year in which the recovery is made.

1 “(4) *RESTORATION OF VALUE OF INVESTMENTS*

2 *REFERABLE TO DESTROYED OR SEIZED PROPERTY.—*

3 *For the purpose of this subsection the restoration in*
4 *whole or in part of the value of any interest described*
5 *in subsection (a) (3) by reason of any recovery of*
6 *money or property in respect of property to which such*
7 *interest related and which was considered under subsec-*
8 *tion (a) (1) or (2) as destroyed or seized shall be*
9 *deemed a recovery of property in respect of property*
10 *considered under subsection (a) as destroyed or seized.*

11 *In applying paragraph (3) such restoration shall be*
12 *treated as the recovery of the same interest considered*
13 *under subsection (a) as destroyed or seized.*

14 “(5) *ELECTION BY TAXPAYER FOR APPLICATION*

15 *OF PARAGRAPH (3).—If the taxpayer elects to have*
16 *the provisions of paragraph (3) applicable to any tax-*
17 *able year in which he recovered any money or property*
18 *in respect of property considered under subsection (a)*
19 *as destroyed or seized, the provisions of paragraph (3)*
20 *shall be applicable to all taxable years of the taxpayer*
21 *beginning after December 31, 1940, other than a taxable*
22 *year for which, at the time of making such election, a*
23 *refund or credit of the entire amount of any overpayment*

1 *(resulting from an application of paragraph (3) to such*
2 *year) would be prevented by section 322 or by the*
3 *provisions of any other law or rule of law. Such*
4 *election shall be made in accordance with regulations*
5 *prescribed by the Secretary. If pursuant to such election*
6 *the provisions of paragraph (3) are applicable to any*
7 *taxable year, then the time for assessment and col-*
8 *lection of—*

9 *“(A) the amount to be added to the tax for such*
10 *year under the provisions of paragraph (3), and*

11 *“(B) any deficiency for such year or for any*
12 *other taxable year, to the extent attributable to basis*
13 *of the recovered property being determined under*
14 *the provisions of subsection (d) (2),*

15 *shall not expire prior to the expiration of two years*
16 *following the time of the making of such election, and*
17 *such amount and such deficiency may be assessed at*
18 *any time prior to the expiration of such period notwith-*
19 *standing any law or rule of law which would otherwise*
20 *prevent such assessment. In the case of any taxable year*
21 *ending before the date of the making by the taxpayer of*
22 *an election under this paragraph, no interest shall be paid*
23 *on any overpayment resulting from the making of such*
24 *election, and no interest shall be assessed or collected with*
25 *respect to the amount specified in clause (A) or with*

1 *respect to any deficiency specified in clause (B), for any*
2 *period prior to the expiration of six months following*
3 *the date of the making of such election by the taxpayer.”*

4 ***(b) BASIS OF RECOVERED PROPERTY.—Section 127***

5 ***(d) (relating to basis of recovered property) is hereby***
6 ***amended to read as follows:***

7 ***“(d) BASIS OF RECOVERED PROPERTY.—***

8 ***“(1) IN GENERAL.—The unadjusted basis of***
9 *property recovered in respect of property considered as*
10 *destroyed or seized under subsection (a) shall be deter-*
11 *mined under this subsection. Such basis shall be an*
12 *amount equal to the fair market value of such property,*
13 *determined as of the date of the recovery, reduced by*
14 *an amount equal to the excess of the aggregate of such*
15 *fair market value and the amounts of previous recoveries*
16 *of money or property in respect of property considered*
17 *under subsection (a) as destroyed or seized over the*
18 *aggregate of the allowable deductions in prior taxable*
19 *years on account of the destruction or seizure of property*
20 *described in subsection (a), and increased by that por-*
21 *tion of the amount of the recovery which under subsection*
22 *(c) is treated as a recognized gain from the involuntary*
23 *conversion of property. Upon application of the tax-*
24 *payer, the aggregate of the bases (determined under the*
25 *preceding sentence) of any properties recovered in respect*

1 *of properties considered under subsection (a) as de-*
 2 *stroyed or seized may be allocated among the properties*
 3 *so recovered in such manner as the Secretary may deter-*
 4 *mine under regulations prescribed by him, and the*
 5 *amounts so allocated to any such property so recovered*
 6 *shall be the unadjusted basis of such property in lieu of*
 7 *the unadjusted basis of such property determined under*
 8 *the preceding sentence.*

9 *“(2) PROPERTY RECOVERED IN TAXABLE YEAR*
 10 *TO WHICH SUBSECTION (c) (3) IS APPLICABLE.—If*
 11 *property is recovered in a taxable year to which the*
 12 *provisions of subsection (c) (3) are applicable pursuant*
 13 *to an election made under the provisions of subsection*
 14 *(c) (5), the basis of such property shall be (in lieu of*
 15 *the amount determined under paragraph (1) of this sub-*
 16 *section) an amount equal to the value at which such*
 17 *property is included in the amount of the recovery under*
 18 *subsection (c) (3) (A), reduced by such part of the*
 19 *gain under subsection (c) (3) (C) which is not recog-*
 20 *nized as provided in section 112 (f).”*

21 *(c) CREDIT FOR FOREIGN TAXES.—Section 131 (a)*
 22 *(relating to allowance of credit for taxes of foreign countries*
 23 *and possessions of the United States) is hereby amended by*
 24 *inserting after “section 102” the following: “and except the*

1 additional tax imposed for the taxable year under the pro-
 2 visions of section 127 (c) (3)".

3 (d) *EFFECTIVE DATES.*—The amendments made by
 4 this section shall be applicable to taxable years beginning after
 5 December 31, 1940.

6 (93)SEC. 341. DEDUCTION OF EXPENDITURES FOR MINE EX-
 7 PLORATION.

8 (a) *DEDUCTION OF MINE EXPLORATION EXPENDI-*
 9 *TURES.*—Section 23 (relating to deductions from gross in-
 10 come) is hereby amended by adding at the end thereof the
 11 following new subsection:

12 “(ff) *DEDUCTION OF EXPLORATION EXPENDI-*
 13 *TURES.*—

14 “(1) *IN GENERAL.*—In the case of expenditures
 15 paid or incurred during the taxable year for the purpose
 16 of ascertaining the existence, location, extent, or quality
 17 of any deposit of ore or other mineral, and paid or
 18 incurred prior to the beginning of the development stage
 19 of the mine or deposit, so much of such expenditures as
 20 does not exceed \$75,000. This subsection shall apply
 21 only with respect to the amount of such expenditures
 22 which, but for this subsection, would not be allowable as
 23 a deduction for the taxable year. This subsection shall
 24 not apply to expenditures for the acquisition or improve-

1 *ment of property of a character which is subject to the*
2 *allowance for depreciation provided in section 23 (l),*
3 *but allowances for depreciation shall be considered, for*
4 *the purposes of this subsection, as expenditures paid or*
5 *incurred. In no case shall this subsection apply with*
6 *respect to amounts paid or incurred for the purpose of*
7 *ascertaining the existence, location, extent, or quality of*
8 *any deposit of oil or gas.*

9 *“(2) ELECTION OF TAXPAYER.—If the taxpayer*
10 *elects, in accordance with regulations prescribed by the*
11 *Secretary, to treat as deferred expenses any portion of*
12 *the amount deductible for the taxable year under para-*
13 *graph (1), such portion shall not be deductible under*
14 *paragraph (1) but shall be deductible on a ratable basis*
15 *as the units of produced ores or minerals discovered or*
16 *explored by reason of such expenditures are sold. An*
17 *election made under this paragraph for any taxable*
18 *year shall be binding for such year.*

19 *“(3) LIMITATION.—This subsection shall not apply*
20 *to any amounts paid or incurred in any taxable year if*
21 *in any four preceding years the taxpayer, or any indi-*
22 *vidual or corporation who has transferred to the tax-*
23 *payer any mineral property under circumstances which*
24 *make the provisions of paragraph (7), (8), (11), (13),*
25 *(15), (17), (20), or (22) of section 113 (a) appli-*

1 cable to such transfer, has either (A) been allowed a
 2 deduction under paragraph (1) of this subsection or
 3 (B) made the election provided under paragraph
 4 (2) of this subsection.

5 “(4) ADJUSTED BASIS OF MINE OR DEPOSIT.—
 6 The amount of expenditures which are treated under
 7 paragraph (2) as deferred expenses shall be taken into
 8 account in computing the adjusted basis of the mine or
 9 deposit, but such amounts, and the adjustments to basis
 10 provided in section 113 (b) (1) (M) shall be disre-
 11 garded in determining the adjusted basis of the property
 12 for the purpose of computing a deduction for depletion
 13 under section 114.”

14 (b) ADJUSTED BASIS FOR DETERMINING GAIN OR
 15 LOSS UPON SALE OR EXCHANGE.—Section 113 (b) (1)
 16 (relating to adjusted basis of property) is hereby amended
 17 by adding at the end thereof the following:

18 “(M) for amounts allowed as deductions as
 19 deferred expenses under section 23 (ff) (2) (relat-
 20 ing to certain exploration expenditures) and result-
 21 ing in a reduction of the taxpayer's taxes under
 22 this chapter, but not less than the amounts allowable
 23 under such section for the taxable year and prior
 24 years.”

25 (c) EFFECTIVE DATE.—The amendments made by this

1 *section shall be applicable to taxable years ending after*
2 *December 31, 1950.*

3 **(94)SEC. 342. CORPORATE LIQUIDATIONS.**

4 *(a) TREATMENT OF GAIN.—Section 115 (relating to*
5 *distributions by corporations) is hereby amended by adding*
6 *at the end thereof the following new subsection:*

7 *“(n) LIQUIDATION WITH DISTRIBUTION OF STOCK*
8 *IN REAL ESTATE CORPORATION.—If a corporation, pur-*
9 *suant to a plan of liquidation, exchanges part of its assets*
10 *consisting of unimproved real estate solely for the entire*
11 *stock of a newly organized corporation and within a period*
12 *of twenty-four months from the date of adoption of the*
13 *plan of liquidation all of the assets of such corporation*
14 *together with the stock in such new corporation are distributed*
15 *in liquidation, the amounts so distributed shall be deemed*
16 *amounts distributed in complete liquidation of such corpora-*
17 *tion and the recognized gain, if any, to the shareholders from*
18 *such liquidation shall be treated as a capital gain, despite*
19 *any other provision of this chapter. This subsection shall*
20 *apply only—*

21 *“(1) if the business of the old corporation is dis-*
22 *continued,*

23 *“(2) if the corporation to which the unimproved*
24 *real estate was transferred was organized and is operated*

1 *for the sole purpose of holding title to such real estate*
2 *and collecting income from the leasing or sale thereof,*
3 *and*

4 *“(3) if there was a sound business reason for*
5 *organizing such new corporation to hold title to the un-*
6 *improved real estate.”*

7 **(b) EFFECTIVE DATE.**—*The amendment made by this*
8 *section shall apply to taxable years beginning after December*
9 *31, 1947.*

10 **(95)SEC. 343. DEFINITION OF EMPLOYEE.**

11 **(a*) AMENDMENT OF SECTION 3797 (a).**—*Section 3797*
12 *(a) is amended by adding at the end thereof the following*
13 *new paragraph:*

14 **“(20) EMPLOYEE.**—*For the purpose of applying*
15 *the provisions of chapter 1 with respect to contributions*
16 *to or under a stock bonus, pension, profit-sharing, or*
17 *annuity plan, and with respect to distributions under such*
18 *a plan or by a trust forming part of such a plan, the*
19 *term ‘employee’ shall include a full-time life insurance*
20 *salesman who is considered an employee for the purpose*
21 *of subchapter A of chapter 9, or, in the case of services*
22 *performed before January 1, 1951, who would be con-*
23 *sidered an employee if his services were performed*
24 *during 1951.”*

(b) *EFFECTIVE DATE.*—The amendment made by this section shall be applicable with respect to taxable years beginning after December 31, 1938.

4 (96)SEC. 344. NONBUSINESS CASUALTY LOSSES.

5 (a) *REMOVAL OF LIMITATION.*—Section 122 (d)
6 (5) (relating to net operating loss deduction) is amended
7 by inserting after “Deductions” in the first sentence thereof
8 a comma and the following: “other than deductions allow-
9 able under section 23 (e) (2) and (3),”.

(b) *EFFECTIVE DATE.*—The amendment made by this section shall be applicable with respect to taxable years beginning after December 31, 1950.

13 (97) SEC. 345. ABATEMENT OF TAX OF CERTAIN IRREVOCABLE
14 TRUSTS.

15 Section 421 of the Internal Revenue Code is amended by
16 adding at the end thereof the following: "The provisions of
17 this section shall apply to irrevocable trusts to the extent that
18 the income is owned by any individual who dies on or after
19 December 7, 1941, while in active service as a member of
20 the military or naval forces of the United States or of any
21 of the other United Nations and prior to January 1, 1948."

22 (98)SEC. 346. NET WORTH STATEMENTS BY INDIVIDUALS EN-
23 GAGED IN ILLEGAL BUSINESSES.

24 (a) INDIVIDUALS ENGAGED IN ILLEGAL BUSI-
25 NESSES.—Section 54 (relating to records and special re-

1 turns) is further amended by adding at the end thereof a
2 new subsection as follows:

3 “(h) *NET WORTH STATEMENTS BY CERTAIN INDIVIDUALS*.—Every individual who has, during the taxable
4 year, received gross income in excess of \$10,000 from one or
5 more unlawful trades or businesses, shall file with his return
6 for the taxable year, in such form and in such detail as the
7 Secretary may by regulations prescribe, a statement of net
8 worth showing, as of the close of the taxable year, each asset
9 and liability of such individual, of such individual and his
10 spouse jointly, and, in the case of a joint return by an
11 individual and his spouse, each asset and liability of such
12 spouse. Such statement shall contain or be verified by a
13 written declaration that it is made under the penalties of
14 perjury.”

16 (b) *EFFECTIVE DATE*.—The amendment made by this
17 section shall be applicable only with respect to taxable
18 years ending after the date of enactment of this Act.

19 (99)SEC. 347. *LIFE INSURANCE DEPARTMENTS OF MUTUAL*
20 *SAVINGS BANKS*.

21 (a) *AMENDMENT OF SECTION 201 (b)*.—Section 201
22 (b) is hereby amended by adding at the end thereof the follow-
23 ing: “The term ‘life insurance company’ includes a life
24 insurance department of a mutual savings bank established
25 by State law and authorized to conduct the business of life

1 insurance under State laws governing domestic legal reserve
 2 life insurance companies and such department shall be sub-
 3 ject to tax as a life insurance company under supplement G
 4 if the accounts of such department are maintained separately
 5 from the accounts of the other business of the bank.”

6 (b) *EFFECTIVE DATE.*—The amendment made by this
 7 section shall be applicable only with respect to taxable years
 8 beginning after December 31, 1951.

9 **(100)SEC. 348. PUBLISHING BUSINESS CARRIED ON BY TAX-**
 10 **EXEMPT ORGANIZATION.**

11 (a) *TREATMENT AS RELATED TRADE OR BUSINESS.*—
 12 Section 422 (b) (relating to definition of unrelated trade
 13 or business) is hereby amended by adding at the end thereof
 14 the following: “If a publishing business carried on by an
 15 organization during the taxable year is, without regard to
 16 this sentence, an unrelated trade or business, but before the
 17 beginning of the third succeeding taxable year the business
 18 is carried on by it (or by a successor who acquired such
 19 business in a liquidation which would constitute a tax-free
 20 exchange under section 112 (b) (6)) in such manner that
 21 the conduct thereof is substantially related to the exercise or
 22 performance by such organization (or such successor) of its
 23 educational or other purpose or function described in sec-

tion 101 (6), such publishing business shall not be considered, for the taxable year, as an unrelated trade or business."

(b) *EFFECTIVE DATE.*—The amendment made by this section shall be applicable with respect to taxable years beginning after December 31, 1950, and prior to January 1, 1953.

(101) SEC. 349. BUSINESS CARRIED ON BY TAX-EXEMPT ORGANIZATION.

(a) *TREATMENT AS RELATED TRADE OR BUSINESS.*—Section 422 (b) (relating to definition of unrelated trade or business) is hereby amended by adding at the end thereof the following: "If a business carried on by an educational organization described in section 54 (f) (2) is, during the taxable year, without regard to this sentence, an unrelated trade or business, such business shall not be considered an unrelated trade or business for a taxable year beginning prior to January 1, 1954."

(b) *EFFECTIVE DATE.*—The amendment made by this section shall be applicable with respect to taxable years beginning after December 31, 1950, and prior to January 1, 1954.

1 **(102)SEC. 350. NONDISTRIBUTABLE INCOME OF PERSONAL**
 2 **HOLDING COMPANIES.**

3 *Effective for taxable years beginning after December*
 4 *31, 1939, section 504 is hereby amended by adding at the end*
 5 *thereof the following new subsection:*

6 *“(e) The amount by which the undistributed subchapter*
 7 *A net income determined without reference to this subsection*
 8 *exceeds the amount which could be distributed on the last day*
 9 *of the taxable year as a dividend (1) without violating any*
 10 *action, regulation, rule, order, or proclamation taken, promul-*
 11 *gated, made, or issued by, or pursuant to the direction of, the*
 12 *President or any agency that he may designate, under the*
 13 *Trading With the Enemy Act of October 16, 1917, as*
 14 *amended, or the First War Powers Act of 1941, and (2)*
 15 *not subject to a lien in favor of the United States.”*

16 **TITLE IV—EXCISE TAXES**

17 **Part I—Tax on Admissions and Cabarets**

18 **SEC. 401. REMOVAL OF TAX ON FREE ADMISSIONS.**

19 *Section 1700 (a) (1) (relating to tax on single or*
 20 *season tickets) is hereby amended by striking out the*
 21 **(103)**~~second and fourth~~ *second, fourth, and fifth sentences*
 22 *thereof.*

23 **SEC. 402. EXEMPTIONS FROM ADMISSIONS TAX.**

24 **(a) REINSTATEMENT OF PREWAR EXEMPTIONS.—**
 25 *Notwithstanding section 541 (b) of the Revenue Act of*

1 1941, the provisions of section 1701 (relating to exemptions
2 from the admissions tax) shall apply to amounts paid on
3 or after the effective date specified in section 403 of this
4 Act for admissions on or after such date.

5 ~~(104)(b)~~ AMENDMENT OF SECTION 1701 ~~(a)~~.—Section
6 1701 ~~(a)~~ ~~(relating to religious, educational, or charitable~~
7 ~~entertainments)~~ is hereby amended to read as follows:

8 “~~(a)~~ RELIGIOUS, EDUCATIONAL, OR CHARITABLE
9 ENTERTAINMENTS, ETC.—

10 ~~(1)~~ IN GENERAL.—Except as provided in para-
11 graph ~~(2)~~, any admissions all the proceeds of which
12 inure—

13 “~~(A)~~ exclusively to the benefit of religious,
14 educational, or charitable institutions, societies, or
15 organizations, societies for the prevention of cruelty
16 to children or animals, or societies or organizations
17 conducted for the sole purpose of maintaining sym-
18 phony orchestras and receiving substantial support
19 from voluntary contributions or of maintaining a
20 cooperative or community center moving-picture
21 theatre—if no part of the net earnings thereof inures
22 to the benefit of any private stockholder or indi-
23 vidual;

24 “~~(B)~~ exclusively to the benefit of National
25 Guard organization, Reserve Officers' associations

1 or organizations, posts or organizations of war vet-
 2 erans, or auxiliary units or societies of any such posts
 3 or organizations, if such posts, organizations, units,
 4 or societies are organized in the United States or any
 5 of its possessions, and if no part of their net earn-
 6 ings inures to the benefit of any private stockholder
 7 or individual; or

8 “~~(C)~~ exclusively to the benefit of a police or
 9 fire department of any city, town, village, or other
 10 municipality, or exclusively to a fund for the sole
 11 benefit of members of such a police or fire depart-
 12 ment or the dependents or heirs of such members.

13 “~~(2)~~ NONEXEMPT ADMISSIONS.—The exemption
 14 provided under paragraph ~~(1)~~ shall not apply in the
 15 case of admissions to ~~(A)~~ any athletic game or exhibi-
 16 tion unless the proceeds inure exclusively to the benefit
 17 of an elementary or secondary school, ~~(B)~~ wrestling
 18 matches, prize fights, or boxing, sparring, or other pugi-
 19 listic matches or exhibitions, or ~~(C)~~ carnivals, rodeos, or
 20 circuses in which any professional performer or operator
 21 participates for compensation.”

22 *(b) AMENDMENT OF SECTION 1701 (a) AND (b).—*
 23 *Subsections (a) and (b) of section 1701 (relating to exemp-*
 24 *tions from admissions tax) are hereby amended to read as*
 25 *follows:*

1 “(a) CERTAIN RELIGIOUS, EDUCATIONAL, OR CHARI-
2 TABLE ENTERTAINMENTS, ETC.—

3 “(1) IN GENERAL.—Except as provided in para-
4 graph (2), any admissions all the proceeds of which
5 inure—

6 “(A) exclusively to the benefit of—

7 “(i) a church or a convention or association
8 of churches;

9 “(ii) an educational institution which is
10 exempt under section 101 (6) or which is an
11 educational institution of a government or
12 political subdivision thereof, if such organization
13 normally maintains a regular faculty and cur-
14 riculum and normally has a regularly organ-
15 ized body of pupils or students in attendance at
16 the place where its educational activities are
17 regularly carried on;

18 “(iii) a corporation or any community
19 chest, fund, or foundation organized and oper-
20 ated exclusively for charitable purposes, exempt
21 under section 101 (6), if such corporation or
22 organization is supported, in whole or in part,
23 by funds contributed by the United States or
24 any State or political subdivision thereof, or is

1 *primarily supported by contributions from the*
2 *general public;*

3 “(iv) *a society or organization conducted*
4 *for the sole purpose of maintaining symphony*
5 *orchestras or operas and receiving substantial*
6 *support from voluntary contributions—*

7 *if no part of the net earnings thereof inures to the*
8 *benefit of any private stockholder or individual;*

9 “(B) *exclusively to the benefit of National*
10 *Guard organizations, Reserve officers’ associations*
11 *or organizations, posts or organizations of war vet-*
12 *erans, or auxiliary units or societies of any such*
13 *posts or organizations, if such posts, organizations,*
14 *units, or societies are organized in the United States*
15 *or any of its possessions, and if no part of their net*
16 *earnings inures to the benefit of any private stock-*
17 *holder or individual; or*

18 “(C) *exclusively to the benefit of a police or*
19 *fire department of any city, town, village, or any*
20 *municipality or exclusively to a retirement, pension,*
21 *or disability fund for the sole benefit of members of*
22 *such a police or fire department or to a fund for the*
23 *heirs of such members.*

24 “(2) *NONEXEMPT ADMISSIONS.—The exemption*
25 *provided under paragraph (1) shall not apply in the*

case of admissions to (A) any athletic game or exhibition unless the proceeds inure exclusively to the benefit of an elementary or secondary school or unless in the case of an athletic game between two elementary or secondary schools, the entire gross proceeds from such game inure to the benefit of a hospital for crippled children, (B) wrestling matches, prize fights, or boxing, sparring, or other pugilistic matches or exhibitions, (C) carnivals, rodeos, or circuses in which any professional performer or operator participates for compensation, or (D) any motion picture exhibition.

“(b) AGRICULTURAL FAIRS.—Any admissions to agricultural fairs if no part of the net earnings thereof inures to the benefit of any stockholders or members of the association conducting the same—if the proceeds therefrom are used exclusively for the improvement, maintenance, and operation of such agricultural fairs; or”.

(c) ADMISSIONS TO MUNICIPAL SWIMMING POOLS, ETC.—Section 1701 is hereby amended by striking out the period at the end of subsection (c) and inserting in lieu thereof “; or” and by adding at the end of such section the following new (105) ~~subsection~~ subsections:

“(d) MUNICIPAL SWIMMING POOLS, ETC.—Any admissions to swimming pools, bathing beaches, skating rinks, or other places providing facilities for physical exercise, op-

erated by any State or political subdivision thereof or by the United States or any agency or instrumentality thereof—if the proceeds therefrom inure exclusively to the benefit of the State, political subdivision, United States, agency, or instrumentality. For the purposes of this subsection the term ‘State’ includes Alaska, Hawaii, and the District of Columbia.” *Columbia*; or

“(e) (1) *HOME AND GARDEN TOURS.*—Any admission to a home or garden which is temporarily opened to the general public as part of a program conducted by a society or organization to permit the inspection of historical homes and gardens—if no part of the net earnings thereof inures to the benefit of any private stockholder or individual.

“(2) *HISTORIC SITES.*—Any admissions to historic sites, houses, and shrines, and museums conducted in connection therewith, maintained and operated by a society or organization devoted to the preservation and maintenance of such historic sites, houses, shrines, and museums—if no part of the net earnings thereof inures to the benefit of any private stockholder or individual.”

SEC. 403. EFFECTIVE DATE OF AMENDMENTS RELATING TO ADMISSIONS.

The amendments made by sections 401 and 402 shall be applicable with respect to amounts paid on or after the first day of the first month which begins more than ten

1 days after the date of the enactment of this Act for admis-
 2 sions on or after such date.

3 **SEC. 404. TAX ON CABARETS, ROOF GARDENS, ETC.**

4 (a) BALLROOMS AND DANCE HALLS.—Section 1700
 5 (e) (1) (relating to tax on cabarets, roof gardens, etc.) is
 6 hereby amended by inserting after the second sentence
 7 thereof the following new sentence: “In no case shall such
 8 term include any ballroom, dance hall, or other similar place
 9 where the serving or selling of food, refreshment, or mer-
 10 chandise is merely incidental, unless such place would be
 11 considered, without the application of the preceding sentence,
 12 as a ‘roof garden, cabaret, or other similar place’.”

13 (b) EFFECTIVE DATE.—The amendment made by
 14 subsection (a) shall be applicable only with respect to
 15 periods after 10 antemeridian on the first day of the first
 16 month which begins more than ten days after the date of the
 17 enactment of this Act.

18 **Part II—Tax on Cigarettes**

19 **SEC. 421. TAX ON CIGARETTES.**

20 (a) INCREASE IN RATE.—Section 2000 (c) (2)
 21 (tax on cigarettes) is hereby amended by striking out
 22 (107)“\$3.50” and inserting in lieu thereof “\$4” “\$3.50 per
 23 thousand” and inserting in lieu thereof “\$4 per thousand
 24 until January 1, 1954, and \$3.50 per thousand on and after
 25 January 1, 1954”.

1 (b) EFFECTIVE DATE.—The amendment made by sub-
 2 section (a) shall take effect on the first day of the first
 3 month which begins more than 10 days after the date of
 4 the enactment of this Act.

5 SEC. 422. FLOOR STOCKS TAX (108) *AND FLOOR STOCKS RE-*
 6 *FUND ON CIGARETTES.*

7 Section 2000 (relating to tax on tobacco, etc.) is hereby
 8 amended by adding at the end thereof the following new
 9 (109) ~~subsection~~ *subsections*:

10 “(f) 1951 FLOOR STOCKS TAX.—

11 “(1) TAX.—Upon cigarettes subject to tax under
 12 this section weighing not more than three pounds per
 13 thousand, which on the effective date of section 421
 14 of the Revenue Act of 1951 are held by any person
 15 for sale, there shall be levied, assessed, collected, and
 16 paid a floor stocks tax at a rate equal to the increase
 17 in rate of tax made applicable to such cigarettes by the
 18 Revenue Act of 1951.

19 “(2) RETURNS.—Every person required by this
 20 subsection to pay any floor stocks tax shall, on or before
 21 the end of the month next following the month in which
 22 section 421 (a) of the Revenue Act of 1951 takes effect,
 23 under such regulations as the Secretary shall prescribe,
 24 make a return and pay such tax, except that in the case
 25 of such cigarettes held by manufacturers and importers,

the Secretary may collect the tax with respect to such cigarettes by means of stamps rather than return, and in such case may make an assessment against such manufacturer or importer having cigarette tax stamps on hand on the effective date of such section for the difference between the amount paid for such stamps and the increased rate imposed by such section.

“(3) **LAWS APPLICABLE.**—All provisions of law, including penalties, applicable in respect of the taxes imposed by section 2000, shall, insofar as applicable and not inconsistent with this subsection, be applicable with respect to the floor stocks tax imposed by this ~~(110) subsection.~~” *subsection.*

“(g) **FLOOR STOCKS REFUNDS ON CIGARETTES.**—

“(1) **IN GENERAL.**—*With respect to cigarettes, weighing not more than three pounds per thousand, upon which the tax imposed by subsection (c) (2), or upon which floor stocks tax imposed by subsection (f), has been paid, and which, on January 1, 1954, are held by any person and intended for sale, or are in transit from foreign countries or insular possessions of the United States to any person in the United States for sale, there shall be credited or refunded to such person (without interest), subject to such regulations as may be prescribed by the Secretary, an amount equal to the difference*

1 *between the tax paid on such cigarettes and the tax made*
2 *applicable to such articles on January 1, 1954, if claim*
3 *for such credit or refund is filed with the Secretary prior*
4 *to April 1, 1954.*

5 “(2) *LIMITATIONS ON ELIGIBILITY FOR CREDIT*
6 *OR REFUND.*—No person shall be entitled to credit or
7 *refund under paragraph (1) unless (A) such person,*
8 *for such period or periods both before and after Janu-*
9 *ary 1, 1954 (but not extending beyond one year there-*
10 *after), as the Secretary shall by regulations prescribe,*
11 *makes and keeps, and files with the Secretary such*
12 *records of inventories, sales, and purchases as may be*
13 *prescribed in such regulations; and (B) such person*
14 *establishes to the satisfaction of the Secretary, with*
15 *respect to the cigarettes for which credit or refund is*
16 *claimed by him under this section, that on and after*
17 *January 1, 1954, and until the expiration of three*
18 *months thereafter, the price at which cigarettes of such*
19 *class were sold (until a number equal at least to the*
20 *number on hand on January 1, 1954, were sold)*
21 *reflected, in such manner as the Secretary may by*
22 *regulations prescribe, the amount of the tax reduction.*

23 “(3) *PENALTY AND ADMINISTRATIVE PROCE-*
24 *DURES.*—All provisions of law, including penalties,

1 applicable in respect of internal revenue taxes on ciga-
 2 rettes shall, insofar as applicable and not inconsistent
 3 with this subsection, be applicable in respect of the credits
 4 and refunds provided for in this subsection to the same
 5 extent as if such credits or refunds constituted credits or
 6 refunds of such taxes.”

7 (111)SEC. 423. REDUCTION OF TAX ON SNUFF AND CHEWING
 8 TOBACCO.

9 (a) REDUCTION IN RATE.—Section 2000 (a) (relat-
 10 ing to tax on tobacco and snuff) is hereby amended by striking
 11 out paragraphs (1) and (2) and inserting in lieu thereof
 12 the following:

13 “(1) SNUFF AND CHEWING TOBACCO.—On snuff,
 14 manufactured of tobacco or any substitute for tobacco,
 15 ground, dry, damp, pickled, scented, or otherwise, of all
 16 descriptions, when prepared for use; and on all scrap
 17 chewing, plug, twist, fine-cut, or cavendish tobacco; a
 18 tax of 10 cents per pound.

19 “(2) SMOKING TOBACCO.—On all smoking tobacco,
 20 cut or granulated, of every description; on tobacco re-
 21 duced into a condition to be consumed, or in any manner
 22 other than the ordinary mode of drying and curing,
 23 prepared for sale or consumption, even if prepared with-
 24 out the use of any machine or instrument, and without

1 *being pressed or sweetened; and on all fine-cut shorts*
2 *and refuse scraps, clippings, cuttings, and sweepings of*
3 *tobacco; a tax of 10 cents per pound."*

4 (b) *EFFECTIVE DATE.*—The amendment made by sub-
5 section (a) shall take effect on the first day of the first month
6 which begins more than 10 days after the date of the enact-
7 ment of this Act.

8 **Part III—Retailers' Excise Taxes**

9 (112)SEC. 431. TAX ON LIGHTERS.

10 Section 2400 (relating to retailers' excise tax on jewelry,
11 etc.) is hereby amended by striking out in the first sentence
12 thereof the words "and binoculars." and inserting in lieu
13 thereof the following: "binoculars; and mechanical lighters
14 for cigarettes, cigars, or pipes."

15 SEC. (113)⁴³² 431. RETAILERS' EXCISE TAX ON TOILET
16 PREPARATIONS.

17 (a) BABY OILS, ETC.—Section 2402 (a) is hereby
18 amended by adding at the end thereof the following new sen-
19 tence: “The tax imposed by this subsection shall not apply
20 to lotion, oil, powder, or other article intended to be used or
21 applied only in the care of babies.”

22 (b) SALES TO BARBER SHOPS, ETC.—Section 2402
23 (b) is hereby amended to read as follows:

24 “(b) BEAUTY PARLORS, ETC.—For the purposes of
25 subsection (a), the sale of any article described in such sub-

1 section to any person operating a ~~(14)barbershop~~ *barber shop*,
 2 beauty parlor, or similar establishment for use in the opera-
 3 tion thereof, or for resale, ~~(115)~~*and the sale of miniature*
 4 *samples of any such article for demonstration use only to a*
 5 *house-to-house salesman by the manufacturer or distributor,*
 6 shall not be considered as a sale at retail. The resale of
 7 such article at retail by such person~~(116)~~, *or the resale*
 8 *of such sample at retail by such house-to-house salesman,*
 9 shall be subject to the provisions of subsection (a).”

10 **SEC. ~~(117)~~⁴³³ 432. EFFECTIVE DATE OF PART III.**

11 The amendments made by this part shall apply only
 12 to articles sold on or after the first day of the first month
 13 which begins more than ten days after the date of the enact-
 14 ment of this Act.

15 **~~(118)~~Part IV—Diesel Fuel**

16 **SEC. 441. DIESEL FUEL USED IN HIGHWAY VEHICLES.**

17 ~~(a)~~ **IMPOSITION OF TAX.**—The Internal Revenue Code
 18 is hereby amended by adding after chapter 19 the following
 19 new chapter:

20 **“CHAPTER 20—DIESEL FUEL**

21 **“SEC. 2450. TAX ON DIESEL FUEL.**

22 “There is hereby imposed a tax of 2 cents a gallon upon
 23 any liquid ~~(other than any product taxable under section~~
 24 ~~3412)~~—

25 “~~(1)~~ sold by any person to an owner, lessee, or

1 other operator of a diesel-powered highway vehicle, for
2 use as a fuel in such vehicle, or

3 ~~“(2)~~ used by any person as a fuel in a diesel-
4 powered highway vehicle unless there was a taxable sale
5 of such liquid under clause ~~(1)~~.

6 **“SEC. 2451. RETURNS AND PAYMENT.**

7 ~~“(a)~~ **REQUIREMENT.**—Every person liable for tax under
8 this chapter shall make returns and pay the taxes due to
9 the collector for the district in which is located his principal
10 place of business, or if he has no principal place of business
11 in the United States, then to the collector at Baltimore,
12 Maryland. Such returns shall contain such information and
13 be made at such times and in such manner as the Secretary
14 may by regulations prescribe.

15 ~~“(b)~~ **INTEREST.**—The tax shall, without assessment or
16 notice, be due and payable to the collector at the time pre-
17 scribed for filing the return. If the tax is not paid when
18 due, there shall be added as part of the tax interest at the
19 rate of 6 per centum per annum from the time when the
20 tax became due until paid.

21 **“SEC. 2452. CREDITS AND REFUNDS.**

22 ~~“(a)~~ **NON-TAXABLE USE OR SALE BY VENDEE.**—A
23 credit against tax under this chapter, or a refund, may be

1 allowed or made to a person in the amount of tax paid by
 2 him under this chapter with respect to his sale of any liquid
 3 to a vendee for use as fuel in a diesel-powered highway
 4 vehicle, if such person establishes, in accordance with regu-
 5 lations prescribed by the Secretary, that—

6 “(1) the vendee used such liquid otherwise than
 7 as fuel in such a vehicle or resold such liquid, and

8 “(2) such person has repaid or agreed to repay
 9 the amount of such tax to such vendee, or has obtained
 10 the consent of the vendee to the allowance of the credit
 11 or refund.

12 No interest shall be allowed with respect to any amount of
 13 tax credited or refunded under the provisions of this sub-
 14 section.

15 “(b) PROOF REQUIRED IN CASE OF CERTAIN OVER-
 16 PAYMENTS.—No overpayment of tax under this chapter
 17 shall be credited or refunded (otherwise than under sub-
 18 section (a)) in pursuance of a court decision or otherwise,
 19 unless the person who paid the tax establishes, in accord-
 20 ance with regulations prescribed by the Secretary, (1) that
 21 he has not included the tax in the price of the article with
 22 respect to which it was imposed, or collected the amount

1 of tax from the vendee; or ~~(2)~~ that he has repaid the amount
 2 of the tax to the ultimate purchaser of the article; or files
 3 with the Secretary written consent of such ultimate pur-
 4 chaser to the allowance of the credit or refund.

5 **"SEC. 2453. TAX-FREE SALES.**

6 "Under regulations prescribed by the Secretary, no tax
 7 under this chapter shall be imposed with respect to the
 8 sale of any liquid for the exclusive use of any State, Terri-
 9 tory of the United States, or any political subdivision of the
 10 foregoing; or the District of Columbia; or with respect to
 11 the use by any of the foregoing of any liquid as fuel in a
 12 diesel-powered highway vehicle.

13 **"SEC. 2454. APPLICABILITY OF ADMINISTRATIVE PROVI-**
 14 **SIONS.**

15 "All provisions of law (including penalties) applicable
 16 in respect of the taxes imposed by section 2700 shall, inso-
 17 far as applicable and not inconsistent with this chapter, be
 18 applicable in respect of the taxes imposed by this chapter.

19 **"SEC. 2455. RULES AND REGULATIONS.**

20 "The Secretary shall prescribe and publish all needful
 21 rules and regulations for the enforcement of this chapter."

22 ~~(b)~~ **EFFECTIVE DATE.**—The amendment made by sub-
 23 section ~~(a)~~ shall take effect on the first day of the first
 24 month which begins more than ten days after the date of
 25 the enactment of this Act.

Part (119)✓ IV—Liquor

SEC. (120)451 441. INCREASE IN TAX ON DISTILLED SPIRITS
FROM \$9 to \$10.50 PER GALLON.

(a) DISTILLED SPIRITS GENERALLY.—Section 2800

(a) (1) is hereby amended by striking out “\$6” and inserting in lieu thereof “\$10.50” (121), and by inserting after the first sentence the following new sentence: “On and after January 1, 1954, the rate of tax imposed by this paragraph shall be \$9 in lieu of \$10.50.”.

(b) IMPORTED PERFUMES CONTAINING DISTILLED SPIRITS.—Section 2800 (a) (3) is hereby amended by striking out “\$6” and inserting in lieu thereof “\$10.50” (122), and by adding at the end thereof the following new sentence: “On and after January 1, 1954, the rate of tax imposed by this paragraph shall be \$9 in lieu of \$10.50.”.

(c) FLOOR STOCKS TAX.—Section 2800 is amended by inserting at the end thereof the following new subsection:

“(1) 1951 FLOOR STOCKS TAX.—

“(1) TAX.—Upon all distilled spirits upon which the internal revenue tax imposed by law has been paid, and which on the effective date of section (123)451 441

(a) of the Revenue Act of 1951, are held and intended for sale or for use in the manufacture or production of any article intended for sale, there shall be levied, assessed, collected, and paid a floor stocks tax of \$1.50 on

1 each proof-gallon, and a proportionate tax at a like rate
 2 on all fractional parts of such proof-gallon.

3 “(2) RETURNS.—Under such regulations as the
 4 Secretary shall prescribe, every person required by
 5 paragraph (1) to pay any floor stocks tax shall, on or
 6 before the end of the thirtieth day following the effective
 7 date of section ~~(124)~~⁴⁵¹ 441 (a) of the Revenue Act of
 8 1951 make a return and shall, on or before the first day
 9 of the third month following such effective date, pay such
 10 tax. Payment of the tax shown to be due may be ex-
 11 tended to a date not later than the first day of the tenth
 12 month following the effective date of such section upon
 13 the filing of a bond for payment thereof in such form
 14 and amount and with such surety or sureties as the
 15 Secretary may prescribe.

16 “(3) LAWS APPLICABLE.—All provisions of law,
 17 including penalties, applicable in respect of internal
 18 revenue taxes on distilled spirits shall, insofar as appli-
 19 cable and not inconsistent with this subsection, be appli-
 20 cable in respect of the floor stocks tax imposed here-
 21 under. For the purposes of this subsection the term
 22 ‘distilled spirits’ shall include products produced in such
 23 manner that the person producing them is a rectifier
 24 within the meaning of section 3254 (g).”

25 SEC. ~~(125)~~⁴⁵² 442. WINES.

(a) INCREASE IN RATE OF TAX.—

(1) STILL WINES.—So much of section 3030 (a) (1) (A) (tax on still wines, etc.) as precedes the second sentence thereof is hereby amended to read as follows:

“(A) Imposition.—Upon all still wines, including vermouth, and all artificial or imitation wines or compounds sold as still wine, produced in or imported into the United States on or after the effective date of section ~~(126)~~⁴⁵² 442 (a) of the Revenue Act of 1951, or which on such date were on any winery premises or other bonded premises or in transit thereto or at any custom house, there shall be levied, collected, and paid taxes at rates as follows, when sold, or removed for consumption or sale:

“On wines containing not more than 14 per centum of absolute alcohol, 17 cents per wine-gallon, the per centum of alcohol under this section to be reckoned by volume and not by weight ~~(127)~~, *except that on and after January 1, 1954, the rate shall be 15 cents per wine-gallon;*

“On wines containing more than 14 per centum and not exceeding 21 per centum of absolute alcohol, 67 cents per wine-gallon ~~(128)~~, *except that on*

1 *and after January 1, 1954, the rate shall be 60*
 2 *cents per wine-gallon;*

3 “On wines containing more than 21 per centum
 4 and not exceeding 24 per centum of absolute alcohol,
 5 \$2.25 per wine-gallon **(129)**, *except that on and*
 6 *after January 1, 1954, the rate shall be \$2 per wine-*
 7 *gallon;*

8 “*All such wines containing more than 24 per*
 9 *centum of absolute alcohol by volume shall be classed*
 10 *as distilled spirits and shall pay tax accordingly.”*

11 (2) SPARKLING WINES, LIQUEURS, AND COR-
 12 DIALS.—Section 3030 (a) (2) (tax on sparkling wines,
 13 liqueurs, and cordials) is hereby amended as follows:

14 (A) By striking out “after June 30, 1940, or
 15 which on July 1, 1940” and inserting in lieu thereof
 16 “on or after the effective date of section **(130)**⁴⁵²
 17 ⁴⁴² (a) of the Revenue Act of 1951, or which on
 18 such date”;

19 **(131)**-(B) By striking out “10 cents” and inserting
 20 in lieu thereof “17 cents”; and

21 -(C) By striking out “5 cents” each place it
 22 occurs and inserting in lieu thereof “12 cents”.

23 (B) by striking out “10 cents on each one-half
 24 pint or fraction thereof” and inserting in lieu thereof
 25 “17 cents on each one-half pint or fraction thereof,

except that on and after January 1, 1954, the rate shall be 15 cents on each one-half pint or fraction thereof"; and

(C) by striking out "5 cents on each one-half pint or fraction thereof" each place that it occurs and inserting in lieu thereof "12 cents on each one-half pint or fraction thereof, except that on and after January 1, 1954, the rate shall be 10 cents on each one-half pint or fraction thereof".

(b) FLOOR STOCKS.—Subchapter F of chapter 26 is hereby amended by inserting at the end thereof the following new section:

"SEC. 3195. 1951 FLOOR STOCKS TAX ON WINES.

"(a) Upon all wines upon which the internal revenue tax imposed by law has been paid, and which on the effective date of section ~~(132)~~⁴⁵² 442 (a) of the Revenue Act of 1951 are held and intended for sale or for use in the manufacture or production of an article intended for sale, there shall be levied, assessed, collected, and paid a floor stocks tax at rates equal to the increases in rates of tax made applicable to such articles by section ~~(133)~~⁴⁵² 442 (a) of the Revenue Act of 1951.

"(b) RETURNS.—Under such regulations as the Secretary shall prescribe, every person required by subsection (a) to pay any floor stocks tax shall, on or before the end of the

1 thirtieth day following the effective date of section ~~(134)~~⁴⁵²
 2 ~~442~~ (a) of the Revenue Act of 1951 make a return and
 3 shall, on or before the first day of the third month following
 4 such effective date, pay such tax. Payment of the tax shown
 5 to be due may be extended to a date not later than the first
 6 day of the tenth month following the effective date of section
 7 ~~(135)~~⁴⁵² ~~442~~ (a) of the Revenue Act of 1951, upon the
 8 filing of a bond for payment thereof in such form and amount
 9 and with such surety or sureties as the Secretary may
 10 prescribe.

11 “(c) LAWS APPLICABLE.—All provisions of law, in-
 12 cluding penalties, applicable in respect of the taxes imposed
 13 by section 3030 (a) shall, insofar as applicable and not in-
 14 consistent with this section, be applicable with respect to the
 15 floor stocks tax imposed by subsection (a).”

16 SEC. ~~(136)~~⁴⁵³ ~~443~~. FERMENTED MALT LIQUOR.

17 (a) INCREASE IN TAX ON FERMENTED MALT LIQUORS
 18 FROM \$8 TO \$9 PER BARREL.—Section 3150 (a) (tax
 19 on fermented malt liquors) is hereby amended (1) by strik-
 20 ing out “\$7” and inserting in lieu thereof “\$9”, and (2) by
 21 striking out the second sentence ~~(137)~~ thereof and inserting
 22 in lieu thereof the following: “On and after January 1,
 23 1954, the tax imposed by the preceding sentence shall be at
 24 the rate of \$8 in lieu of \$9.”.

25 (b) FLOOR STOCKS TAX.—Section 3150 is hereby

1 amended by inserting at the end thereof the following new
2 subsection:

3 “(g) 1951 FLOOR STOCKS TAX.—

4 “(1) TAX.—Upon all fermented malt liquors upon
5 which the internal revenue tax imposed by law has been
6 paid, and which on the effective date of section ~~(138)~~⁴⁵³
7 ~~443~~ (a) of the Revenue Act of 1951 are held by any
8 person and intended for sale there shall be levied,
9 assessed, collected, and paid a floor stocks tax at a rate
10 of \$1 per barrel of 31 gallons.

11 “(2) RETURNS.—Under such regulations as the
12 Secretary shall prescribe, every person required by para-
13 graph (1) to pay any floor stocks tax shall, on or before
14 the end of the thirtieth day following the effective date
15 of section ~~(139)~~⁴⁵³ ~~443~~ (a) of the Revenue Act of
16 1951 make a return and shall, on or before the first day
17 of the third month following such effective date, pay
18 such tax. Payment of the tax shown to be due may be
19 extended to a date not later than the first day of the tenth
20 month following the effective date of section ~~(140)~~⁴⁵³
21 ~~443~~ (a) of the Revenue Act of 1951, upon the filing of
22 a bond for payment thereof in such form and amount
23 and with such surety or sureties as the Secretary may
24 prescribe.

25 “(3) LAWS APPLICABLE.—All provisions of law,

1 including penalties, applicable in respect of the taxes
 2 imposed by subsection (a) shall, insofar as applicable
 3 and not inconsistent with this subsection, be applicable
 4 with respect to the floor stocks tax imposed by this
 5 subsection.”

6 **(141)SEC. 444. FLOOR STOCKS REFUNDS.**

7 *(a) AMENDMENT OF SECTION 1656 (a).—Section*
 8 *1656 (a) (relating to floor stocks refunds on distilled spirits,*
 9 *etc.) is amended to read as follows:*

10 *“(a) IN GENERAL.—With respect to any article upon*
 11 *which tax is imposed under section 2800 (a), 3030 (a),*
 12 *or 3150 (a), upon which internal revenue tax (including*
 13 *floor stocks tax) at the applicable rate prescribed by such*
 14 *section has been paid, and which, on January 1, 1954, is*
 15 *held by any person and intended for sale or for use in the*
 16 *manufacture or production of any article intended for sale,*
 17 *there shall be credited or refunded to such person (without*
 18 *interest), subject to such regulations as may be prescribed by*
 19 *the Secretary, an amount equal to the difference between the*
 20 *tax so paid and the rate made applicable to such articles*
 21 *on and after January 1, 1954, by such section, if claim for*
 22 *such credit or refund is filed with the Secretary prior to*
 23 *February 1, 1954.”*

24 *(b) AMENDMENT OF SECTION 1656 (b).—Section*
 25 *1656 (b) (relating to limitations on eligibility for floor*

1 *stocks refunds on distilled spirits, etc.) is amended by striking*
 2 *out “the rate reduction date” wherever it appears therein*
 3 *and inserting in lieu thereof “January 1, 1954”.*

4 **SEC. (142)~~454~~ 445. CLERICAL AMENDMENT.**

5 The table contained in section 1650 (relating to the war
 6 tax rates of certain miscellaneous taxes) is hereby amended
 7 by striking out the following:

“2800 (a) (1)-----	Distilled Spirits-----	\$6 per gallon-----	\$9 per gallon.
2800 (a) (3)-----	Imported Perfumes Containing Distilled Spirits.	\$6 per gallon-----	\$9 per gallon.
3030 (a) (1)-----	Still Wines:		
	(1) Not over 14% of Alcohol...	10 cents per gallon-----	15 cents per gallon.
	(2) Over 14% and not over 21% of Alcohol.	40 cents per gallon-----	60 cents per gallon.
	(3) Over 21% and not over 24% of Alcohol.	\$1 per gallon-----	\$2 per gallon.
3030 (a) (2)-----	Sparkling Wines, Liqueurs, and Cordials:		
	(1) Champagne or Sparkling Wine.	10 cents per half-pint or fraction thereof.	15 cents per half-pint or fraction thereof.
	(2) Artificially Carbonated Wine.	5 cents per half-pint or fraction thereof.	10 cents per half-pint or fraction thereof.
	(3) Liqueurs, Cordials, Etc...	5 cents per half-pint or fraction thereof.	10 cents per half-pint or fraction thereof.
3150.-----	Fermented Malt Liquors-----	\$7 per barrel-----	\$8 per barrel.”

8 **SEC. (143)~~455~~ 446. EFFECTIVE DATE OF PART (144)~~V~~ IV.**

9 The amendments made by this part shall take effect on
 10 the first day of the first month which begins more than
 11 10 days after the date of the enactment of this Act.

12 **Part (145)~~VI~~ V—Occupational Taxes**

13 **SEC. (146)~~461~~ 451. DEALERS IN LIQUORS.**

14 (a) **WHOLESALE DEALERS IN LIQUORS.**—Section
 15 3250 (a) (1) (relating to occupational tax on wholesale
 16 dealers in liquors) is hereby amended by striking out “\$110”
 17 and inserting in lieu thereof (147)~~“\$200”~~ “\$200, except that
 18 on and after July 1, 1954, such special tax shall be \$110”.

19 (b) **RETAIL DEALERS IN LIQUORS.**—Section 3250

20 (b) (1) (relating to occupational tax on retail dealers in

1 liquors) is hereby amended by striking out “\$27.50” and
 2 inserting in lieu thereof ~~(148)~~“\$50” “\$50, except that on and
 3 after July 1, 1954, such special tax shall be \$27.50”.

4 (c) WHOLESALE DEALERS IN MALT LIQUORS.—Sec-
 5 tion 3250 (d) (1) (relating to tax on wholesale dealers in
 6 malt liquors) is hereby amended by striking out “\$55” and
 7 inserting in lieu thereof ~~(149)~~“\$100” “\$100, except that on
 8 and after July 1, 1954, such special tax shall be \$55”.

9 SEC. ~~(150)~~⁴⁶² 452. DRAWBACK IN THE CASE OF DISTILLED
 10 SPIRITS USED IN THE MANUFACTURE
 11 OF CERTAIN NONBEVERAGE PROD-
 12 UCTS.

13 ~~(151)~~(a) ~~DRAWBACK.~~ Section 3250 ~~(1)~~ ~~(5)~~ (relating to
 14 manufacture of certain nonbeverage products) is hereby
 15 amended by striking out “\$3.75” and inserting in lieu
 16 thereof “\$9.50”.

17 ~~(b)~~ EFFECTIVE DATE.—The amendment made by sub-
 18 section ~~(a)~~ shall be applicable only with respect to distilled
 19 spirits used on or after the first day of the first month which
 20 begins more than ten days after the date of the enactment
 21 of this Act, and on which the internal revenue tax was paid
 22 at the rate of \$10.50 specified in section 2800 ~~(a)~~ ~~(1)~~ or
 23 at a rate equivalent to such rate.

24 ~~(c)~~ TECHNICAL AMENDMENT.—Section 309 ~~(c)~~ of the

1 Revenue Act of 1943 is hereby amended by adding at the
 2 end thereof the following: "Subsection ~~(b)~~ shall not be
 3 applicable in any case in which drawback is allowed at the
 4 rate of \$9.50 under section 3250 ~~(1)~~ ~~(5)~~ of the Internal
 5 Revenue Code, as amended by the Revenue Act of 1951."

6 (a) *DRAWBACK*.—Section 3250 (1) (5) (relating to
 7 manufacturers or producers of designated nonbeverage prod-
 8 ucts) is amended to read as follows:

9 "(5) *DRAWBACK*.—In the case of distilled spirits
 10 tax-paid and used as provided in this subsection, a
 11 drawback shall be allowed—

12 "(A) at the rate of \$6 on each proof gallon
 13 upon which tax is paid at a rate of \$9 per proof
 14 gallon prior to the effective date of section 452 of
 15 the Revenue Act of 1951,

16 "(B) at the rate of \$9.50 on each proof gallon
 17 upon which tax is paid at a rate of \$10.50 per
 18 proof gallon on and after the effective date of section
 19 452 of the Revenue Act of 1951, and

20 "(C) at the rate of \$8 on each proof gallon
 21 upon which tax is paid at a rate of \$9 per proof
 22 gallon after December 31, 1953.

23 Such drawback shall be due and payable quarterly
 24 upon filing of a proper claim with the Secretary. No

1 *claim under this subsection shall be allowed unless filed*
2 *with the Secretary within the three months next succeed-*
3 *ing the quarter for which the drawback is claimed."*

4 (b) *EFFECTIVE DATE.*—The amendment made by sub-
5 section (a) shall be applicable only with respect to distilled
6 spirits used on or after the first day of the first month which
7 begins more than ten days after the date of the enactment
8 of this Act.

9 SEC. (152)~~463~~ 453. TAX ON COIN-OPERATED GAMING DE-
10 VICES.

Section 3267 (a) (tax on coin-operated gaming de-
vices) is hereby amended by striking out “\$150” wherever
appearing therein and inserting in lieu thereof “\$250”.

14 **(153) SEC. 464. TAX ON BOWLING ALLEYS AND BILLIARD**
15 **AND POOL TABLES.**

16 ~~(a) INCREASE IN RATE.~~—Section 3268 (relating to
17 rate of tax) is hereby amended by striking out “\$10” and
18 inserting in lieu thereof “\$25”.

19 ~~(b)~~ CLERICAL AMENDMENT.—The table contained in
20 section 1650 ~~(relating to the war tax rates of certain mis-~~
21 cellaneous taxes) is hereby amended by striking out the
22 following:

["3268-----	Billiard and Pool Tables; and Bowling Alleys.	\$10 per year per table; \$10 per year per alley.	\$20 per year per table; \$20 per year per alley."
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23 SEC. (154)465 454. EFFECTIVE DATE OF PART (155)VI V.

24 The amendments made by sections ~~(156)~~461, 463, and

1 ~~464~~ 451 and 453 shall take effect on the first day of the first
 2 month which begins more than ten days after the date of the
 3 enactment of this Act. In the case of the year beginning
 4 July 1, 1951, where the trade or business on which the tax
 5 is imposed was commenced prior to the first day of the month
 6 specified in the preceding sentence, the increase in tax re-
 7 sulting from such amendments shall be reckoned propor-
 8 tionately from the first day of such month to and including
 9 the thirtieth day of June following and shall be due on, and
 10 payable on or before, the last day of the month specified in
 11 the preceding sentence.

12 **Part (157)~~VH~~ VI—Wagering**

13 **SEC. (158)~~471~~ 461. WAGERING TAXES.**

14 (a) IMPOSITION OF TAXES.—Subtitle B (relating to
 15 miscellaneous taxes) is hereby amended by inserting after
 16 chapter 27 the following new chapter:

17 **“CHAPTER 27A—WAGERING TAXES**

18 **“Subchapter A—Tax on Wagers**

19 **“SEC. 3285. TAX.**

20 “(a) WAGERS.—There shall be imposed on wagers, as
 21 defined in subsection (b), an excise tax equal to 10 per
 22 centum of the amount thereof.

23 “(b) DEFINITIONS.—For the purposes of this chapter—

24 “(1) The term ‘wager’ means (A) any wager
 25 with respect to a sports event or a contest placed with a

1 person engaged in the business of accepting such wagers,
2 (B) any wager placed in a wagering pool with respect
3 to a sports event or a contest, if such pool is conducted
4 for profit, and (C) any wager placed in a lottery con-
5 ducted for profit.

6 “(2) The term ‘lottery’ includes the numbers game,
7 policy, and similar types of wagering. The term does
8 not include (A) any game of a type in which usually
9 (i) the wagers are placed, (ii) the winners are deter-
10 mined, and (iii) the distribution of prizes or other
11 property is made, in the presence of all persons placing
12 wagers in such game, and (B) any drawing conducted
13 by an organization exempt from tax under section 101, if
14 no part of the net proceeds derived from such drawing
15 inures to the benefit of any private shareholder or
16 individual.

17 “(c) AMOUNT OF WAGER.—In determining the amount
18 of any wager for the purposes of this subchapter, all charges
19 incident to the placing of such wager shall be included;
20 except that if the taxpayer establishes, in accordance with
21 regulations prescribed by the Secretary, that an amount
22 equal to the tax imposed by this subchapter has been col-
23 lected as a separate charge from the person placing such
24 wager, the amount so collected shall be excluded.

25 “(d) PERSONS LIABLE FOR TAX.—Each person who is

1 engaged in the business of accepting wagers shall be liable
2 for and shall pay the tax under this subchapter on all wagers
3 placed with him. Each person who conducts any wagering
4 pool or lottery shall be liable for and shall pay the tax under
5 this subchapter on all wagers placed in such pool or lottery.

6 “(e) **EXCLUSIONS FROM TAX.**—No tax shall be im-
7 posed by this subchapter (1) on any wager placed with,
8 or on any wager placed in a wagering pool conducted by, a
9 parimutuel wagering enterprise licensed under State law,
10 and (2) on any wager placed in a coin-operated device with
11 respect to which an occupational tax is imposed by section
12 3267.

13 “(f) **TERRITORIAL EXTENT.**—The tax imposed by this
14 subchapter shall apply only to wagers (1) accepted in the
15 United States, or (2) placed by a person who is in the
16 United States (A) with a person who is a citizen or resident
17 of the United States, or (B) in a wagering pool or lottery
18 conducted by a person who is a citizen or resident of the
19 United States.

20 **“SEC. 3286. CREDITS AND REFUNDS.**

21 “(a) No overpayment of tax under this subchapter shall
22 be credited or refunded (otherwise than under subsection
23 (b)), in pursuance of a court decision or otherwise, unless
24 the person who paid the tax establishes, in accordance with

1 regulations prescribed by the Secretary, (1) that he has
2 not collected (whether as a separate charge or otherwise)
3 the amount of the tax from the person who placed the wager
4 on which the tax was imposed, or (2) that he has repaid the
5 amount of the tax to the person who placed such wager,
6 or unless he files with the Secretary written consent of the
7 person who placed such wager to the allowance of the credit
8 or the making of the refund. In the case of any laid-off
9 wager, no overpayment of tax under this subchapter shall
10 be so credited or refunded to the person with whom such
11 laid-off wager was placed unless he establishes, in accord-
12 ance with regulations prescribed by the Secretary, that the
13 provisions of the preceding sentence have been complied
14 with both with respect to the person who placed the laid-off
15 wager with him and with respect to the person who placed
16 the original wager.

17 “(b) Where any taxpayer lays off part or all of a wager
18 with another person who is liable for tax under this sub-
19 chapter on the amount so laid off, a credit against the tax
20 imposed by this subchapter shall be allowed, or a refund
21 shall be made to, the taxpayer laying off such amount. Such
22 credit or refund shall be in an amount which bears the same
23 ratio to the amount of tax which such taxpayer paid under
24 this subchapter on the original wager as the amount so laid
25 off bears to the amount of the original wager. Credit or

1 refund under this subsection shall be allowed or made only
2 in accordance with regulations prescribed by the Secretary;
3 and no interest shall be allowed with respect to any amount
4 so credited or refunded.

5 **"SEC. 3287. CERTAIN PROVISIONS MADE APPLICABLE.**

6 "All provisions of law, including penalties, applicable
7 with respect to any tax imposed by section 2700 shall,
8 insofar as applicable and not inconsistent with the provisions
9 of this subchapter, be applicable with respect to the tax
10 imposed by this subchapter. In addition to all other records
11 required pursuant to section 2709, each person liable for tax
12 under this subchapter shall keep a daily record showing the
13 gross amount of all wagers on which he is so liable.

14 **"Subchapter B—Occupational Tax**

15 **"SEC. 3290. TAX.**

16 "A special tax of \$50 per year shall be paid by each
17 person who is liable for tax under subchapter A or who is en-
18 gaged in receiving wagers for or on behalf of any person
19 so liable.

20 **"SEC. 3291. REGISTRATION.**

21 "(a) Each person required to pay a special tax under
22 this subchapter shall register with the collector of the
23 district—

24 "(1) his name and place of residence;

25 "(2) if he is liable for tax under subchapter A, each

1 place of business where the activity which makes him so
2 liable is carried on, and the name and place of resi-
3 dence of each person who is engaged in receiving wagers
4 for him or on his behalf; and

5 “(3) if he is engaged in receiving wagers for or on
6 behalf of any person liable for tax under subchapter
7 A, the name and place of residence of each such person.

8 “(b) Where subsection (a) requires the name and
9 place of residence of a firm or company to be registered,
10 the names and places of residence of the several persons
11 constituting the firm or company shall be registered.

12 “(c) In accordance with regulations prescribed by the
13 Secretary, the collector may require from time to time such
14 supplemental information from any person required to regis-
15 ter under this section as may be needful to the enforcement
16 of this chapter.

17 **“SEC. 3292. CERTAIN PROVISIONS MADE APPLICABLE.**

18 “Sections 3271, 3273 (a), 3275, 3276, 3277, 3279, and
19 3280 shall extend to and apply to the special tax imposed
20 by this subchapter and to the persons upon whom it is
21 imposed, and for that purpose any activity which makes a
22 person liable for special tax under this subchapter shall be
23 considered to be a business or occupation described in chap-
24 ter 27. No other provision of subchapter B of chapter 27
25 shall so extend or apply.

1 **“SEC. 3293. POSTING.**

2 “Every person liable for special tax under this sub-
3 chapter shall place and keep conspicuously in his principal
4 place of business the stamp denoting the payment of such
5 special tax; except that if he has no such place of business,
6 he shall keep such stamp on his person, and exhibit it, upon
7 request, to any officer or employee of the Bureau of Internal
8 Revenue.

9 **“SEC. 3294. PENALTIES.**

10 “(a) **FAILURE TO PAY TAX.**—Any person who does
11 any act which makes him liable for special tax under this
12 subchapter, without having paid such tax, shall, besides be-
13 ing liable to the payment of the tax, be fined not less than
14 \$1,000 and not more than \$5,000.

15 “(b) **FAILURE TO POST OR EXHIBIT STAMP.**—Any
16 person who, through negligence, fails to comply with section
17 3293, shall be liable to a penalty of \$50, and the cost of
18 prosecution. Any person who, through willful neglect or
19 refusal, fails to comply with section 3293, shall be liable to a
20 penalty of \$100, and the cost of prosecution.

21 “(c) **WILLFUL VIOLATIONS.**—The penalties prescribed
22 by section 2707 with respect to the tax imposed by section
23 2700 shall apply with respect to the tax imposed by this
24 subchapter.

1 **“Subchapter C—Miscellaneous Provisions**

2 **“SEC. 3297. APPLICABILITY OF FEDERAL AND STATE LAWS.**

3 “The payment of any tax imposed by this chapter with
4 respect to any activity shall not exempt any person from any
5 penalty provided by a law of the United States or of any
6 State for engaging in the same activity, nor shall the payment
7 of any such tax prohibit any State from placing a tax on the
8 same activity for State or other purposes.

9 **“SEC. 3298. INSPECTION OF BOOKS.**

10 “Notwithstanding section 3631, the books of account of
11 any person liable for tax under this chapter may be examined
12 and inspected as frequently as may be needful to the en-
13 forcement of this chapter.”

14 (b) TECHNICAL AMENDMENT.—Section 3310 (f)
15 (relating to discretion allowed the Commissioner with re-
16 spect to returns and payment of tax) is hereby amended by
17 inserting after “subchapter A of chapter 25,” the following:
18 “subchapter A of chapter 27A,”.

19 **SEC. (159)~~472~~ 462. EFFECTIVE DATE OF PART (160)~~VI~~ VI.**

20 The tax imposed by subchapter A of chapter 27A, as
21 added by section (161)~~471~~ 461, shall apply only with
22 respect to wagers placed on or after the first day of
23 the first month which begins more than 10 days after
24 the date of enactment of this Act. No tax shall be pay-
25 able under subchapter B of chapter 27A, as added by

1 section ~~(162)471~~ 461, with respect to any period prior
 2 to the first day of the first month which begins more
 3 than 10 days after the date of enactment of this Act.
 4 ~~(163)~~*In the case of any person who is liable for tax under*
 5 *subchapter A of chapter 27A, as added by section 461, or*
 6 *who is engaged in receiving wagers for or on behalf of any*
 7 *person so liable, and who commenced the activity which makes*
 8 *him subject to such tax, or who was engaged in receiving such*
 9 *wagers, prior to the first day of the first month specified in*
 10 *the preceding sentence, the tax under subchapter B of chapter*
 11 *27A, as added by section 461, shall be reckoned proportion-*
 12 *ately from the first day of such month to and including the*
 13 *thirtieth day of June following and shall be due on, and*
 14 *payable on or before, the last day of the month specified in*
 15 *the preceding sentence.*

16 **Part ~~(164)VIII~~ VII—Manufacturers' Excise Taxes**

17 **SEC. ~~(165)481~~ 471. AUTOMOBILES, TRUCKS, AND PARTS OR**
 18 **ACCESSORIES.**

19 (a) INCREASE IN TAX ON TRUCKS.—Section 3403
 20 (a) (tax on trucks, busses, etc.) is hereby amended by
 21 striking out "5 per centum" and inserting in lieu thereof
 22 ~~(166)"8 per centum"~~ "8 per centum, except that on and
 23 after January 1, 1954, the rate shall be 5 per centum".

24 (b) INCREASE IN TAX ON PASSENGER AUTOMOBILES
 25 AND MOTORCYCLES.—Section 3403 (b) (tax on automo-

1 bile chassis and bodies, etc.) is hereby amended to read as
2 follows:

3 (167)“(b) OTHER CHASSIS AND BODIES, ETC.—

4 “(1) Other automobile chassis and bodies, chassis
5 and bodies for trailers and semi-trailers (other than
6 house trailers) suitable for use in connection with pas-
7 senger automobiles, and motorcycles (including in each
8 case parts or accessories therefor sold on or in connection
9 therewith or with the sale thereof); except tractors, 10
10 per centum.

11 “(2) Chassis and bodies for house trailers (includ-
12 ing in each case parts or accessories therefor sold on or
13 in connection therewith or with the sale thereof), 7
14 per centum.

15 A sale of an automobile, trailer, or semi-trailer shall, for
16 the purposes of this subsection, be considered to be a sale of
17 the chassis and of the body.”

18 “(b) OTHER CHASSIS AND BODIES, ETC.—Other auto-
19 mobile chassis and bodies, chassis and bodies for trailers and
20 semitrailers (other than house trailers) suitable for use in con-
21 nection with passenger automobiles, and motorcycles (includ-
22 ing in each case parts or accessories therefor sold on or in
23 connection therewith or with the sale thereof), except tractors,
24 10 per centum, except that on and after January 1, 1954,
25 the rate shall be 7 per centum. A sale of an automobile,

1 *trailer, or semitrailer shall, for the purposes of this subsection,*
 2 *be considered to be a sale of the chassis and of the body."*

3 (c) INCREASE IN TAX ON PARTS OR ACCESSORIES.—

4 Section 3403 (c) (tax on parts or accessories for automo-
 5 biles, etc.) is hereby amended by striking out "5 per centum"
 6 and inserting in lieu thereof (168) ~~"8 per centum"~~ "8 per
 7 centum, except that on and after January 1, 1954, the rate
 8 shall be 5 per centum".

9 (d) REBUILT PARTS OR ACCESSORIES.—Section 3403

10 (c) (tax on parts or accessories) is hereby amended by
 11 adding at the end thereof the following: "In determining
 12 the sale price of a rebuilt automobile part or accessory there
 13 shall be excluded from the price, in accordance with regula-
 14 tions prescribed by the Secretary, the value of a like part or
 15 accessory accepted in exchange."

16 (e) TECHNICAL AMENDMENT.—Section 3403 (e)

17 (relating to certain credits against the tax imposed by section
 18 3403) is hereby amended by striking out "in the case of an
 19 article taxable under subsection (a), 5 per centum, and in the
 20 case of an article taxable under subsection (b), 7 per centum"
 21 and inserting in lieu thereof (169) ~~"in the case of an article~~
 22 ~~taxable under subsection (a), 8 per centum, in the case of~~
 23 ~~an article taxable under subsection (b) (1), 10 per centum,~~
 24 ~~and in the case of an article taxable under subsection (b)~~
 25 ~~(2), 7 per centum"~~ "in the case of an article taxable under

1 subsection (a) or subsection (b), the applicable percentage
2 rate of tax provided in such subsections”.

3 (f) PARTS OR ACCESSORIES FOR FARM EQUIP-
4 MENT.—Section 3443 (a) (3) (A) is hereby amended
5 by striking out the period at the end of clause (v) and in-
6 serting in lieu thereof a semicolon, and by inserting after
7 clause (v) the following:

8 “(vi) in the case of articles taxable under
9 section 3403 (c) (other than spark plugs,
10 storage batteries, leaf springs, coils, timers, and
11 tire chains), used or resold for use as repair
12 or replacement parts or accessories for farm
13 equipment (other than equipment taxable
14 under subsection (a) or (b) of section
15 3403) ;”.

16 (g) EFFECTIVE DATE OF SUBSECTION (f).—The
17 amendment made by subsection (f) shall be effective with
18 respect to articles purchased (by the user thereof) on or
19 after the first day of the first month which begins more
20 than ten days after the date of the enactment of this Act.

21 (h) REMOVAL OF TAX ON TIRES FOR TOYS, ETC.—
22 Paragraph (1) of section 3400 (a) (relating to tax on
23 tires) is hereby amended by adding at the end thereof the
24 following: “The tax imposed by this paragraph shall not
25 apply to (A) tires which are not more than 20 inches in

1 diameter and not more than one and three-fourths inches
2 in cross-section, if such tires are of all-rubber construction
3 (whether hollow center or solid) without fabric or metal
4 reinforcement, or (B) tires of extruded tiring with internal
5 wire fastening agent.”

6 SEC. (170)⁴⁸² 472. NAVIGATION RECEIVERS SOLD TO THE
7 UNITED STATES.

8 (a) EXEMPTION ON SALES TO UNITED STATES OF
9 CERTAIN RADIO SETS.—Section 3404 (a) (relating to man-
10 ufacturers’ excise tax on radio receiving sets, etc.) is hereby
11 amended by adding at the end thereof the following new sen-
12 tence: “No tax shall be imposed under this subsection with
13 respect to the sale to the United States for its exclusive use
14 of a communication, detection, or navigation receiver of the
15 type used in commercial, military, or marine installations.”

16 (b) TAX-FREE SALES OF RADIO PARTS.—Section 3404
17 (b) (relating to manufacturers’ excise tax on component
18 parts of radio receiving sets, etc.) is hereby amended by add-
19 ing at the end thereof the following new sentence: “Under
20 regulations prescribed by the Secretary, no tax shall be im-
21 posed under this subsection with respect to the sale of any
22 article for use by the vendee as material in the manufacture or
23 production of, or as a component part of, communication,
24 detection, or navigation receivers of the type used in com-
25 mercial, military, or marine installations if such receivers

1 are to be sold by the vendee to the United States for its
2 exclusive use. If any article sold tax-free to such vendee
3 is not so used by him, or being so used the receiver is not so
4 sold, the vendee shall be considered as the manufacturer or
5 producer of such article.”

6 (c) REFUND IN CASE OF USE OF PARTS.—Section
7 3443 (a) (1) (relating to credits and refunds) is hereby
8 amended to read as follows:

9 “(1) to a manufacturer or producer, in the amount
10 of any tax under this chapter which has been paid
11 with respect to the sale of—

12 “(A) any article (other than a tire, inner tube,
13 or automobile radio or television receiving set tax-
14 able under section 3404) purchased by him and
15 used by him as material in the manufacture or
16 production of, or as a component part of, an article
17 with respect to which tax under this chapter has
18 been paid, or which has been sold free of tax by
19 virtue of section 3442, relating to tax-free sales;

20 “(B) any article described in section 3404 (b)
21 purchased by him and used by him as material in
22 the manufacture or production of, or as a com-
23 ponent part of, communication, detection, or navi-
24 gation receivers of the type used in commercial,
25 military, or marine installations if such receivers

1 have been sold by him to the United States for its
2 exclusive use.”

3 (d) REFUND IN CASE OF RESALE TO UNITED
4 STATES.—Section 3443 (a) (3) (A) is hereby amended
5 by adding at the end thereof the following:

6 “(vii) in the case of a communication,
7 detection, or navigation receiver of the type
8 used in commercial, military, or marine installa-
9 tions, resold to the United States for its ex-
10 clusive use.”

11 (e) USE BY MANUFACTURER OF TAXABLE PARTS.—
12 Section 3444 (b) (relating to tax on use by manufacturer of
13 taxable articles) is hereby amended ~~(171)~~by adding at the
14 end thereof the following: “This to read as follows:

15 “(b) This section shall not apply with respect to the
16 use by the manufacturer, producer, or importer of articles
17 described in section 3404 (b) if such articles are used by
18 him as material in the manufacture or production of, or as
19 a component part of, communication, detection, or navi-
20 gation receivers of the type used in commercial, military,
21 or marine installations if such receivers are to be sold to the
22 United States for its exclusive use.”

23 (f) EFFECTIVE DATES.—The amendments made by
24 subsections (a) and (b) shall take effect as provided in section
25 ~~(172)~~489 480. The amendments made by subsections (c)

1 and (e) shall be applicable with respect to articles used in
2 receivers sold to the United States on or after the first day of
3 the first month which begins more than ten days after the
4 date of the enactment of this Act, and the amendment made
5 by subsection (d) shall be applicable with respect to
6 articles resold to the United States on or after such
7 first day.

8 (173) SEC. 473. TAX-FREE SALES OF REFRIGERATOR COM-
9 PONENTS TO WHOLESALERS FOR RESALE TO
10 MANUFACTURERS.

11 Section 3405 (b) is hereby amended by inserting
12 “(hereinafter referred to as ‘refrigerating equipment’)” be-
13 fore the period at the end of the first sentence and by striking
14 out the second and third sentences and inserting in lieu
15 thereof the following: “Under regulations prescribed by the
16 Secretary, the tax under this subsection shall not apply in
17 the case of sales of any such refrigerator components by the
18 manufacturer, producer, or importer to (1) a manufac-
19 turer or producer of refrigerating equipment, or (2) a vendee
20 for resale to a manufacturer or producer of refrigerating
21 equipment if such components are in due course so resold.
22 If any such refrigerator components are resold by the manu-
23 facturer or producer to whom sold or resold otherwise than
24 on or in connection with, or with the sale of, complete re-
25 frigerating equipment manufactured or produced by him,

1 *then for the purposes of this section such manufacturer or*
 2 *producer shall be considered the manufacturer or producer*
 3 *of the refrigerator components so resold by him."*

4 **(174)SEC. 483. REPEAL OF TAX ON CERTAIN SPORTING**
 5 **GOODS; INCREASE IN TAX ON REMAINING**
 6 **SPORTING GOODS.**

7 Section 3406 (a) (1) (relating to manufacturers' ex-
 8 cise tax on sporting goods) is hereby amended to read as
 9 follows:

10 **"(1) SPORTING GOODS.**—Badminton nets; badminton
 11 rackets (measuring 22 inches over-all or more in length;
 12 badminton racket frames (measuring 22 inches over-all or
 13 more in length); badminton racket string; badminton shuttle-
 14 cocks; badminton standards; baseballs; baseball bats (meas-
 15 uring 26 inches or more in length); baseball body protectors
 16 and shin guards; baseball gloves and mitts; baseball masks;
 17 billiard and pool tables (measuring 45 inches over-all or
 18 more in length); billiard and pool balls and cues for such
 19 tables; bowling balls and pins; clay pigeons and traps for
 20 throwing clay pigeons; croquet balls and mallets; curling
 21 stones; deck tennis rings, nets, and posts; fishing rods, creels,
 22 reels, and artificial lures, baits, and flies; golf bags (measur-
 23 ing 26 inches or more in length); golf balls; golf clubs
 24 (measuring 30 inches or more in length); polo balls; polo
 25 mallets; skis; ski poles; snow shoes; squash balls; squash

1 rackets (measuring 22 inches over-all or more in length);
 2 squash racket frames (measuring 22 inches over-all or more
 3 in length); squash racket string; table tennis tables, balls,
 4 nets, and paddles; tennis balls; tennis nets; tennis rackets
 5 (measuring 22 inches over-all or more in length); tennis
 6 racket frames (measuring 22 inches over-all or more in
 7 length); tennis racket string; 15 per centum."

8 SEC. 474. SPORTING GOODS.

9 Section 3406 (a) (1) (relating to manufacturers' excise
 10 tax on sporting goods) is hereby amended to read as follows:

11 "(1) SPORTING GOODS.—Badminton nets; badminton
 12 rackets (measuring 22 inches over all or more in length);
 13 badminton racket frames (measuring 22 inches over all or
 14 more in length); badminton racket string; badminton shuttle-
 15 cocks; badminton standards; billiard and pool tables (meas-
 16 uring 45 inches over all or more in length); billiard and pool
 17 balls and cues for such tables; bowling balls and pins; clay
 18 pigeons and traps for throwing clay pigeons; cricket balls;
 19 cricket bats; croquet balls and mallets; curling stones; deck
 20 tennis rings, nets, and posts; golf bags (measuring 26 inches
 21 or more in length); golf balls; golf clubs (measuring 30 inches
 22 or more in length); lacrosse balls; lacrosse sticks; polo balls;
 23 polo mallets; skates; skis; ski poles; snow shoes; snow tobog-

1 *gans and sleds measuring more than 60 inches over all*
 2 *in length); squash balls; squash rackets (measuring 22*
 3 *inches over all or more in length); squash racket frames*
 4 *(measuring 22 inches over all or more in length); squash*
 5 *racket string; table tennis tables, balls, nets, and paddles;*
 6 *tennis balls; tennis nets; tennis rackets (measuring 22 inches*
 7 *over all or more in length); tennis racket frames (measuring*
 8 *22 inches over all or more in length); tennis racket string;*
 9 *15 per centum; fishing rods, creels, reels, and artificial lures,*
 10 *baits and flies; snow toboggans and sleds (measuring 60*
 11 *inches or less over all in length); 10 per centum."*

12 **SEC. (175)⁴⁸⁴ 475. (176) ADDITION OF CERTAIN ITEMS TO**
 13 **THE TAX ON ELECTRIC, GAS, AND OIL**
 14 **APPLIANCES; REMOVAL OF TAX ON**
 15 **ELECTRIC HEATING PADS ELECTRIC,**
 16 **GAS, AND OIL APPLIANCES.**

17 **(177)(a) ITEMS SUBJECT TO TAX.**—Section 3406 (a) (3)
 18 (relating to manufacturers' excise tax on electric, gas, and
 19 oil appliances) is hereby amended (1) **(178)** *by inserting after*
 20 *"Electric direct motor-driven fans and air circulators" the*
 21 *following: "(not of the industrial type)", (2) by striking out*
 22 *"electric air heaters (not including furnaces)" and inserting*

1 in lieu thereof “electric air heaters (not including furnaces
 2 and electric air heaters of the blower type)”, (3) by striking
 3 out “electric heating pads and blankets” and inserting in
 4 lieu thereof “electric blankets, sheets, and spreads”, and
 5 (179)(2) (4) by inserting after “juicers;” the following:
 6 “and the following appliances of the household type: electric
 7 belt-driven fans; (180)electric exhaust blowers; electric or gas
 8 clothes driers; electric door chimes; electric dehumidifiers;
 9 electric dishwashers; electric floor polishers and waxers;
 10 electric food choppers and grinders; electric hedge trim-
 11 mers; electric ice cream freezers; electric mangles; electric
 12 motion or still picture projectors; electric pants pressers;
 13 (181)electric shavers; electric garbage disposal units; and
 14 power lawn mowers;”.

15 (182)(b) The provisions of section 3406 (a) (3) of the
 16 Internal Revenue Code, as amended, shall not apply to
 17 electric, gas, or oil appliances of the industrial type.

18 (183)(c) DETERMINATION OF SALE PRICE.—Section 3441
 19 (b) is hereby amended by striking out “or” at the end of
 20 clause (2), by inserting “or” at the end of clause (3), and
 21 by adding after clause (3) the following new clause:

22 “(4) sold at retail under an arrangement whereby
 23 the manufacturer negotiates the sale on behalf of the
 24 retailer;”.

1 (184)SEC. 485. ADJUSTMENTS OF TAX RATES ON PHOTO-
2 GRAPHIC APPARATUS AND FILM; RE-
3 PEAL OF TAX ON CERTAIN ITEMS.

4 (a) ITEMS SUBJECT TO TAX.—Section 3406 (a) (4)
5 (relating to the manufacturers' excise tax on photographic
6 apparatus) is hereby amended to read as follows:

7 “(4) PHOTOGRAPHIC APPARATUS.—Cameras and
8 camera lenses, and unexposed photographic film in rolls
9 (including motion picture film), 20 per centum. The
10 tax imposed under this paragraph shall not apply to
11 X-ray cameras, to cameras weighing more than four
12 pounds exclusive of lens and accessories, to still camera
13 lenses having a focal length of more than one hundred
14 and twenty millimeters, to motion picture camera lenses
15 having a focal length of more than thirty millimeters, to
16 X-ray film, to film more than one hundred and fifty
17 feet in length, or to film more than twenty-five feet
18 in length and more than thirty millimeters in width.
19 Any person who acquires unexposed photographic film
20 not subject to tax under this paragraph and sells such
21 unexposed film in form and dimensions subject to tax
22 hereunder (or in connection with a sale cuts such film
23 to form and dimensions subject to tax hereunder) shall

1 for the purposes of this subsection be considered the
2 manufacturer of the film so sold by him."

3 ~~(b)~~ FLOOR STOCKS REFUNDS ON BULBS.—

4 ~~(1)~~ With respect to any photo-flash or other bulb
5 upon which the tax imposed under section 3406 ~~(a)~~
6 ~~(4)~~ of the Internal Revenue Code has been paid, and
7 which on the effective date specified in section 489 of
8 this Act is held by any person and intended for sale, or
9 for use in the manufacture or production of any article
10 intended for sale, there shall be credited or refunded to
11 the manufacturer or producer of such bulb ~~(without~~
12 ~~interest)~~; subject to such regulations as may be pre-
13 scribed by the Secretary, an amount equal to so much
14 of the tax so paid as has been paid by such manufacturer
15 or producer to such person as reimbursement for the
16 elimination on such effective date of the tax on such bulb,
17 if claim for such credit or refund is filed with the Secre-
18 tary prior to the expiration of three months after such
19 effective date. No credit or refund shall be allowable
20 under this paragraph for any bulb held by any person
21 for sale which was purchased by such person as a com-
22 ponent part of any other article.

23 ~~(2)~~ No person shall be entitled to credit or refund
24 under paragraph ~~(1)~~ unless he has in his possession such
25 evidence of the inventories with respect to which he has

made the reimbursements described in paragraph (1) as the regulations under paragraph (1) shall prescribe.

(3) All provisions of law, including penalties, applicable with respect to the tax imposed under section 3406 (a) (4) of the Internal Revenue Code shall, insofar as applicable and not inconsistent with this subsection, be applicable in respect of the credits and refunds provided for in this subsection to the same extent as if such credits or refunds constituted credits or refunds of such taxes.

SEC. 476. PHOTOGRAPHIC APPARATUS.

Section 3406 (a) (4) is hereby amended to read as follows:

“(4) PHOTOGRAPHIC APPARATUS.—Cameras (except cameras weighing more than four pounds exclusive of lens and accessories) and lenses; photographic apparatus and equipment; any apparatus or equipment designed especially for use in the taking of photographs or motion pictures or in developing, printing, or enlarging photographs or motion pictures; unexposed photographic films (including motion picture films but not including X-ray film); unexposed photographic plates; and unexposed sensitized paper; 15 per centum. The amount of tax payable on a sale of unexposed thirty-five millimeter color positive print motion picture film shall be computed

1 *in lieu of on the price for which so sold, on the price for*
2 *which an equivalent quantity of unexposed thirty-five*
3 *millimeter black and white positive print motion picture*
4 *film is sold, in the ordinary course of trade, by manu-*
5 *facturers or producers thereof, as determined by the*
6 *Secretary."*

7 SEC. (185)486 477. IMPOSITION OF TAX ON MECHANICAL
8 (186)PENCILS AND FOUNTAIN AND
9 BALL POINT PENS PENCILS, FOUNTAIN
10 AND BALL POINT PENS, AND MECHANI-
11 CAL LIGHTERS FOR CIGARETTES, CIGARS,
12 AND PIPES.

Chapter 29 (relating to manufacturers' excise and im-
port taxes) is hereby amended by adding after section 3407
the following new section:

16 "SEC. 3408. TAX ON MECHANICAL (187)PENCILS AND
17 FOUNTAIN AND BALL POINT PENS PENCILS,
18 FOUNTAIN AND BALL POINT PENS, AND MECHAN-
19 ICAL LIGHTERS FOR CIGARETTES, CIGARS, AND
20 PIPES.

21 “(a) IMPOSITION OF TAX.—There shall be imposed
22 on the following articles, sold by the manufacturer, producer,
23 or importer, a tax equal to ~~(188)20~~ 10 per centum of the
24 price for which so sold: Mechanical pencils, fountain pens,

1 and ball point (189)pens pens; mechanical lighters for
2 cigarettes, cigars, and pipes.

3 “(b) EXEMPTION IF ARTICLE TAXABLE AS JEW-
4 ELRY.—No tax shall be imposed under this section on any
5 article taxable under section 2400 (relating to jewelry tax).
6 (190)If any article, on the sale of which tax has been paid
7 under this section, is further manufactured or processed re-
8 sulting in an article taxable under section 2400, the person
9 who sells such article at retail shall, in the computation of the
10 retailers’ excise tax due on such sale, be entitled to a credit or
11 refund in an amount equal to the tax paid under this section.

12 SEC. (191)⁴⁸⁷ 478. REPEAL OF TAX ON ELECTRICAL
13 ENERGY.

14 (a) REPEAL OF TAX.—Section 3411 (relating to tax
15 on electrical energy for domestic or commercial consump-
16 tion), and sections 3441 (192)(d), ~~3444 (b)~~, and (d) and
17 3447 (c) (related provisions), are hereby repealed.

18 (b) EFFECTIVE DATE.—

19 (1) Except as provided in paragraph (2), the
20 provisions of subsection (a) shall apply to electrical
21 energy sold on or after the first day of the first month
22 which begins more than ten days after the date of the
23 enactment of this Act.

24 (2) In the case of electrical energy sold which is

1 billed to the customer for a period beginning before the
 2 effective date specified in paragraph (1) and ending
 3 on or after such date, the provisions of subsection (a)
 4 shall apply to that portion of the amount billed for the
 5 electrical energy sold during such period which the num-
 6 ber of days in such period on and after such effective date
 7 bears to the total number of days in such period. This
 8 section shall not apply to electrical energy sold before
 9 such effective date for which a bill was rendered prior
 10 to such date.

11 **SEC. (193)488 479. TAX ON GASOLINE.**

12 (a) **INCREASE IN RATE.**—Section 3412 (a) is hereby
 13 amended by striking out “1½ cents” and inserting in lieu
 14 thereof “2 cents” (194) *and by adding at the end thereof the*
 15 *following new sentence: “On and after January 1, 1954,*
 16 *the tax imposed by this section shall be 1½ cents a gallon in*
 17 *lieu of 2 cents a gallon.”.*

18 (b) **FLOOR STOCKS TAX (195)AND REFUND.**—Section
 19 3412 is hereby amended by adding at the end thereof the
 20 following new (196) ~~subsection~~ *subsections:*

21 “(f) **1951 FLOOR STOCKS TAX.**—On gasoline subject to
 22 tax under this section which, on the effective date of section
 23 (197)488 479 (a) of the Revenue Act of 1951, is held and
 24 intended for sale, there shall be levied, assessed, collected, and
 25 paid a floor stocks tax at the rate of ½ cent per gallon. The

1 tax shall not apply to gasoline in retail stocks held at the
 2 place where intended to be sold at retail, nor to gasoline held
 3 for sale by (198)the manufacturer, producer, or importer
 4 thereof.” a producer or importer of gasoline.

5 (199)“(g) FLOOR STOCKS REFUNDS ON GASOLINE.—

6 “(1) IN GENERAL.—With respect to any gasoline
 7 taxable under this section, upon which tax (including
 8 floor stocks tax) at the applicable rate has been paid,
 9 and which, on January 1, 1954, is held and intended
 10 for sale by any person, there shall be credited or re-
 11 funded (without interest) to the producer or importer
 12 who paid the tax, subject to such regulations as may be
 13 prescribed by the Secretary, an amount equal to so much
 14 of the difference between the tax so paid and the amount
 15 of tax made applicable to such gasoline on and after Jan-
 16 uary 1, 1954, as has been paid by such producer or im-
 17 porter to such person as reimbursement for the tax
 18 reduction on such gasoline, if claim for such credit or
 19 refund is filed with the Secretary prior to April 1, 1954.
 20 No credit or refund shall be allowable under this sub-
 21 section with respect to gasoline in retail stocks held at
 22 the place where intended to be sold at retail, nor with
 23 respect to gasoline held for sale by a producer or im-
 24 porter of gasoline.

“(2) *LIMITATION ON ELIGIBILITY FOR CREDIT OR REFUND.*—No producer or importer shall be entitled to a credit or refund under paragraph (1) unless he has in his possession satisfactory evidence of the inventories with respect to which he has made the reimbursements described in such paragraph, and establishes to the satisfaction of the Secretary with respect to the quantity of gasoline as to which credit or refund is claimed under such paragraph, that on or after January 1, 1954, such quantity of gasoline was sold to the ultimate consumer at a price which reflected the amount of the tax reduction.

12 “(3) *PENALTY AND ADMINISTRATIVE PROCE-*
13 *DURES.*—All provisions of law, including penalties, ap-
14 plicable in respect of the tax imposed under this section
15 shall, insofar as applicable and not inconsistent with this
16 subsection, be applicable in respect of the credits and
17 refunds provided for in this subsection to the same extent
18 as if such credits or refunds constituted credits or refunds
19 of such taxes.”

20 SEC. (200)489 480. EFFECTIVE DATE OF PART (201)VIII

21 VII.

22 Except as otherwise expressly provided in this part,
23 the amendments made by this part shall take effect on the
24 first day of the first month which begins more than 10 days
25 after the date of the enactment of this Act.

Part ~~(202)~~IX VIII—Miscellaneous Excise Tax Amendments

SEC. ~~(203)~~⁴⁹¹ 481. REDUCTION OF TAX ON TELEGRAPH

DISPATCHES.

(a) REDUCTION OF TAX.—~~(204)~~The first sentence of section ~~3465~~ ~~(a)~~ ~~(1)~~ ~~(B)~~ is hereby amended to read as follows:

“On the amount paid within the United States for each telegraph, cable, or radio dispatch or message a tax equal to 20 per centum of the amount so paid, except that in the case of each international telegraph, cable, or radio dispatch or message the rate shall be 10 per centum.”

~~(b)~~ CLERICAL AMENDMENT.—The table contained in section 1650 (relating to the war tax rates of certain miscellaneous taxes) is hereby amended by striking out the following:

“3465 (a) (1) (B) (insofar as it relates to domestic telegraph, cable, and radio dispatches).	Domestic Telegraph, Cable, or Radio Dispatches.	15 per centum.....	25 per centum.”
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~~(205)~~~~(e)~~ (b) EFFECTIVE DATE.—Subject to the provisions of subsection ~~(206)~~~~(d)~~ (c), the amendments made by this section shall apply with respect to amounts paid on or after the rate reduction date (as defined in subsection ~~(207)~~~~(e)~~ (d)) for services rendered on or after such date.

~~(208)~~~~(d)~~ (c) AMOUNTS PAID PURSUANT TO BILLS RENDERED.—The amendments made by this section shall not apply with respect to amounts paid pursuant to bills rendered prior to the rate reduction date. In the case of amounts paid

1 pursuant to bills rendered on or after the rate reduction date
 2 for services for which no previous bill was rendered, the
 3 amendments made by this section shall apply except with
 4 respect to such services as were rendered more than 2
 5 months before such date. In the case of services rendered
 6 more than 2 months before such date the provisions of
 7 sections 1650 and 3465 of the Internal Revenue Code in
 8 effect at the time such services were rendered shall be
 9 applicable to the amounts paid for such services.

10 ~~(209)(e)~~ (d) RATE REDUCTION DATE.—For the purposes
 11 of this section the term “rate reduction date” means the first
 12 day of the first month which begins more than 10 days after
 13 the date of the enactment of this Act.

14 ~~(210)~~SEC. 482. EXEMPTION OF CERTAIN OVERSEAS TELEPHONE
 15 CALLS FROM THE TAX ON TELEPHONE FACILI-
 16 TIES.

17 (a) TELEPHONE CALLS FROM MEMBERS OF ARMED
 18 FORCES IN COMBAT ZONES.—Section 3466 is amended by
 19 redesignating subsection (c) thereof as subsection “(d)”
 20 and by inserting after subsection (b) the following new
 21 subsection:

22 “(c) No tax shall be imposed under section 3465 (a)
 23 (1) (A) upon any payment received for any telephone or
 24 radio telephone message which originates within a combat
 25 zone, as defined in section 22 (b) (13), from a member of

1 *the Armed Forces of the United States performing service in*
 2 *such combat zone, as determined under such section, provided*
 3 *a certificate, setting forth such facts as the Secretary may by*
 4 *regulations prescribe, is furnished to the person receiving*
 5 *such payment.”*

6 (b) *EFFECTIVE DATE.*—*The amendment made by sub-*
 7 *section (a) shall apply to amounts paid on or after the first*
 8 *day of the first month which begins more than 10 days after*
 9 *the date of enactment of this Act for telephone or radio*
 10 *telephone messages made on or after such date.*

11 **SEC. (211)⁴⁹² 483. EXEMPTION OF FISHING TRIPS FROM**
 12 **TAX ON TRANSPORTATION.**

13 (a) *EXEMPTION.*—Section 3469 (b) (relating to
 14 exemption of certain trips from the tax on transportation of
 15 persons) is hereby amended by striking out “or to amounts”
 16 and inserting in lieu thereof “to amounts”, and by inserting
 17 after the words “one month or less” the following “, or to
 18 amounts paid for transportation by boat for the purpose of
 19 fishing from such boat”.

20 (b) *EFFECTIVE DATE.*—*The amendment made by sub-*
 21 *section (a) shall apply to amounts paid on or after the first*
 22 *day of the first month which begins more than 10 days after*
 23 *the date of the enactment of this Act for transportation on*
 24 *or after such first day.*

1 **(212)SEC. 493. TRANSPORTATION OF OIL BY WATER.**

2 ~~(a)~~ **IMPOSITION OF TAX.**—Chapter 30 (relating to
3 transportation and communications taxes) is hereby amended
4 by adding at the end thereof the following new subchapter:

5 **“SUBCHAPTER F—TRANSPORTATION OF OIL BY**
6 **WATER**

7 **“SEC. 3476. TRANSPORTATION OF OIL BY WATER.**

8 ~~“(a)~~ **TAX.**—There shall be imposed upon all transporta-
9 tion (other than transportation taxable under section 3475)
10 of crude petroleum and liquid products thereof by water,
11 from one point in the United States to another, a tax equal to
12 3 per centum of the fair charge for such transportation.

13 ~~“(b)~~ **FAIR CHARGE DEFINED.**—For the purposes of
14 this section, the fair charge for transportation shall be com-
15 puted on—

16 ~~“(1)~~ the basis of the charge for such transportation
17 made by persons performing like transportation for hire,
18 as determined by the Secretary, or

19 ~~“(2)~~ if no such charge exists, then on the basis
20 of a reasonable charge for such transportation, as deter-
21 mined by the Secretary.

22 ~~“(c)~~ **EXEMPTION FROM TAX.**—The tax imposed by
23 this section shall not apply to—

24 ~~“(1)~~ transportation within the premises of a pro-

1 dueing property, refinery, bulk plant, terminal, or gaso-
 2 line plant;

3 “(2) transportation in a vessel of a product to be
 4 used (without unloading) as fuel supplies, ship’s stores,
 5 sea stores, or legitimate equipment, on such vessel;

6 “(3) transportation by and for the exclusive use of
 7 the Government of the United States, or by and for the
 8 exclusive use of any State, Territory, or political subdi-
 9 vision thereof, or the District of Columbia; or

10 “(4) products transported by an individual for his
 11 personal use and not for business purposes.

12 “(d) RETURN AND PAYMENT OF TAX.—The tax im-
 13 posed by this section shall be paid by the person furnishing
 14 the transportation subject to the tax. Every person liable for
 15 the tax imposed under this section shall make returns and pay
 16 such taxes to the collector for the district in which is located
 17 his principal place of business or, if he has no principal place
 18 of business in the United States, then to the collector at
 19 Baltimore, Maryland. Such returns shall contain such infor-
 20 mation and be made at such times and in such manner as the
 21 Secretary by regulations may prescribe.”

22 (b) TECHNICAL AMENDMENT.—Section 3475 (a)
 23 (relating to tax on transportation of property) is hereby
 24 amended by adding at the end thereof the following new

1 sentence: "In the case of transportation of crude petroleum
 2 and liquid products thereof by water from one point in the
 3 United States to another, if (other than in the case of an
 4 arm's length transaction) the amount paid for such trans-
 5 portation is less than the fair charge therefor (as defined in
 6 section 3476 (b)) the tax imposed by section 3476, and not
 7 the tax imposed by this section, shall apply with respect to
 8 such transportation."

9 ~~(c)~~ EFFECTIVE DATE.—The amendments made by this
 10 section shall be applicable only with respect to transportation
 11 which begins on or after the first day of the first month
 12 which begins more than ten days after the date of the
 13 enactment of this Act.

14 **(213) SEC. 484. TAX ON TRANSPORTATION OF PERSONS.**

15 *(a) EXEMPTION OF CERTAIN FOREIGN TRAVEL.—*
 16 *Section 3469 (a) of the Internal Revenue Code (relating*
 17 *to tax on transportation of persons) is hereby amended by*
 18 *striking out the third sentence and inserting in lieu of such*
 19 *sentence the following: "In the case of transportation by*
 20 *water on a vessel which makes one or more intermediate stops*
 21 *at ports within the United States, Canada, or Mexico on a*
 22 *voyage which begins or ends in the United States and ends*
 23 *or begins outside the northern portion of the Western Hemi-*
 24 *sphere, no part of such transportation shall be considered for*
 25 *the purposes of the preceding sentence to be from any port*

1 *within the United States, Canada, or Mexico to any other*
 2 *such port if the vessel in stopping at any such intermediate*
 3 *port is not authorized both to discharge and to take on passen-*
 4 *gers. A port or station within Newfoundland shall not, for*
 5 *the purposes of the preceding two sentences, be considered as*
 6 *a port or station within Canada."*

7 **(b) EFFECTIVE DATE.**—*The amendment made by sub-*
 8 *section (a) shall apply to amounts paid on or after the first*
 9 *day of the first month which begins more than ten days after*
 10 *the date of the enactment of this Act for transportation on or*
 11 *after such first day.*

12 **(214) SEC. 485. TRANSPORTATION OF MATERIAL EXCAVATED**
 13 **IN THE COURSE OF CONSTRUCTION WORK.**

14 **(a) AMENDMENT OF SECTION 3475.**—*Section 3475*
 15 *(relating to tax on transportation of property) is hereby*
 16 *amended by adding at the end thereof the following: "The*
 17 *tax imposed by this section shall not apply to the transpor-*
 18 *tation of earth, rock, or other material excavated within the*
 19 *boundaries of, and in the course of, a construction project*
 20 *and transported to any place within, or adjacent to, the*
 21 *boundaries of such project."*

22 **(b) EFFECTIVE DATE.**—*The amendment made by sub-*
 23 *section (a) shall apply to amounts paid on or after the first*
 24 *day of the first month which begins more than ten days after*

1 *the date of enactment of this Act for transportation on or*
2 *after such first day.*

3 SEC. ~~(215)~~⁴⁹⁴ 486. ARTICLES FROM FOREIGN TRADE ZONES.

4 (a) IMPORTED ARTICLES.—Upon all articles specified
5 in section 2000 (c) (2), 2800 (a), 3030 (a), or 3150
6 (a) of the Internal Revenue Code on which the internal
7 revenue taxes imposed by law have been determined,
8 pursuant to section 3 of the Act of June 18, 1934, as
9 amended (U. S. C., title 19, sec. 81c), prior to the
10 effective date of the rates of tax imposed on such
11 articles by this Act, and which on or after such effective
12 date are brought from foreign trade zones into customs
13 territory of the United States, there shall be levied, assessed,
14 collected, and paid on such articles, in addition to the tax
15 so determined, an additional tax at rates equal to the in-
16 creases in rates of tax made applicable to such articles by
17 this Act. The tax imposed by this subsection shall be col-
18 lected, paid, and accounted for at the same time and in the
19 same manner as tax on such article is collected, paid, and
20 accounted for when brought from the foreign trade zone
21 into the customs territory.

22 (b) PREVIOUSLY TAXPAID ARTICLES.—Upon all tax-
23 paid articles specified in section 2000 (c) (2), 2800 (a),
24 3030 (a), or 3150 (a) of the Internal Revenue Code
25 which have been taken into foreign trade zones from

1 the customs territory of the United States and placed
2 under the supervision of the collector of customs, pur-
3 suant to the second proviso of section 3 of the Act
4 of June 18, 1934, as amended (U. S. C., title 19, sec.
5 81c), prior to the effective date of the rates of tax imposed
6 on such articles by this Act, and which on or after such
7 effective date are (without loss of identity) returned from
8 foreign trade zones to customs territory of the United States,
9 there shall be levied, assessed, collected, and paid on such
10 articles an additional tax at rates equal to the increases in
11 rates of tax made applicable to such articles by this Act.
12 The tax imposed by this subsection on any article shall be
13 collected, paid, and accounted for at the same time and in
14 the same manner as if such article had been taken into the
15 foreign trade zone free of tax.

16 **(216) SEC. 487. REFUNDS ON ARTICLES FROM FOREIGN TRADE**
17 **ZONES.**

18 *(a) IMPORTED ARTICLES.—With respect to any article*
19 *specified in section 2000 (c) (2), 2800 (a), 3030 (a), or*
20 *3150 (a) of the Internal Revenue Code on which internal*
21 *revenue tax at the applicable rate prescribed in such section*
22 *has been determined pursuant to section 3 of the Act of*
23 *June 18, 1934, as amended (U. S. C., title 19, sec. 81c),*
24 *prior to January 1, 1954, and which on or after such date*
25 *is brought from a foreign trade zone into customs territory*

1 of the United States and the tax so determined thereon paid,
2 there shall be credited or refunded (without interest) to the
3 taxpayer, subject to such regulations as may be prescribed
4 by the Secretary, an amount equal to the difference between
5 the tax so paid and the amount of tax made applicable to
6 such articles on and after January 1, 1954, if claim for
7 such credit or refund is filed with the Secretary within thirty
8 days after payment of the tax.

9 (b) *PREVIOUSLY TAXPAID ARTICLES.*—With respect
10 to any article specified in section 2000 (c) (2), 2800 (a),
11 3030 (a), or 3150 (a) of the Internal Revenue Code, upon
12 which internal revenue tax (including floor stocks tax) at the
13 applicable rate prescribed in such section has been paid, and
14 which was taken into a foreign trade zone from the customs
15 territory of the United States and placed under the super-
16 vision of the collector of customs, pursuant to the second
17 proviso of section 3 of the Act of June 18, 1934, as amended
18 (U. S. C., title 19, sec. 81c), prior to January 1, 1954, and
19 which on or after such date is (without loss of identity)
20 returned from a foreign trade zone to customs territory of
21 the United States, there shall be credited or refunded (with-
22 out interest) to the person so returning such article, subject
23 to such regulations as may be prescribed by the Secretary,
24 an amount equal to the difference between the tax so paid and
25 the amount of tax made applicable to such articles on and

1 after January 1, 1954, if claim for such credit or refund
2 is filed with the Secretary within thirty days after the return
3 of the article to customs territory.

4 **(217)SEC. 488. TAX REFUNDS ON SPIRITS LOST IN FLOODS OF**
5 **1951.**

6 (a) *AUTHORIZATION.*—The Secretary of the Treasury
7 is authorized and directed to make refund, or allow credit
8 in the case of a distiller or rectifier if he so elects, in the
9 amount of the internal-revenue tax and customs duties paid
10 on spirits previously withdrawn, and lost, or rendered un-
11 marketable, by reason of the floods of 1951 while such spirits
12 were in the possession of (1) the person originally paying
13 such tax or such tax and duty on such spirits, (2) a rectifier
14 for rectification or for bottling, or which have been used in
15 the process of rectification, under Government supervision
16 as provided by law and regulations, or (3) a wholesale or
17 retail liquor dealer, all hereafter referred to as the possessor
18 or possessors. The refunds and credits authorized by this
19 section may be made to (1) any of the possessors, except a
20 retail liquor dealer, or (2) to any distiller, rectifier, importer,
21 or wholesale liquor dealer who replaced for the possessor the
22 full equivalent of the distilled spirits so destroyed or rendered
23 unmarketable, without compensation, remuneration, payment,
24 or credit of any kind in respect of the tax, or tax and duty on
25 such distilled spirits. A claim for the amount of such tax,

1 or such tax and duty, shall be filed with the Secretary of the
2 Treasury within ninety days from the date of enactment of
3 this Act. The claimant shall furnish proof to the Secretary's
4 satisfaction that (1) the internal-revenue tax on such spirits,
5 or the tax and duty if imported, was fully paid, (2) such
6 spirits were lost, or rendered unmarketable, by reason of dam-
7 age sustained as the result of the aforesaid flood conditions,
8 (3) claimant was not indemnified by any valid claim of
9 insurance or otherwise against loss of the tax (or tax and
10 duty if imported) paid on the spirits, and (4) in those cases
11 where applicable, that the claimant has replaced for the
12 possessor the full equivalent of the distilled spirits so destroyed
13 or rendered unmarketable, without compensation, remunera-
14 tion, payment, or credit of any kind in respect of the tax, or
15 tax and duty, on such distilled spirits.

16 (b) *DESTRUCTION OF SPIRITS.*—When the Secretary,
17 pursuant to this section, makes refund, or allows credit, in
18 the amount of the tax, or tax and duty, on spirits rendered
19 unmarketable, such spirits shall be destroyed under the
20 supervision of the Secretary.

21 (c) *CREDIT.*—Where credit is allowed to a distiller or
22 rectifier for the internal-revenue tax previously paid as afore-
23 said, the Secretary is authorized and directed to provide for
24 the issuance of stamps to cover the tax on spirits subsequently
25 withdrawn or rectified to the extent of the credit so allowed.

1 (d) *REGULATIONS.*—The Secretary is authorized to
 2 make such rules and regulations as may be necessary to
 3 carry out the provisions of this section.

4 **(218)TITLE V—EXCESS PROFITS TAX**

5 **(219)SEC. 501. MAXIMUM TAX FOR NEW CORPORATIONS.**

6 Section 430 (relating to imposition of tax) is hereby
 7 amended as follows:

8 (1) By adding at the end of subsection (a) thereof,
 9 as amended by section 121 of this Act, the following:

10 “(3) In the case of a corporation for which an
 11 amount is determined for the taxable year under sub-
 12 section (e), the amount determined under such sub-
 13 section.”

14 (2) By redesignating subsection (e) as subsection
 15 (f); and

16 (3) By inserting after subsection (d) the following
 17 new subsection:

18 “(e) *NEW CORPORATIONS.*—

19 “(1) *ALTERNATIVE AMOUNT.*—In the case of a
 20 taxpayer which commenced business after July 1,
 21 1945, the amount referred to in subsection (a) (3)
 22 shall be—

23 “(A) If the taxable year is the first or second
 24 taxable year of the taxpayer, an amount equal to 5
 25 per centum of the excess profits net income for the

1 taxable year, except that if the excess profits net
2 income exceeds \$400,000, the amount shall be the
3 sum of \$20,000 plus the amount determined under
4 subparagraph (E) of this paragraph.

5 “(B) If the taxable year is the third taxable
6 year of the taxpayer, an amount equal to 8 per cen-
7 tum of the excess profits net income for the taxable
8 year, except that if the excess profits net income ex-
9 ceeds \$400,000, the amount shall be the sum of
10 \$32,000 plus the amount determined under subpara-
11 graph (E) of this paragraph.

12 “(C) If the taxable year is the fourth taxable
13 year of the taxpayer, an amount equal to 11 per
14 centum of the excess profits net income for the taxable
15 year, except that if the excess profits net income
16 exceeds \$400,000, the amount shall be the sum of
17 \$44,000 plus the amount determined under subpara-
18 graph (E) of this paragraph.

19 “(D) If the taxable year is the fifth taxable
20 year of the taxpayer, an amount equal to 14 per
21 centum of the excess profits net income for the taxable
22 year, except that if the excess profits net income ex-
23 ceeds \$400,000, the amount shall be the sum of
24 \$56,000 plus the amount determined under subpara-
25 graph (E) of this paragraph.

1 “(E) The amount determined under this sub-
2 paragraph shall be—

3 “(i) if the taxable year ends before April
4 1, 1951, an amount equal to 15 per centum of
5 the excess of the excess profits net income for the
6 taxable year over \$400,000.

7 “(ii) if the taxable year begins on January
8 1, 1951, and ends on December 31, 1951, an
9 amount equal to $16\frac{1}{2}$ per centum of the excess
10 of the excess profits net income for the taxable
11 year over \$400,000.

12 “(iii) if the taxable year (other than a
13 taxable year described in clause (ii)) ends
14 after March 31, 1951, an amount equal to 17
15 per centum of the excess of the excess profits net
16 income for the taxable year over \$400,000.

17 “(2) FIRST FIVE TAXABLE YEARS.—For the pur-
18 pose of this subsection—

19 “(A) The taxable year in which the taxpayer
20 commenced business and the first, second, third, and
21 fourth succeeding taxable years shall be considered
22 its first, second, third, fourth, and fifth taxable years,
23 respectively.

24 “(B) The taxpayer shall be considered to have
25 been in existence and to have had taxable years for

1 any period during which it or any corporation
2 described in any clause of this subparagraph was in
3 existence, and the taxpayer shall be considered to
4 have commenced business on the earliest date on
5 which it or any such corporation commenced
6 business:

7 “(i) Any corporation which is a party with
8 the taxpayer to a transaction described in sec-
9 tion 445 (g) (2) (whether or not such transac-
10 tion is described in section 461 (a)), determined
11 as if the date ‘January 1, 1946’ were substi-
12 tuted for the date ‘December 1, 1950’ in section
13 445 (g).

14 “(ii) Any corporation if a group of not
15 more than 4 persons who control the taxpayer
16 at any time during the taxable year also control
17 such corporation during the taxable year, or
18 **controlled** such corporation at any time during
19 the period beginning 12 months preceding their
20 acquisition of control of the taxpayer; but only
21 if at any time during the period beginning 12
22 months preceding the acquisition of control of
23 the taxpayer and ending with the close of the
24 taxable year (and while such persons controlled
25 such corporation) such corporation was en-

1 gaged in a trade or business substantially simi-
2 lar to the trade or business of the taxpayer dur-
3 ing the taxable year. For the purpose of this
4 clause, the term 'control' means the owner-
5 ship of more than 50 per centum of the total
6 combined voting power of all classes of stock
7 entitled to vote, or more than 50 per centum of
8 the total value of shares of all classes of stock.
9 A person shall not be deemed a member of the
10 group referred to in this clause unless he owns
11 stock in both the corporation and the taxpayer.
12 For the purpose of this clause, the ownership of
13 stock shall be determined in accordance with
14 the provisions of section 503, except that con-
15 structive ownership under section 503 (a) (2)
16 shall be determined only with respect to the indi-
17 vidual's spouse and minor children.

18 “(iii) In case the taxpayer is a purchasing
19 corporation under the provisions of part IV,
20 the selling corporation (as defined in such part)
21 whose properties have been acquired in a part
22 IV transaction.

23 “(iv) Any corporation which, under regu-
24 lations prescribed by the Secretary, is deter-
25 mined by one or more additional applications

1 of clauses (i) to (iii) to stand indirectly in the
2 same relation to the taxpayer as though such
3 corporation were described in any such clause.

4 “(3) *LIMITATION.*—The provisions of paragraph
5 (1) of this subsection shall not apply to a taxpayer
6 which derives more than 50 per centum of its gross
7 income for the taxable year from contracts and sub-
8 contracts to which the provisions of title I of the Rene-
9 gotiation Act of 1951 (or the provisions of any prior
10 renegotiation act) are applicable.”

11 **(220) SEC. 502. PAYMENTS FROM FOREIGN SOURCES FOR**
12 **TECHNICAL ASSISTANCE, ETC.**

13 (a) *AMENDMENT OF SECTION 433 (a) (1).*—Section
14 433 (a) (1) (relating to excess profits net income for
15 taxable years ending after June 30, 1950) is hereby
16 amended by adding at the end thereof the following new
17 subparagraph:

18 “(R) *Payments From Foreign Sources for*
19 *Technical Assistance, Etc.*—In the case of a domestic
20 corporation which renders to a related foreign cor-
21 poration technical assistance, engineering services,
22 scientific assistance, or similar services (such serv-
23 ices or assistance being related to the production
24 or improvement of products of the type manufactured
25 by such domestic corporation), there shall be ex-

cluded the remuneration for such services or assistance if such remuneration constitutes income derived from sources without the United States. Any deductions in connection with or properly allocable to the rendering of such services or assistance shall not be allowed. For the purpose of this subparagraph, a foreign corporation shall be considered to be a 'related foreign corporation' if the domestic corporation owns 10 per centum or more of the outstanding stock of such foreign corporation."

(b) AMENDMENT OF SECTION 433 (b).—Section 433

(b) (relating to taxable years in base period) is hereby amended by adding at the end thereof the following new paragraph:

"(16) PAYMENTS FROM FOREIGN SOURCES FOR TECHNICAL ASSISTANCE, ETC.—In the case of a domestic corporation which renders to a related foreign corporation technical assistance, engineering services, scientific assistance, or similar services (such services or assistance being related to the production or improvement of products of the type manufactured by such domestic corporation), there shall be excluded the remuneration for such services or assistance if such remuneration constitutes income derived from sources without the United States. Any deductions in connec-

1 tion with or properly allocable to the rendering of such
 2 services or assistance shall not be allowed. For the
 3 purpose of this paragraph, a foreign corporation shall
 4 be considered to be a 'related foreign corporation' if
 5 the domestic corporation owns 10 per centum or more
 6 of the outstanding stock of such foreign corporation."

7 **(221)SEC. 503. AVERAGE BASE PERIOD NET INCOME IN CASE**
 8 **OF CERTAIN FISCAL YEAR TAXPAYERS.**

9 Section 435 (d) (relating to the general average method
 10 for the computation of average base period net income) is
 11 hereby amended by adding at the end thereof the following:
 12 "For the purpose of the computations under this subsection in
 13 the case of a taxpayer whose first taxable year under this sub-
 14 chapter is a taxable year which either began before January
 15 1, 1950, or was preceded by a taxable year beginning before
 16 January 1, 1950, and ending after March 31, 1950, there
 17 shall be substituted for the base period of the taxpayer the
 18 period of 48 consecutive months ending March 31, 1950, if
 19 such substitution produces a lesser tax under this subchapter
 20 for the taxable year for which the tax is being computed."

21 **(222)SEC. 504. AVERAGE BASE PERIOD NET INCOME—ALTERNA-**
 22 **TIVE BASED ON GROWTH IN CASE OF NEW**
 23 **CORPORATIONS.**

24 (a) **GENERAL RULE.**—Section 435 (e) (1) (relating
 25 to the alternative based on growth) is hereby amended by

1 striking out the phrase "the beginning of its base period" and
2 inserting in lieu thereof the following: "the end of its base
3 period".

4 (b) AMENDMENT OF PART II.—Section 462 (c) (re-
5 lating to the use by an acquiring corporation in a Part II
6 transaction of an alternative average base period net income
7 based on growth) is hereby amended as follows:

8 (1) By amending paragraph (1) thereof to read as
9 follows:

10 "(1) In the case of a transaction described in
11 section 461 (a), other than a transaction described in
12 section 461 (a) (1) (E),—

13 "(A) The acquiring corporation shall not be
14 denied the right to determine whether it is eligible
15 for the benefits of section 435 (e) without reference
16 to the recomputation of its excess profits net income
17 provided for in section 462 (b) where the trans-
18 action occurred on or after July 1, 1950, but it shall
19 be denied such right where the transaction occurred
20 prior to July 1, 1950.

21 "(B) Where, immediately prior to the date of
22 the transaction, the acquiring corporation and all
23 the component corporations (other than a corpora-
24 tion created incident to such transaction) met the re-
25 quirements of section 435 (e) (1) (A) (i), and,

1 *in case the transaction occurred on or after July*
2 *1, 1950, had commenced business prior to the be-*
3 *ginning of its base period (determined without refer-*
4 *ence to section 461 (d)), the acquiring corporation*
5 *shall be entitled to compute its average base period*
6 *net income under section 435 (e) with reference to*
7 *the recomputation of its excess profits net income pro-*
8 *vided for in section 462 (b) if the tests of section*
9 *435 (e) are satisfied. For that purpose, the ac-*
10 *quiring corporation shall combine with its total pay-*
11 *roll and its total gross receipts for that portion of*
12 *its base period which preceded such transaction the*
13 *total payroll and total gross receipts of such com-*
14 *ponent corporations for that portion of such period*
15 *and it shall combine with its net sales for that por-*
16 *tion of the period prior to January 1, 1951, which*
17 *preceded such transaction the net sales of such com-*
18 *ponent corporations for that portion of such period.*
19 *The allocation of payroll and gross receipts amounts*
20 *of a component corporation to any such portion of*
21 *such period shall be made in accordance with the*
22 *rules provided in section 435 (e) (4) and (5).*
23 *For purposes of qualifying under section 435 (e)*
24 *(1) (A) (i) (relating to total assets of the tax-*
25 *payer), such acquiring corporation shall combine its*

1 *total assets on the date specified in section 435 (e)*
2 *(1) (A) (i) with the total assets of each component*
3 *corporation on such date. The Secretary shall*
4 *prescribe by regulation such rules as may be neces-*
5 *sary to insure that such combined total gross re-*
6 *ceipts do not reflect a duplication for purposes of*
7 *this section.*

8 *“(C) Where, immediately prior to the date*
9 *of the transaction, either the acquiring corporation*
10 *or one or more component corporations (other*
11 *than a corporation created incident to such trans-*
12 *action) did not meet the requirements of section 435*
13 *(e) (1) (A) (i), or, in case the transaction oc-*
14 *curred on or after July 1, 1950, had not commenced*
15 *business prior to the beginning of its base period*
16 *(determined without reference to section 461 (d)),*
17 *the acquiring corporation shall not be entitled to*
18 *compute its average base period net income under*
19 *section 435 (e) with reference to the recomputation*
20 *of its excess profits net income provided for in sec-*
21 *tion 462 (b). In any such case, where the transac-*
22 *tion occurred on or after July 1, 1950, the monthly*
23 *excess profits net income of the corporation entitled*
24 *to the benefits of section 435 (e) for any month of*

1 the acquiring corporation's base period shall be, for
 2 purposes of the recomputation provided for in sec-
 3 tion 462 (b), one-twelfth of the average base period
 4 net income to which such corporation was entitled
 5 under section 435 (e)."

6 (2) By striking from the second sentence of para-
 7 graph (2) thereof the words: "had commenced business
 8 prior to the beginning of its base period (determined
 9 without reference to section 461 (d)) and".

10 (3) By striking from paragraph (3) thereof the
 11 words "which had commenced business prior to the be-
 12 ginning of its base period" and by inserting in lieu
 13 thereof the following: "which had commenced business
 14 prior to the end of its base period".

15 **(223) SEC. 505. AVERAGE BASE PERIOD NET INCOME—ALTER-**
 16 **NATIVE BASED ON GROWTH.**

17 Section 435 (e) (2) (G) (relating to the alternative
 18 based on growth) is hereby amended by striking out the word
 19 "only".

20 **(224) SEC. 506. ADJUSTMENTS FOR CHANGES IN INADMISSIBLE**
 21 **ASSETS IN CASE OF BANKS.**

22 (a) **AMENDMENT OF SECTION 435 (g).**—Section 435
 23 (g) (relating to net capital addition or reduction) is hereby
 24 amended by redesignating paragraph (8) as paragraph

1 (11) and by adding after paragraph (7) the following
2 new paragraph:

3 “(8) *ADJUSTMENTS FOR CHANGES IN INADMIS-*
4 *SIBLE ASSETS IN CASE OF BANKS.*—*In the case of a*
5 *bank (as defined in section 104)—*

6 “(A) *The amount of the adjustment under*
7 *paragraph (1) for an increase in inadmissible assets*
8 *shall not exceed an amount which bears the same*
9 *ratio to the net capital addition computed without*
10 *regard to such adjustment as the increase in inad-*
11 *missible assets for the taxable year, determined under*
12 *paragraph (5), bears to the increase in total assets*
13 *for the taxable year.*

14 “(B) *The amount of the adjustment under*
15 *paragraph (2) for a decrease in inadmissible assets*
16 *shall not exceed an amount which bears the same*
17 *ratio to the net capital reduction computed without*
18 *regard to such adjustment as the decrease in inadmis-*
19 *sible assets for the taxable year, determined under*
20 *paragraph (5), bears to the decrease in total assets*
21 *for the taxable year.*

22 *For the purpose of this paragraph, the increase or*
23 *decrease in total assets for the taxable year shall be*
24 *computed in the same manner as the increase or de-*

crease in inadmissible assets for the taxable year is computed under paragraph (5), except that such computations shall be made with respect to all assets, whether admissible or inadmissible assets as defined in section 440.”

(b) AMENDMENT OF SECTION 438.—Section 438 (relating to new capital credit changes) is hereby amended by adding after subsection (f) the following new subsection:

“(g) ADJUSTMENTS FOR INADMISSIBLE ASSETS IN CASE OF BANKS.—In the case of a bank (as defined in section 104) the amount of the adjustment for an increase in inadmissible assets under subsection (b) shall not exceed an amount which bears the same ratio to the net new capital addition computed without regard to such adjustment as the increase in inadmissible assets for the taxable year, determined under section 435 (g) (5), bears to the amount of the increase in total assets (which increase in total assets shall be determined in the manner provided in section 435 (g) (8)).”

(c) AMENDMENT OF SECTION 435 (f).—Section 435 (f) (relating to capital additions in base period) is hereby amended as follows:

(1) By inserting immediately after the word “re-

1 *duced" in paragraph (1) thereof, the following: "(but*
2 *not below zero)".*

3 *(2) By adding at the end of paragraph (1) thereof*
4 *the following new sentence:*

5 *"For special rule in the case of banks, see para-*
6 *graph (6)."*

7 *(3) By renumbering paragraph (6) as paragraph*
8 *(7), and by adding immediately after paragraph (5)*
9 *the following new paragraph:*

10 *"(6) YEARLY BASE PERIOD CAPITAL OF BANKS.—*
11 *In the case of a bank (as defined in section 104), the*
12 *yearly base period capital for any taxable year shall*
13 *be determined as follows:*

14 *"(A) A tentative yearly base period capital*
15 *shall be computed under paragraph (1) without*
16 *regard to paragraph (1) (A).*

17 *"(B) The tentative yearly base period capital*
18 *so determined shall be reduced by the amount de-*
19 *termined under section 440 (b) (relating to inad-*
20 *missible assets). For the purpose of this subpara-*
21 *graph, the computation under section 440 (b) shall*
22 *include only the daily amounts (described in such*
23 *section) for the first day of such taxable year."*

1 **(225)SEC. 507. DECREASE IN INADMISSIBLE ASSETS.**

2 Section 435 (g) (relating to net capital addition or
3 reduction) is hereby amended as follows:

4 (a) By adding at the end of paragraph (1) thereof the
5 following:

6 “For further adjustment with respect to the amount
7 determined under the preceding provisions of this para-
8 graph, see paragraph (9).”

9 (b) By adding immediately after paragraph (8), as
10 added by section 506 of this Act, the following new para-
11 graphs:

12 “(9) *DECREASE IN INADMISSIBLE ASSETS.*—The
13 excess of the amount computed under paragraph (2)
14 (A) or (B), whichever is applicable to the taxpayer
15 (whether or not any amount is determined under the
16 first sentence of paragraph (2)), over the amount com-
17 puted under the first sentence of paragraph (2) shall
18 be considered the net capital addition for the taxable
19 year or shall be added to the net capital addition other-
20 wise determined under paragraph (1), as the case may
21 be. The amount of the excess so determined shall be sub-
22 ject to the exceptions and limitations provided in para-
23 graph (10).

1 “(10) *EXCEPTIONS AND LIMITATIONS FOR THE*
2 *PURPOSE OF PARAGRAPH (9).*—For the purpose of
3 paragraph (9)—

4 “(A) The adjustment to the decrease in inad-
5 missible assets required under subparagraph (B)
6 of paragraph (2) shall not be greater than 25
7 per centum of the excess of the net capital reduction
8 computed under the first sentence of paragraph (2)
9 (and computed without regard to the percentage
10 limitations in paragraph (4) (C) and (E)) over
11 the net capital reduction computed under such sen-
12 tence without regard to paragraph (4) (C) and
13 (E).

14 “(B) The amount determined under paragraph
15 (9) shall not be greater than the excess of the in-
16 crease in operating assets for the taxable year over
17 the net capital addition (determined without regard
18 to paragraph (9) and determined without regard to
19 the limitation to 75 per centum provided in paragraph
20 (3) (C) and paragraph 4 (C) and (E)). For
21 the purpose of the preceding sentence, the increase in
22 operating assets for the taxable year shall be deter-
23 mined in the same manner as the increase in inad-

1 *missible assets for the taxable year is determined*
2 *under paragraph (5). For the purpose of such*
3 *determination, the term 'operating assets' means—*

4 *“(i) property used in the taxpayer's trade*
5 *or business within the meaning of section 117*
6 *(j) (1) except that such property need not*
7 *be held more than six months, and*

8 *“(ii) stock in trade or other property of*
9 *a kind which would properly be includible in*
10 *the inventory of the taxpayer if owned at the*
11 *close of the taxable year, and property held by*
12 *the taxpayer primarily for sale to customers in*
13 *the ordinary course of the taxpayer's trade or*
14 *business,*

15 *except any such assets which constitute inadmissible*
16 *assets, stock, securities, or intangible property (such*
17 *intangible property not being limited to the property*
18 *described in section 441 (i)).*

19 *“(C) The amount determined under paragraph*
20 *(9) shall be subject to reduction to the extent that*
21 *the Secretary determines that the increase in oper-*
22 *ating assets is a result, directly or indirectly, of an*
23 *increase in indebtedness of the taxpayer (other than*
24 *indebtedness which constitutes borrowed capital).”*

1 **(226)SEC. 508. ELECTION WITH RESPECT TO CERTAIN INAD-**
 2 **MISSIBLE ASSETS.**

3 (a) *AMENDMENT OF SECTION 440.*—Section 440
 4 *(relating to admissible and inadmissible assets)* is hereby
 5 *amended by adding at the end thereof the following new*
 6 *subsection:*

7 “(c) *TREATMENT OF GOVERNMENT OBLIGATIONS AS*
 8 *ADMISSIBLE ASSETS.*—If the taxpayer elects for any taxable
 9 *year, in accordance with regulations prescribed by the Secre-*
 10 *tary, to increase its excess profits net income by an amount*
 11 *equal to the amount by which the interest received or accrued*
 12 *during the taxable year on Government obligations exceeds*
 13 *the sum of—*

14 “(1) *the amount of interest paid or accrued during*
 15 *such year which is not allowed as a deduction under*
 16 *section 23 (b), and*

17 “(2) *the amount of the adjustments required for*
 18 *the taxable year under section 22 (o) (relating to ad-*
 19 *justment for certain bond premiums), but not in excess*
 20 *of the amount of interest received or accrued during the*
 21 *taxable year on Government obligations to which such*
 22 *section is applicable,*

23 *then for the taxable year for which the election is made*
 24 *the term ‘admissible assets’ shall include Government obliga-*

1 tions, and the term 'inadmissible assets' shall not include
 2 Government obligations. For the purpose of applying sec-
 3 tion 435 to the taxable year for which the election is made,
 4 Government obligations shall not be considered 'inadmissible
 5 assets' in determining original inadmissible assets or yearly
 6 base period capital. As used in this subsection the term
 7 'Government obligations' means obligations described in sec-
 8 tion 22 (b) (4) the interest on which is wholly exempt from
 9 taxation under this chapter; but such term does not include
 10 any such obligation which is a capital asset. For the pur-
 11 pose of determining the excess profits credit for a taxable year
 12 for which the election is made, the excess profits net income
 13 under section 433 (b) for any taxable year shall in-
 14 clude the amount by which the interest received or accrued
 15 during such taxable year on Government obligations exceeds
 16 the amount of interest paid or accrued during such year
 17 which is not allowed as a deduction under section 23 (b)
 18 and, if the taxable year ends after June 30, 1950, the
 19 amount with respect to such year described in paragraph
 20 (2).''

21 (b) AMENDMENT OF SECTION 433 (a) (1).—Section
 22 433 (a) (1) (relating to adjustments in excess profits net
 23 income for the taxable year) is hereby amended by adding
 24 the following new subparagraph at the end thereof:

25 “(S) Interest on Certain Government Obliga-

tions.—For adjustment in the case of a taxpayer making an election provided in section 440 (c), relating to dealers in certain Government obligations, see section 440 (c).”

(c) AMENDMENT OF SECTION 433 (b).—Section 433

(b) (relating to adjustments in excess profits net income for taxable years in base period) is hereby amended by adding at the end thereof the following new paragraph:

“(17) INTEREST ON CERTAIN GOVERNMENT OBLIGATIONS.—For adjustment in the case of a taxpayer making an election provided in section 440 (c), relating to dealers in certain Government obligations, see section 440 (c).”

(227) SEC. 509. ALTERNATIVE AVERAGE BASE PERIOD NET INCOME.

(a) AMENDMENT OF SECTION 442.—Section 442 (relating to abnormalities during the base period) is hereby amended as follows:

(1) By inserting at the end of subsection (a) thereof the following:

“If such taxpayer is also entitled to the benefits of subsection (h), the taxpayer’s average base period net income determined under this section shall be the amount computed under subsection (c) or (d), whichever is applicable to the taxpayer, or the amount computed under subsection (h), which-

1 *ever results in the lesser tax under this subchapter for the*
 2 *taxable year. In the case of any other taxpayer entitled to*
 3 *the benefits of subsection (h), the taxpayer's average base*
 4 *period net income determined under this section shall be the*
 5 *amount computed under subsection (h)."*

6 (2) *By striking out "determined under this section"*
 7 *in subsection (c) and (d) thereof each place it occurs*
 8 *and inserting in lieu thereof the following: "computed*
 9 *under this subsection".*

10 (3) *By inserting after "subsection (c) (2)" in*
 11 *subsection (e) (1) thereof the following: "and sub-*
 12 *section (h)".*

13 (4) *By redesignating subsections (h) and (i)*
 14 *thereof as (i) and (j), respectively, and by inserting*
 15 *after subsection (g) thereof the following new subsection:*

16 *"(h) ALTERNATIVE AVERAGE BASE PERIOD NET*
 17 *INCOME.—*

18 *"(1) GENERAL RULE.—A taxpayer which com-*
 19 *menced business on or before the first day of its base*
 20 *period shall be entitled to the benefits of this subsection if*
 21 *the aggregate of the excess profits net income for each of*
 22 *the 12 months selected under subparagraph (B) of*
 23 *this paragraph is less than 35 per centum of one-half*
 24 *of the aggregate of the excess profits net income*
 25 *for each of the 24 months remaining under such sub-*

1 *paragraph. The average base period net income com-*
2 *puted under this subsection shall be computed as follows:*

3 *“(A) By determining under subsection (b)*
4 *the period subject to adjustment under this section.*

5 *“(B) By selecting from such period whichever*
6 *of the following 12 months result in the higher re-*
7 *maining aggregate excess profits net income or the*
8 *lower remaining aggregate deficit in excess profits*
9 *net income—*

10 *“(i) the 12 consecutive months the elimina-*
11 *tion of which produces the highest remaining*
12 *aggregate excess profits net income or the lowest*
13 *remaining aggregate deficit in excess profits net*
14 *income, or*

15 *“(ii) the 12 months which remain after re-*
16 *taining the 24 consecutive months which pro-*
17 *duce the highest remaining aggregate excess*
18 *profits net income or the lowest remaining ag-*
19 *gregate deficit in excess profits net income.*

20 *“(C) By computing for each month in the 12-*
21 *month period selected under subparagraph (B) a*
22 *substitute excess profits net income computed under*
23 *subsection (e).*

24 *“(D) By computing the sum of—*

25 *“(i) the aggregate of the substitute excess*

profits net income, as determined under subparagraph (C), for each month in the selected 12-month period, but the amount computed under this clause shall not exceed one-half of the aggregate of the excess profits net income for each month in the 24-month period remaining under subparagraph (B), and

“(ii) the aggregate of the excess profits net income for each of the 24 months remaining under subparagraph (B), computed in the manner provided by the second sentence of section 435 (d) (1).

“(E) By dividing by three the amount ascertained under subparagraph (D).

“(2) SPECIAL RULE.—Except as otherwise provided in paragraph (1) (D) (ii), the excess profits net income for any month referred to in paragraph (1) shall be determined in the manner provided in section 435 (d) (1) without regard, however, to that part of such section which provides that in no event shall the excess profits net income of any corporation for any month be less than zero.”

(b) TECHNICAL AMENDMENTS.—

(1) Section 435 (f) (3) (relating to capital addition in the base period) is hereby amended by inserting

1 immediately after the words “under section 442 (c)
2 (1)”, wherever appearing therein, the following: “or
3 under section 442 (h)”.

4 (2) Section 461 (relating to definitions for pur-
5 poses of part II) is hereby amended by inserting at the
6 end thereof the following new subsection:

7 “(g) APPLICATION OF SECTION 442 (h).—For the
8 purpose of this part, the reference to section 442 (c) in any
9 section in this part shall be deemed a reference to section 442
10 (c) or (h).”

11 **(228)SEC. 510. DEFINITION OF TOTAL ASSETS FOR PURPOSES**
12 **OF SECTIONS 442–446.**

13 *Effective with respect to taxable years ending after the*
14 *date of enactment of this Act, the first sentence of section 442*
15 *(f) (relating to definition of total assets) is hereby amended*
16 *to read as follows: “For the purposes of this section, the*
17 *taxpayer’s total assets for any day shall be determined as of*
18 *the end of such day and shall be an amount equal to the*
19 *excess of—*

20 “(1) the sum of the cash and the property (other
21 than cash, inadmissible assets, and loans to members of
22 a controlled group as defined in section 435 (f) (4))
23 held by the taxpayer in good faith for the purposes of the
24 business, over

25 “(2) the amount of any indebtedness (other than

license, franchise, or similar right essential for the production of such new product.”

(230) SEC. 512. AVERAGE BASE PERIOD NET INCOME—NEW CORPORATION.

Section 445 (c) (relating to total assets for first three years of new corporation) is hereby amended by adding at the end thereof the following new sentence: “For the purpose of this subsection, the net capital addition or reduction shall be computed without regard to the limitation to 75 per centum provided in section 435 (g) (3) (C) and section 435 (g) (4) (C) and (E).”

(231) SEC. 513. EXCESS PROFITS CREDIT—REGULATED PUBLIC UTILITIES.

Section 448 (c) (3) (relating to regulated public utilities) is hereby amended to read as follows:

“(3) 6 per centum in the case of a corporation engaged as a common carrier (A) in the furnishing or sale of transportation by railroad, if subject to the jurisdiction of the Interstate Commerce Commission, or (B) in the furnishing or sale of transportation of oil or other petroleum products (including shale oil) by pipe line, if subject to the jurisdiction of the Interstate Commerce Commission or to the jurisdiction of a public service or

1 *public utility commission or other similar body of the*
2 *District of Columbia or of any State.”*

3 **(232)**SEC. 514. CONSOLIDATED RETURNS OF REGULATED
4 PUBLIC UTILITIES.

5 Section 448 (e) (relating to consolidated returns of
6 regulated public utilities) is hereby amended by adding at
7 the end thereof the following new sentence: "For pur-
8 poses of filing a consolidated return with its railroad lessee
9 corporation, a railroad lessor corporation described in section
10 434 (d) (without regard to the requirement of payment of
11 the lessor's taxes by the lessee) shall be considered a cor-
12 poration described in subsection (c) (3)."

13 **(233)**SEC. 515. NONTAXABLE INCOME FROM CERTAIN MINING
14 PROPERTIES.

15 *Section 453 (relating to nontaxable income from*
16 *exempt excess output) is hereby amended as follows:*

(a) By amending the first sentence of subsection (a) (13) thereof to read as follows: "The term 'unit net income' means the amount ascertained by dividing the net income (computed with the allowance for depletion) from the coal, ore, sulphur, potash, metallurgical grade limestone, chemical grade limestone, or timber recovered from the mineral property, or timber block, as the case may be, during the taxable year by the number of units of such mineral or timber recovered from such property in such year."

1 (b) By inserting immediately after the words "coal
2 mining property" in subsection (b) (2) thereof the following:
3 ", or of a sulphur, potash, metallurgical grade limestone, or
4 chemical grade limestone mineral property,".

5 (c) By striking out so much of subsection (b) (4) as
6 precedes the second sentence and inserting in lieu thereof
7 the following:

8 “(4) CERTAIN PROPERTIES NOT IN OPERATION
9 DURING NORMAL PERIOD.—For any taxable year, the
10 nontaxable income from exempt excess output of a metal
11 or coal mining property, of a sulphur, potash, metallurgi-
12 cal grade limestone, or chemical grade limestone mineral
13 property, of a timber block, or of a natural gas prop-
14 erty, which was not in operation during the normal
15 period, shall be an amount equal to one-third of the net
16 income for such taxable year (computed with the allow-
17 ance for depletion) from such property or timber block,
18 as the case may be.”

19 (234) SEC. 516. TRANSITION FROM WAR PRODUCTION AND IN-
20 CREASE IN PEACETIME CAPACITY.

21 (a) IN GENERAL.—Part I of subchapter D of chapter
22 1 is hereby amended by adding at the end thereof a new
23 section to read as follows:

1 “SEC. 459. MISCELLANEOUS PROVISIONS.

2 “(a) *AVERAGE BASE PERIOD NET INCOME—TRAN-*
3 *SITION FROM WAR PRODUCTION AND INCREASE IN*
4 *PEACETIME CAPACITY.—In the case of a taxpayer which*
5 *commenced business before January 1, 1940, and since such*
6 *date has engaged primarily in manufacturing, the taxpayer’s*
7 *average base period net income determined under this sub-*
8 *section shall be the amount computed under section 435*
9 *(e) (2) (G) (i) and (ii) if—*

10 “(1) *The adjusted basis for determining gain of*
11 *the taxpayer’s total facilities (as defined in section 444*
12 *(d)) as of the first day of its base period (when added*
13 *to the total facilities for such day of all corporations*
14 *with which the taxpayer has the privilege under section*
15 *141 of filing a consolidated return for its first taxable*
16 *year under this subchapter) did not exceed \$10,000,000;*

17 “(2) *The basis (unadjusted) for determining gain*
18 *of the taxpayer’s total facilities (as defined in section 444*
19 *(d)) on the last day of its base period was 250 per*
20 *centum or more of the basis (unadjusted) for determining*
21 *gain of its total facilities on the first day of its base*
22 *period;*

23 “(3) *The percentage of the taxpayer’s aggregate gross*
24 *income which was from contracts with the United States*

or related subcontracts or both was (A) at least 70 per centum for the period comprising all taxable years beginning after December 31, 1941, and ending before January 1, 1946, (B) less than 20 per centum for the period comprising all taxable years ending after December 31, 1945, and before January 1, 1950, and (C) less than 20 per centum for the period comprising all taxable years ending after December 31, 1949, and beginning before July 1, 1950; and

“(4) The monthly average of the excess profits net income of the taxpayer (computed under section 433 (b)) (A) for all taxable years ending with or within the last 24 months of its base period, and (B) for the last taxable year ending before the first day of its base period, are each 300 per centum or more of such monthly average for all taxable years ending with or within the first 24 months of its base period.”

(b) *TECHNICAL AMENDMENTS.*—Section 435 (c) (relating to determination of average base period net income) is hereby amended as follows:

(1) By inserting immediately after “445 or 446,” the following: “or any subsection of section 459,”.

(2) By inserting immediately after “or under such section” the following: “or subsection”.

1 **(235) SEC. 517. BASE PERIOD CATASTROPHE.**

2 *Section 459, as added by section 516 of this Act, is*
3 *hereby amended by adding after subsection (a) thereof the*
4 *following new subsection:*

5 “(b) *BASE PERIOD CATASTROPHE.*—*In the case of a*
6 *taxpayer which was engaged throughout its base period pri-*
7 *marily in manufacturing, if—*

8 “(1) *the taxpayer suffered during the last thirty-six*
9 *months of its base period a catastrophe by fire, storm,*
10 *explosion, or other casualty which destroyed or rendered*
11 *inoperative a production facility constituting a complete*
12 *plant or plants having in the hands of the taxpayer*
13 *immediately prior to the catastrophe an adjusted basis*
14 *for determining gain equal to 15 per centum or more*
15 *of the adjusted basis for determining gain of all the*
16 *taxpayer's production facilities at such time;*

17 “(2) *as a result of such catastrophe the taxpayer's*
18 *normal production or operation was substantially inter-*
19 *rupted for a period of more than twelve consecutive*
20 *months; and*

21 “(3) *the taxpayer, prior to the end of its base*
22 *period, replaced such production facility with a pro-*
23 *duction facility which at the end of its base period had*
24 *in its hands an adjusted basis for determining gain*
25 *not less than such adjusted basis immediately prior to*

the catastrophe of the production facility destroyed or rendered inoperative,

the taxpayer's average base period net income determined under this subsection shall be either (A) an amount computed under section 435 (d) by substituting for the excess profits net income for each month in the taxable year in which the catastrophe occurred an amount equal to (i) the aggregate of the excess profits net income for each month (computed under section 435 (d) (1)) in the base period preceding the taxable year in which the catastrophe occurred (ii) divided by the number of such preceding base period months, and such average base period net income determined under this alternative of this subsection shall, for the purpose of section 435 (a) (1) (B), be considered an average base period net income determined under section 435 (d); or (B) the amount computed under section 435 (e) (2) (G) (i) and (ii); whichever results in the lesser tax under this subchapter for the taxable year for which the tax under this subchapter is being computed."

(236) SEC. 518. CONSOLIDATION OF NEWSPAPERS.

Section 459, as added by sections 516 and 517 of this Act, is hereby amended by adding after subsection (b) thereof the following new subsection:

"(c) CONSOLIDATION OF NEWSPAPER OPERATIONS.—

In the case of a taxpayer engaged primarily in the news-

1 *paper publishing business in its last taxable year ending be-*
2 *fore July 1, 1950, if—*

3 “(1) *After the close of the first half of the base*
4 *period of the taxpayer and prior to July 1, 1950, the*
5 *taxpayer consolidated its mechanical, circulation, adver-*
6 *tising, and accounting operations in connection with its*
7 *newspaper publishing business with such operations of*
8 *another corporation engaged in the newspaper publishing*
9 *business in the same area;*

10 “(2) *The taxpayer establishes to the satisfaction*
11 *of the Secretary that, during the period beginning with*
12 *the consolidation and ending with the close of the first*
13 *taxable year beginning after the consolidation, such con-*
14 *solidation resulted in substantial reductions in the*
15 *amounts which would otherwise have been paid or in-*
16 *curring as expenses in the conduct of the operations de-*
17 *scribed in paragraph (1);*

18 “(3) *The total deductions of the taxpayer under*
19 *section 23, computed without regard to section 23 (s)*
20 *and (bb), for the first taxable year beginning after such*
21 *consolidation were not in excess of 80 per centum of*
22 *the average of such deductions for the two taxable years*
23 *of the taxpayer next preceding the taxable year in which*
24 *such consolidation began; and*

25 “(4) *The excess profits net income of the taxpayer.*

computed as provided in section 433 (b), for the first taxable year of the taxpayer beginning after such consolidation was 125 per centum or more of the amount determined under section 435 (d) (4);

the taxpayer's average base period net income determined under this subsection shall be an amount computed under section 435 (d) plus an amount equal to the excess of the average of the amounts paid or incurred as expenses in the conduct of the operations described in paragraph (1) during the two taxable years of the taxpayer next preceding the taxable year in which such consolidation began over such amounts paid or incurred during the first taxable year of the taxpayer beginning after such consolidation. This subsection shall not be applicable to any taxable year of the taxpayer unless the consolidation described in paragraph (1) was continued throughout such taxable year."

(237) SEC. 519. TELEVISION BROADCASTING COMPANIES.

Section 459, as added by sections 516 to 518 of this Act, is hereby amended by adding after subsection (c) thereof the following new subsection:

"(d) TELEVISION BROADCASTING COMPANIES.—

"(1) IN GENERAL.—In the case of a taxpayer engaged in the business of television broadcasting throughout a period beginning before January 1, 1951, and ending with the close of the taxable year, the tax-

1 *payer's average base period net income determined under*
2 *this subsection shall be the amount computed as follows:*

3 *“(A) In the case of a corporation which at the*
4 *close of its base period was engaged only in the*
5 *business of television broadcasting, an amount com-*
6 *puted by multiplying its total assets (as defined in*
7 *section 442 (f)) on the last day of its base period by*
8 *the base period rate of return determined under*
9 *section 447 (c) for the industry classification which*
10 *includes radio broadcasting.*

11 *“(B) In the case of a corporation which at the*
12 *close of its base period was engaged only in the*
13 *business of television broadcasting and radio broad-*
14 *casting, an amount computed by multiplying its*
15 *total assets (as defined in section 442 (f)) on the*
16 *last day of its base period by either its individual*
17 *rate of return (as defined in paragraph (2)) or by*
18 *the base period rate of return determined under*
19 *section 447 (c) for the industry classification which*
20 *includes radio broadcasting, whichever rate of*
21 *return produces the greater average base period net*
22 *income under this subsection.*

23 *“(C) In the case of a corporation which at*
24 *the end of its base period was engaged in the business*
25 *of television and in another business or businesses,*

1 *an amount computed by determining its average base*
2 *period net income under section 435 (d) for its busi-*
3 *nesses other than television broadcasting and other*
4 *than radio broadcasting (determined without regard*
5 *to income, deductions, losses, or other items from*
6 *such television and radio broadcasting businesses),*
7 *and by adding thereto an amount computed under*
8 *subparagraph (B) by including in total assets*
9 *only such part thereof as was attributable to the*
10 *radio broadcasting business, if any, and to the tele-*
11 *vision broadcasting business on the last day of its*
12 *base period.*

13 *“(D) In the case of a corporation which ac-*
14 *quires its television broadcasting business after the*
15 *close of its base period and before January 1, 1951,*
16 *an amount computed by determining its average base*
17 *period net income without regard to this subpara-*
18 *graph and by adding thereto an amount computed*
19 *under subparagraph (B) by including in total as-*
20 *sets on the last day of its base period the amount*
21 *(and only that amount) which would be included*
22 *with respect to the television business if the television*
23 *business had been acquired on the last day of its base*
24 *period.*

25 *The Secretary shall by regulations prescribe the rules for*

1 *the application of this subsection, the rules for the com-*
2 *putation of the taxpayer's net capital addition, and the*
3 *rules for the avoidance of duplication in any case in*
4 *which assets included in computing total assets under*
5 *subparagraph (B) are acquired, directly or indirectly,*
6 *through the use of assets used in a business of the tax-*
7 *payer other than radio or television broadcasting or, in*
8 *the case of a taxpayer described in subparagraph (D),*
9 *through the use of assets held at any time during its base*
10 *period.*

11 “(2) *INDIVIDUAL RATE OF RETURN.*—*The indi-*
12 *vidual rate of return shall be computed as follows:*

13 “(A) *By determining the amount of the tax-*
14 *payer's total assets (as defined in section 442 (f))*
15 *attributable to the business of radio broadcasting*
16 *for the last day of each month in its base period.*

17 “(B) *By computing the aggregate of the*
18 *amounts ascertained under subparagraph (A) and*
19 *dividing by 48.*

20 “(C) *By computing for each month in the*
21 *base period the excess profits net income of the*
22 *radio broadcasting business (determined without*
23 *regard to income, deductions, losses, or other items*

1 *attributable to any other business), by adding such*
2 *amounts for all of the months in the base period,*
3 *and by dividing by four.*

4 *“(D) By dividing the amount computed under*
5 *subparagraph (C) by the amount computed under*
6 *subparagraph (B).*

7 *“(3) INTEREST ADJUSTMENT.—In any case in*
8 *which an amount is computed under paragraph (1)*
9 *(A), or is computed under paragraph (1) (B) by the*
10 *use of a base period rate of return determined under*
11 *section 447 (c), the amount so computed shall, for the*
12 *purpose of this subsection, be reduced by an amount equal*
13 *to the total interest paid or incurred by the taxpayer for*
14 *the twelve months ending with the close of its base period,*
15 *and in the case of any amount determined under para-*
16 *graph (1) (C) or (D) by reference to paragraph (1)*
17 *(B) the amount so determined shall be reduced by such*
18 *portion of such interest as the total assets determined*
19 *under paragraph (1) (B) is of the total assets of the*
20 *taxpayer determined under section 442 (f) for the last*
21 *day of its base period.*

22 *“(4) APPLICATION OF PART II.—The Secretary*
23 *shall prescribe regulations for the application of part II*

1 *in the case of a transaction described in section 461 (a)*
 2 *involving an acquiring corporation otherwise entitled to*
 3 *the benefits of this section.”*

4 **(238)SEC. 520. INCREASE IN CAPACITY FOR PRODUCTION OR**
 5 **OPERATION.**

6 *Section 444 (f) (relating to increase in capacity for*
 7 *production or operation) is hereby amended to read as*
 8 *follows:*

9 “(f) *RULES FOR APPLICATION OF SECTION.—*

10 “(1) *The benefits of this section shall not be allowed*
 11 *unless the taxpayer makes application therefor in*
 12 *accordance with section 447 (e).*

13 “(2) *Any increase in the taxpayer’s capacity for*
 14 *production or operation consummated during any tax-*
 15 *able year ending after the last day of the base period,*
 16 *as a result of the construction of additional facilities*
 17 *begun and continued during the base period, shall be*
 18 *deemed to be an increase in capacity in existence on*
 19 *the last day of the base period.”*

20 **(239)SEC. 521. EXCESS PROFITS CREDIT BASED ON INCOME IN**
 21 **CONNECTION WITH CERTAIN TAXABLE AC-**
 22 **QUISITIONS.**

23 “(a) *GENERAL RULE.—Subchapter D (relating to the*
 24 *excess profits tax) of chapter 1 is hereby amended by inserting*
 25 *immediately following section 472 the following new part:*

1 *“Part IV—Excess Profits Credit Based on Income in Connection*
2 *With Certain Taxable Acquisitions Occurring Prior to Decem-*
3 *ber 1, 1950*

4 *“SEC. 474. EXCESS PROFITS CREDIT BASED ON INCOME—CER-*
5 *TAIN TAXABLE ACQUISITIONS.*

6 *“(a) DEFINITIONS.—For the purpose of this part—*

7 *“(1) PURCHASING CORPORATION.—The term*
8 *‘purchasing corporation’ means a corporation which,*
9 *before December 1, 1950, acquired—*

10 *“(A) All or substantially all of the properties*
11 *(other than cash) of another corporation or of a*
12 *partnership in a transaction other than a transaction*
13 *described in section 461 (a); or*

14 *“(B) Properties of another corporation, in a*
15 *transaction other than a transaction described in*
16 *section 461 (a), if (i) such properties constituted,*
17 *immediately prior to the acquisition, all of the prop-*
18 *erties (other than cash) of a separate business of*
19 *such other corporation and (ii) all or substantially*
20 *all of the properties (other than cash) of such other*
21 *corporation were transferred, in furtherance of a*
22 *single plan of complete liquidation for such other*
23 *corporation, to the purchasing corporation and to*
24 *one or more other corporations; or*

25 *“(C) Properties from a corporation solely as*

1 *paid-in surplus or a contribution to capital in*
2 *respect of voting stock owned by such corporation*
3 *if such properties are all or substantially all of*
4 *the properties (other than cash) acquired immedi-*
5 *ately prior thereto by such corporation as a pur-*
6 *chasing corporation in a transaction described in*
7 *subparagraph (A) or (B).*

8 “(2) *SELLING CORPORATION.*—The term ‘selling
9 *corporation*’ means a corporation or a partnership, as
10 *the case may be, properties of which were acquired in*
11 *a transaction described in subparagraph (A) or (B)*
12 *of paragraph (1) by a purchasing corporation or by*
13 *the corporation referred to in subparagraph (C) of*
14 *paragraph (1).*

15 “(3) *PART IV TRANSACTION.*—The term ‘part IV
16 *transaction*’ means a transaction described in paragraph
17 (1).

18 “(b) *AVERAGE BASE PERIOD NET INCOME OF PUR-*
19 *CHASING CORPORATION.*—The average base period net in-
20 *come under section 435 (d) of a purchasing corporation*
21 *shall be determined by computing its excess profits net income*
22 *either with or without reference to this part, whichever pro-*
23 *duces the lesser tax under this subchapter for the taxable year*
24 *for which the tax is being computed. The excess profits net*
25 *income of such purchasing corporation, if computed under*

1 *this part, shall be the excess profits net income for each*
2 *month of such purchasing corporation's base period increased*
3 *or decreased, as the case may be, by the addition or reduction*
4 *resulting from including the excess profits net income (or*
5 *deficit therein) for such month properly attributable to the*
6 *business acquired by the purchasing corporation and properly*
7 *allocable to such purchasing corporation.*

8 “(c) *LIMITATIONS.—This part shall apply only if each*
9 *of the following conditions is satisfied:*

10 “(1) *Immediately following the part IV transaction*
11 *(or the last such transaction described in subsection*
12 *(a) (1) (B)), the selling corporation discontinued all*
13 *business activities and was completely liquidated in a*
14 *transaction other than a transaction described in section*
15 *461 (a).*

16 “(2) *During so much of the base period of the pur-*
17 *chasing corporation and of the period thereafter as*
18 *preceded the part IV transaction, the properties acquired*
19 *in the part IV transaction were substantially all of the*
20 *properties (other than cash) which were used by the*
21 *selling corporation, or by a component corporation*
22 *(as defined in section 461 (b)) of such selling corpora-*
23 *tion, in the operation of the business the assets of which*
24 *were acquired by the purchasing corporation. For the*

1 *purpose of this paragraph, if the business in the hands*
2 *of both the selling corporation and the purchasing cor-*
3 *poration was operated under a substantially identical*
4 *franchise or license, granted by the same person, such*
5 *franchise or license shall be deemed acquired by the pur-*
6 *chasing corporation from the selling corporation.*

7 *“(3) The business acquired in the part IV trans-*
8 *action was operated by the purchasing corporation from*
9 *the date of such transaction to the end of the taxable year.*

10 *“(d) SPECIAL RULE.—For the purpose of subsection*
11 *(a) (1) (C), in determining whether property is acquired*
12 *solely as paid-in surplus or a contribution to capital in*
13 *respect of voting stock, the assumption by the purchasing*
14 *corporation of a liability of the transferring corporation, or*
15 *the fact that the property acquired is subject to a liability,*
16 *shall be disregarded.*

17 *“(e) REGULATIONS.—The Secretary shall by regula-*
18 *tions prescribe the rules (consistent with the principles of*
19 *part II) for the application of this part to the parties to a*
20 *part IV transaction, including rules for the application*
21 *under this part of the principles described in section 462 (j)*
22 *(1) and the other provisions of part II relating to the pre-*
23 *vention of duplication, rules for the proper application to the*
24 *parties to a part IV transaction of the provisions of this*

1 subchapter relating to capital changes, and rules for the de-
 2 termination of the amount of excess profits net income (or
 3 deficit therein) attributable to the business acquired by a
 4 purchasing corporation in a part IV transaction and prop-
 5 erly allocable to such purchasing corporation.”

6 (b) *TECHNICAL AMENDMENTS.*—

7 (1) Section 435 (a) (3) (relating to amount of
 8 excess profits credit) is hereby amended by inserting
 9 before the period at the end thereof the following: “, and
 10 in the case of certain taxable acquisitions, see part IV
 11 of this subchapter”.

12 (2) Section 462 (b) (relating to the method of
 13 recomputation of excess profits net income of an acquir-
 14 ing corporation) is hereby amended by adding at the
 15 end thereof the following new paragraph:

16 “(4) The Secretary shall provide by regulations
 17 for the application of this subsection in any case in which
 18 a purchasing corporation, as defined in part IV, is the
 19 component corporation.”

20 (240)SEC. 522. STRATEGIC MINERALS.

21 Section 450 (b) (1) (relating to corporations engaged
 22 in mining of strategic minerals) is hereby amended by insert-
 23 ing after the word “chromite” the following: “bauxite”.

1 **(241)**SEC. 523. EFFECTIVE DATE OF TITLE V.

2 *Except as otherwise provided in section 510, the amend-*
 3 *ments made by this title shall be applicable only with respect*
 4 *to taxable years ending after June 30, 1950.*

5 **TITLE (242)V VI—MISCELLANEOUS PROVI-**
 6 **SIONS AND AMENDMENTS**

7 SEC. **(243)**~~501~~ 601. EXEMPTION OF CERTAIN ORGANIZA-
 8 TIONS FROM INCOME TAX FOR PRIOR
 9 TAXABLE YEARS.

10 Section 302 of the Revenue Act of 1950 (relating to
 11 exemption of certain organizations for past years) is amended
 12 by adding at the end thereof the following new subsection:

13 “(d) PROFITS INURING TO THE BENEFIT OF CERTAIN
 14 EDUCATIONAL ORGANIZATIONS **(244)**OR HOSPITALS.—

15 For any taxable year beginning prior to January 1, 1951,
 16 an organization operated for the primary purpose of carry-
 17 ing on a trade or business for profit, no part of the net earn-
 18 ings of which inures to the benefit of any private share-
 19 holder or individual and all of the net earnings of which
 20 inure to the benefit of an educational organization which
 21 normally maintains a regular faculty and curriculum and
 22 normally has a regularly organized body of pupils or students
 23 in attendance at the place where its educational activities
 24 are regularly carried on, **(245)***or to the benefit of a hospital,*
 25 *or an institution for the rehabilitation of physically handi-*

1 capped persons which maintains or is building for proper
 2 maintenance such a hospital or institution staffed or to be
 3 staffed by qualified professional persons for the treatment of
 4 the sick and/or the rehabilitation of the physically handi-
 5 capped, or an eleemosynary corporation under State law
 6 exempt under section 101 (6) of the Internal Revenue Code,
 7 shall not be denied exemption from taxation under section
 8 101 of the Internal Revenue Code on the ground that it is
 9 carrying on a trade or business for profit."

10 **(246)SEC. 502. EXCESS PROFITS CREDIT BASED ON**
 11 **INCOME.**

12 ~~(a)~~ PERCENTAGE OF AVERAGE BASE PERIOD NET
 13 INCOME TAKEN INTO ACCOUNT.—

14 ~~(1)~~ IN GENERAL.—Paragraph ~~(1)~~ ~~(A)~~, and
 15 paragraph ~~(2)~~, of section 435 ~~(a)~~ ~~(relating to excess~~
 16 ~~profits credit based on income)~~ are each amended by
 17 striking out "85 per centum" and inserting in lieu
 18 thereof "75 per centum".

19 ~~(2)~~ TAXABLE YEARS BEGINNING BEFORE JANU-
 20 ARY 1, 1951, AND ENDING AFTER DECEMBER 31,
 21 1950.—Section 435 ~~(a)~~ is hereby amended by adding
 22 at the end thereof the following new paragraph:

23 "~~(4)~~ TAXABLE YEARS BEGINNING IN 1950 AND
 24 ENDING IN 1951.—In the case of a taxable year be-
 25 ginning before January 1, 1951, and ending after

1 December 31, 1950, there shall be used, for the pur-
 2 poses of paragraph ~~(1)~~ ~~(A)~~ and paragraph ~~(2)~~, in
 3 lieu of 85 per centum of the average base period net
 4 income, an amount equal to the sum of—

5 “~~(A)~~ that portion of an amount equal to 85
 6 per centum of the average base period net income
 7 which the number of days in such taxable year prior
 8 to January 1, 1951, bears to the total number of
 9 days in such taxable year, plus

10 ~~(B)~~ that portion of an amount equal to 75
 11 per centum of the average base period net income
 12 which the number of days in such taxable year after
 13 December 31, 1950, bears to the total number of
 14 days in such taxable year.”

15 ~~(b)~~ EFFECTIVE DATE.—The amendments made by sub-
 16 section ~~(a)~~ shall be applicable only with respect to taxable
 17 years ending after December 31, 1950.

18 (247) SEC. 602. FOREIGN ESTATE TAX CREDIT.

19 (a) CREDIT AGAINST BASIC ESTATE TAX.—Section
 20 813 (relating to credits against estate tax) is hereby amended
 21 by adding at the end thereof the following new subsection:

22 “(c) SAME—PAID TO FOREIGN COUNTRIES.—

23 “(1) IN GENERAL.—The tax imposed by section 810
 24 shall be credited with the amount of any estate, inheri-
 25 tance, legacy, or succession taxes actually paid to any

foreign country in respect of any property situated within such foreign country and included in the gross estate (not including any such taxes paid with respect to the estate of a person other than the decedent). If the decedent at the time of his death was not a citizen of the United States, credit shall not be allowed under this subsection unless the foreign country of which such decedent was a citizen or subject, in imposing such taxes, allows a similar credit in the case of a citizen of the United States resident in such country. The determination of the country within which property is situated shall be made in accordance with the rules applicable under Part III of this subchapter in determining whether property is situated within or without the United States.

“(2) LIMITATIONS ON CREDIT.—The credit provided in this subsection with respect to such taxes paid to any foreign country—

“(A) shall not exceed an amount which bears the same ratio to the taxes actually paid to such foreign country as the value of property which is—

“(i) situated within such foreign country,

“(ii) subjected to the taxes of such foreign country, and

“(iii) included in the gross estate

1 *bears to the value of all property subjected to the*
 2 *taxes of such foreign country; and*

3 *“(B) shall not exceed an amount which bears*
 4 *the same ratio to the tax imposed by section 810*
 5 *(after deducting from such tax the credits provided*
 6 *by subsections (a) and (b) of this section) as the*
 7 *value of property which is—*

8 *“(i) situated within such foreign country,*

9 *“(ii) subjected to the taxes of such foreign*
 10 *country, and*

11 *“(iii) included in the gross estate*
 12 *bears to the value of the entire gross estate reduced by*
 13 *the aggregate amount of the deductions allowed under*
 14 *subsections (c), (d), and (e) of section 812.*

15 *“(3) VALUATION OF PROPERTY.—*

16 *“(A) The values referred to in the ratio stated*
 17 *in paragraph (2) (A) are the values determined*
 18 *for the purposes of the taxes imposed by such foreign*
 19 *country.*

20 *“(B) The values referred to in the ratio stated*
 21 *in paragraph (2) (B) are the values determined*
 22 *under this chapter; but, in applying such ratio, the*
 23 *value of any property described in clauses (i), (ii),*
 24 *and (iii) thereof shall be reduced by such amount*
 25 *as will properly reflect, in accordance with regula-*

tions prescribed by the Secretary, the deductions allowed in respect of such property under subsections (c), (d), and (e) of section 812.

“(4) *PROOF OF CREDIT*.—The credits provided in this subsection and in section 936 (c) shall be allowed only if the taxpayer establishes to the satisfaction of the Secretary (A) the amount of taxes actually paid to the foreign country, (B) the amount and date of each payment thereof, (C) the description and value of the property in respect of which such taxes are imposed, and (D) all other information necessary for the verification and computation of the credits.

“(5) *PERIOD OF LIMITATION*.—The credits provided in this subsection and in section 936 (c) shall be allowed only for such taxes as were actually paid and credit therefor claimed within four years after the filing of the return required by section 821, except that—

“(A) If a petition for redetermination of a deficiency has been filed with The Tax Court of the United States within the time prescribed in section 871, then within such four-year period or before the expiration of 60 days after the decision of The Tax Court becomes final.

“(B) If, under section 822 (a) (2) or section 871 (h), an extension of time has been granted for

1 *payment of the tax shown on the return, or of a*
 2 *deficiency, then within such four-year period or*
 3 *before the date of the expiration of the period of the*
 4 *extension.*

5 *Refund based on such credits may (despite the provisions*
 6 *of sections 910 to 912, inclusive) be made if claim there-*
 7 *for is filed within the period above provided. Any such*
 8 *refund shall be made without interest."*

9 ***(b) CREDIT AGAINST ADDITIONAL ESTATE TAX.—***

10 *Section 936 (relating to credits against estate tax) is hereby*
 11 *amended by adding at the end thereof the following new*
 12 *subsection:*

13 ***"(c) ESTATE, ETC., TAXES PAID TO FOREIGN***
 14 ***COUNTRIES.—***

15 ***"(1) IN GENERAL.—****In the case of the estate of a*
 16 *citizen or resident of the United States, the tax imposed*
 17 *by section 935 shall be credited with the amount of any*
 18 *estate, inheritance, legacy, or succession taxes actually*
 19 *paid to any foreign country in respect of any property*
 20 *situated within such foreign country and included in the*
 21 *gross estate (not including any such taxes paid with*
 22 *respect to the estate of a person other than the decedent).*
 23 *If the decedent at the time of his death was not a citizen*
 24 *of the United States, credit shall not be allowed under*
 25 *this subsection unless the foreign country of which such*

1 *decedent was a citizen or subject, in imposing such taxes,*
2 *allows a similar credit in the case of a citizen of the*
3 *United States resident in such country. The determina-*
4 *tion of the country within which property is situated shall*
5 *be made in accordance with the rules applicable under*
6 *Part III of subchapter A in determining whether prop-*
7 *erty is situated within or without the United States.*

8 *“(2) LIMITATIONS ON CREDIT.—The credit pro-*
9 *vided in this subsection with respect to such taxes paid to*
10 *any foreign country—*

11 *“(A) shall not exceed the amount by which such*
12 *taxes paid to the foreign country exceed the amount*
13 *of the credit allowed therefor under section 813 (c);*
14 *and*

15 *“(B) shall not exceed an amount which bears*
16 *the same ratio to the tax imposed by section 935*
17 *(after deducting from such tax the credit provided*
18 *by subsection (b) of this section) as the value of*
19 *property which is—*

20 *“(i) situated within such foreign country,*

21 *“(ii) subjected to the taxes of such foreign*
22 *country, and*

23 *“(iii) included in the gross estate*
24 *bears to the value of the entire gross estate reduced*
25 *by the aggregate amount of the deductions allowed*

1 *under subsections (c), (d), and (e) of section 812.*

2 “(3) *SAME—SPECIAL RULES.—*

3 “(A) *For the purposes of paragraph (2) (A),*
 4 *‘such taxes paid to the foreign country’ shall be an*
 5 *amount which bears the same ratio to the taxes*
 6 *actually paid to such foreign country as the value of*
 7 *property which is—*

8 “(i) *situated within such foreign country,*

9 “(ii) *subjected to the taxes of such foreign*
 10 *country, and*

11 “(iii) *included in the gross estate*
 12 *bears to the value of all property subjected to the*
 13 *taxes of such foreign country. The values referred*
 14 *to in this ratio are the values determined for the*
 15 *purposes of the taxes imposed by such foreign*
 16 *country.*

17 “(B) *The values referred to in the ratio stated*
 18 *in paragraph (2) (B) are the values determined*
 19 *under this chapter; but, in applying such ratio, the*
 20 *value of any property described in clauses (i), (ii),*
 21 *and (iii) thereof shall be reduced by such amount*
 22 *as will properly reflect, in accordance with regula-*
 23 *tions prescribed by the Secretary, the deductions*

allowed in respect of such property under subsections (c), (d), and (e) of section 812.

“(4) *PROOF OF CREDIT.*—

“For provisions relating to proof of credit, see section 813 (c) (4).

“(5) *PERIOD OF LIMITATION.*—

“For provisions relating to period of limitation on claiming of credit or refund based thereon and nonpayment of interest on refund, see section 813 (c) (5).”

(c) *REVERSIONARY OR REMAINDER INTEREST.*—

Section 927 (relating to credit for State death taxes) is hereby amended to read as follows:

“SEC. 927. *CREDIT FOR DEATH TAXES.*

“Such part of any estate, inheritance, legacy, or succession taxes allowable as a credit under section 813 (b) or (c) against the tax imposed by this subchapter, or under section 936 (c) against the tax imposed by subchapter B, as is attributable to such reversionary or remainder interest may be allowed as a credit against the tax attributable to such interest, subject to the limitations on the amount of credit contained in such sections, if such part is paid, and credit therefor claimed, at any time prior to the expiration

1 of 60 days after the termination of the precedent interest or
2 interests in the property.”

3 (d) *EXTENSION OF PERIOD OF LIMITATIONS, ETC.,*
4 *IN CASE OF RECOVERY OF TAXES CLAIMED AS*
5 *CREDIT.*—Section 874 (b) (relating to exceptions to gen-
6 eral rule as to period of limitation upon assessment and col-
7 lection of estate tax) is hereby amended by inserting at the
8 end thereof the following new paragraph:

9 “(3) *RECOVERY OF TAXES CLAIMED AS CREDIT.*—
10 If any tax claimed as a credit under section 813 (b)
11 or (c) or section 936 (c) is recovered from any foreign
12 country, any State, any Territory or possession of the
13 United States, or the District of Columbia, the executor,
14 or any other person or persons recovering such amount,
15 shall give notice of such recovery to the Secretary at such
16 time and in such manner as may be required by regula-
17 tions prescribed by him, and the Secretary shall redeter-
18 mine the amount of the tax under this chapter and the
19 amount, if any, of the tax due upon such redetermination,
20 shall be paid by the executor or such person or persons, as
21 the case may be, upon notice and demand.”

22 (e) *EFFECTIVE DATE.*—The amendments made by this
23 section shall be applicable with respect to estates of decedents
24 dying after the date of the enactment of this Act.

1 **(248)SEC. 503 603. ESTATE AND GIFT TAX TREATMENT OF**
2 **UNITED STATES BONDS HELD BY CER-**
3 **TAIN NONRESIDENT ALIENS.**

4 (a) ESTATE TAX.—Effective with respect to estates of
5 decedents dying after February 10, 1939, section 861 (re-
6 lating to the computation of the net estate of a decedent
7 nonresident not a citizen of the United States) is hereby
8 amended by adding at the end thereof the following new
9 subsection:

10 “(c) UNITED STATES BONDS.—For the purposes of
11 subsection (a), the value of the gross estate (determined
12 as provided in section 811) of a decedent who was not
13 engaged in business in the United States at the time of his
14 death—

15 “(1) shall not include obligations issued by the
16 United States prior to March 1, 1941; and

17 “(2) shall include obligations issued by the United
18 States on or after March 1, 1941, but only if the dece-
19 dent died after the date of the enactment of the Revenue
20 Act of 1951.”

21 (b) GIFT TAX.—Effective with respect to gifts made
22 after the date of enactment of this Act, section 1000 (b)
23 (relating to application of gift tax) is hereby amended by
24 adding at the end thereof the following: “In the case of such

1 a nonresident who is not engaged in business in the United
 2 States at the time of a transfer of obligations issued by the
 3 United States, the tax shall apply in respect of any such
 4 obligations only if issued on or after March 1, 1941."

5 (249)SEC. 604. ESTATE TAX EXEMPTION FOR WORKS OF ART

6 LOANED BY NONRESIDENT ALIENS.

7 (a) AMENDMENT OF SECTION 863 (c).—Section 863

8 (c) (relating to exemption of works of art loaned by non-
 9 resident aliens) is hereby amended to read as follows:

10 "(c) WORKS OF ART ON LOAN FOR EXHIBITION.—

11 Works of art owned by a nonresident not a citizen of the
 12 United States (1) imported into the United States solely for
 13 exhibition purposes, (2) loaned for such purposes to a public
 14 gallery or museum, no part of the net earnings of which inures
 15 to the benefit of any private stockholder or individual, and
 16 (3) at the time of the death of the owner, on exhibition, or
 17 en route to or from exhibition, in such a public gallery or
 18 museum."

19 (b) EFFECTIVE DATE.—The amendment made by this
 20 section shall be applicable only with respect to estates of
 21 decedents dying after the date of the enactment of this Act.

22 (250)SEC. 605. EXEMPTION FROM ADDITIONAL ESTATE TAX OF

23 MEMBERS OF ARMED FORCES UPON DEATH.

24 Section 939 (relating to the estate tax treatment of certain
 25 members of the armed forces) is hereby amended as follows:

(1) *By inserting before the first sentence thereof the following:*

“(a) *DEATHS AFTER DECEMBER 6, 1941, AND BEFORE JANUARY 1, 1947.—*”.

(2) *By adding at the end thereof the following:*

“(b) *DEATHS AFTER JUNE 24, 1950, AND BEFORE JANUARY 1, 1954.—The tax imposed by section 935 shall not apply to the transfer of the net estate of a citizen or resident of the United States dying after June 24, 1950, and before January 1, 1954, while in active service as a member of the armed forces of the United States, if such decedent—*

“(1) *was killed in action while serving in a combat zone, as determined under section 22 (b) (13); or*

“(2) *died as a result of wounds, disease, or injury suffered, while serving in a combat zone (as determined under section 22 (b) (13)) and while in line of duty, by reason of a hazard to which he was subjected as an incident of such service.*”

(251) SEC. 606. TRANSFERS CONDITIONED UPON SURVIVORSHIP.

In the case of property transferred by a decedent dying after March 18, 1937, and before February 11, 1939, the determination of whether such property is to be included in his gross estate under section 302 (c) of the Revenue Act of 1926 (44 Stat. 70) as a transfer intended to take effect in

1 *possession or enjoyment at or after his death shall be made in*
 2 *conformity with Treasury Regulations in force at the time*
 3 *of his death.*

4 **(252)SEC. 607. TRANSFERS WITH INCOME RESERVED.**

5 *Section 7 (b) of the Act entitled "An Act to amend*
 6 *certain provisions of the Internal Revenue Code", approved*
 7 *October 25, 1949 (63 Stat. 895), is hereby amended by*
 8 *striking out "January 1, 1950" and inserting in lieu thereof*
 9 *"January 1, 1951".*

10 **(253)SEC. 608. TRANSFERS TAKING EFFECT AT DEATH.**

11 *Effective with respect to estates of decedents dying after*
 12 *February 10, 1939, section 7 (b) of the Act entitled "An*
 13 *Act to amend certain provisions of the Internal Revenue*
 14 *Code", approved October 25, 1949 (63 Stat. 895), is hereby*
 15 *amended by striking out the word "sentence" and inserting*
 16 *in lieu thereof "two sentences" and by inserting immediately*
 17 *preceding the last sentence thereof the following sentence:*
 18 *"The provisions of section 811 (c) (1) (C) of such code*
 19 *shall not apply to a transfer made prior to September 8,*
 20 *1916." The provisions of section 7 (c) of such Act, as*
 21 *amended, shall not apply to an overpayment resulting from*
 22 *the application of this section,*

1 (254) SEC. 609. REVERSIONARY INTERESTS IN CASE OF LIFE

2 *INSURANCE.*

3 *If refund or credit of any overpayment resulting from*
4 *the application of section 503 of the Revenue Act of 1950 is*
5 *prevented on the date of the enactment of this Act, or within*
6 *one year from such date, by the operation of any law or rule*
7 *of law (other than section 3760 of the Internal Revenue*
8 *Code, relating to closing agreements, and other than section*
9 *3761 of such code, relating to compromises), refund or credit*
10 *of such overpayment may, nevertheless, be made or allowed*
11 *if claim therefor is filed within one year from the date of*
12 *enactment of this Act.*

13 (255) SEC. 610. INCOME PURSUANT TO AWARD OF INTERSTATE

14 *COMMERCE COMMISSION.*

(a) Notwithstanding section 42 of the Internal Revenue Code, amounts received, pursuant to an award under the order issued under the Railway Mail Pay Act of 1916 by the Interstate Commerce Commission on December 4, 1950, as compensation for the transportation of mail during 1950 and prior years shall be deemed to be income which accrued in the taxable years in which the services to which such compensation relates were rendered. Notwithstanding sec-

1 *tion 292 of such code, no interest shall be assessed or collected*
2 *for any period prior to July 1, 1951, with respect to*
3 *that part of any deficiency which the Secretary determines*
4 *to be attributable to the inclusion of income in a taxable year*
5 *by reason of the application of this section. Any deficiency*
6 *attributable to the inclusion of income in any taxable year*
7 *by reason of the application of this section may be assessed*
8 *at any time prior to the expiration of the period for assess-*
9 *ment with respect to the taxable year of the taxpayer which*
10 *includes December 4, 1950, notwithstanding the provisions*
11 *of section 275 of the Internal Revenue Code or any other*
12 *provision of law or rule of law which would otherwise prevent*
13 *such assessment.*

14 *(b) Section 292 (relating to interest on deficiencies)*
15 *is hereby amended by adding at the end thereof the following*
16 *new subsection:*

17 *“(d) With respect to any corporation entitled to re-*
18 *ceive payment for the transportation of United States mail,*
19 *if an award is retroactively received for the transportation*
20 *of United States mail, and if such award is required to be*
21 *treated as income in the year or years in which the mail*
22 *was carried, then, notwithstanding the provisions of subsec-*
23 *tion (a) of this section, no interest shall be due, with respect*
24 *to any period prior to thirty days after such award is*

1 granted, for tax deficiencies resulting from the inclusion of
 2 such additional mail payments retroactively.”

3 **(256)SEC. 611. CREDIT IN PRIOR TAXABLE YEARS FOR**
 4 **DIVIDENDS RECEIVED ON PREFERRED STOCK**
 5 **OF A PUBLIC UTILITY.**

6 *In the case of taxable years beginning before April 1,*
 7 *1951, any reference in section 15 (a) or 26 (b) of the*
 8 *Internal Revenue Code to dividends received on the pre-*
 9 *ferred stock of a public utility shall be construed as re-*
 10 *ferring only to dividends received on the preferred stock of*
 11 *a public utility with respect to which the credit provided*
 12 *in section 26 (h) of such Code for dividends paid was*
 13 *allowable.*

14 **(257)SEC. 612. CONSOLIDATED RETURNS—INCLUDIBLE COR-**
 15 **PORATION.**

16 *If an affiliated group making a consolidated return with*
 17 *respect to the first taxable year of the group ending after*
 18 *June 30, 1950, included a corporation described in section*
 19 *454 (f) of the Internal Revenue Code pursuant to the con-*
 20 *sent provided in section 141 (e) (7) of such code, such*
 21 *corporation may withdraw such consent at any time within*
 22 *ninety days after the enactment of this Act. If such consent*
 23 *is withdrawn under the preceding sentence, the tax liability*
 24 *of the affiliated group and its several members for the taxable*

1 year shall be determined, assessed, and collected as if such
2 corporation had never joined in the making of the consolidated
3 return.

4 **(258)SEC. 613. TIME FOR PERFORMING CERTAIN ACTS POST-**
5 **PONED IN CASE OF CHINA TRADE ACT**
6 **CORPORATIONS.**

7 Section 3805 (relating to postponement of income tax due
8 dates in the case of China Trade Act corporations) is hereby
9 amended to read as follows:

10 **"SEC. 3805. INCOME TAX DUE DATES POSTPONED IN CASE OF**
11 **CHINA TRADE ACT CORPORATIONS.**

12 "In the case of any taxable year beginning after De-
13 cember 31, 1948, and ending before October 1, 1953, no
14 Federal income tax return of, or payment of any Federal
15 income tax by, any corporation organized under the China
16 Trade Act of 1922 (42 Stat. 849, U. S. C., Title 15,
17 chapter 4), as amended, shall become due until December
18 31, 1953, but only with respect to any such corporation and
19 any such taxable year which the Secretary may determine
20 reasonable under the circumstances in China pursuant to
21 such regulations as he may prescribe. Such due date shall
22 be subject to the power of the Secretary to extend the time
23 for filing such return or paying such tax, as in other cases."

1 **(259)SEC. 614. TREATY OBLIGATIONS.**

2 *No amendment made by this Act shall apply in any case*
 3 *where its application would be contrary to any treaty obliga-*
 4 *tion of the United States.*

5 **SEC. (260)~~504~~ 615. REORGANIZATION PLAN NUMBERED 26**
 6 **OF 1950.**

7 The provisions of Reorganization Plan Numbered 26
 8 of 1950 shall be applicable to all functions vested by this
 9 Act in any officer, employee, or agency of the Department
 10 of the Treasury.

11 **(261)SEC. 616. CLAIMS UNDER THE RENEGOTIATION ACT.**

12 *Subsection (a) (4) (D) of the Renegotiation Act, as*
 13 *amended by section 201 (c) of the Renegotiation Act of 1951,*
 14 *is hereby amended by striking out "June 30, 1951," and*
 15 *inserting in lieu thereof "October 31, 1951,".*

16 **(262)SEC. 617. PROHIBITION UPON DENIAL OF SOCIAL SE-**
 17 **CURITY ACT FUNDS.**

18 *No State or any agency or political subdivision thereof*
 19 *shall be deprived of any grant-in-aid or other payment to*
 20 *which it otherwise is or has become entitled pursuant to title*
 21 *I, IV, X, or XIV of the Social Security Act, as amended, by*
 22 *reason of the enactment or enforcement by such State of any*
 23 *legislation prescribing any conditions under which public*

1 *access may be had to records of the disbursement of any such*
 2 *funds or payments within such State.*

3 **(263) SEC. 618. REMOVAL OF TAX-EXEMPT EXPENSE ALLOW-**
 4 **ANCES.**

5 *(a) COMPENSATION OF THE PRESIDENT.—*

6 *(1) Effective as of January 3, 1953, section 102 of*
 7 *title 3 of the United States Code is amended by striking out*
 8 *the words “no tax liability shall accrue and for which”.*

9 *(2) Effective at noon on January 20, 1953, section 102*
 10 *of title 3 of the United States Code is amended to read as*
 11 *follows:*

12 **“COMPENSATION OF THE PRESIDENT**

13 **“SEC. 102. The President shall receive in full for his**
 14 **services during the term for which he shall have been**
 15 **elected compensation in the aggregate amount of \$150,000**
 16 **a year, to be paid monthly. He shall be entitled also to**
 17 **the use of the furniture and other effects belonging to the**
 18 **United States and kept in the Executive Mansion.”**

19 *(b) COMPENSATION OF THE VICE PRESIDENT.—*

20 *(1) Section 104 of title 3 of the United States Code*
 21 *(relating to salary of the Vice President) is amended by*
 22 *striking out “\$30,000” and inserting in lieu thereof*
 23 *“\$40,000”.*

24 *(2) Section 111 of title 3 of the United States Code*

1 *(relating to an expense allowance for the Vice President)*
 2 *is repealed.*

3 (c) *SALARIES OF MEMBERS OF CONGRESS AND OF*
 4 *THE SPEAKER OF THE HOUSE.—*

5 (1) *Section 601 (a) of the Legislative Reorganiza-*
 6 *tion Act of 1946 (relating to salaries of Members of Con-*
 7 *gress and of the Speaker or the House) is amended—*

8 (A) *by striking out “\$12,500” and inserting in*
 9 *lieu thereof “\$15,000”; and*

10 (B) *by striking out “\$30,000” and inserting in*
 11 *lieu thereof “\$40,000”.*

12 (2) *Section 601 (b) of the Legislative Reorganization*
 13 *Act of 1946 (relating to expense allowances for Members of*
 14 *Congress) is hereby repealed.*

15 (3) *Subsection (e) of the first section of the Act en-*
 16 *titled “An Act to increase rates of compensation of the Presi-*
 17 *dent, Vice President, and the Speaker of the House of*
 18 *Representatives” (Public Law 2, Eighty-first Congress)*
 19 *(relating to an expense allowance for the Speaker of the*
 20 *House) is hereby repealed.*

21 (d) *COMPUTING DEDUCTION FOR RETIREMENT.—In*
 22 *computing the amount to be deducted from the compensation*
 23 *of any official whose salary is changed by this section for*
 24 *the purposes of the Civil Service Retirement Act of May*

1 29, 1930, and in computing the amount of any annuity under
2 such Act any change in compensation provided by this sec-
3 tion shall be disregarded until further Act of Congress.

4 (e) *EFFECTIVE DATE.*—*Except as provided in subsec-*
5 *tion (a) the provisions of this section shall take effect as of*
6 *January 3, 1953.*

Passed the House of Representatives June 22, 1951.

Attest: RALPH R. ROBERTS,
Clerk.

Passed the Senate with amendments September 28
(legislative day, September 19), 1951.

Attest: LESLIE L. BIFFLE,
Secretary.

82^d CONGRESS
1ST SESSION

H. R. 4473

AN ACT

To provide revenue, and for other purposes.

IN THE SENATE OF THE UNITED STATES

SEPTEMBER 28 (legislative day, SEPTEMBER 19), 1951

Ordered to be printed with the amendments of the

Senate numbered



United States
of America

Congressional Record

PROCEEDINGS AND DEBATES OF THE 82^d CONGRESS, FIRST SESSION

Vol. 97

WASHINGTON, FRIDAY, SEPTEMBER 28, 1951

No. 182

House of Representatives

The House was not in session today. Its next meeting will be held on Monday, October 1, 1951, at 12 o'clock noon.

Senate

FRIDAY, SEPTEMBER 28, 1951

(Legislative day of Wednesday, September 19, 1951)

The Senate met at 10 o'clock a. m., on the expiration of the recess.

The Chaplain, Rev. Frederick Brown Harris, D. D., offered the following prayer:

Our Father God, we come before Thee with thanksgiving grateful that each new day enfolds us with Thy loving kindness in the morning and Thy faithfulness every night. Cleanse our hearts, we pray Thee, from all guile that as a part of this corrupt and perverse generation we may abhor that which is evil and cleave to that which is good. May our attitudes and actions make us a part of the solution rather than of the problem of our ailing social order. As with moral and material might we smite and vow to shatter the rampant iniquity of today, which degrades Thy children and keeps them from more abundant life, grant us a vision of the far-off years as they may be if redeemed by the sons of God; that we may take heart in these days freighted with destiny and do battle for Thy children and ours, leaving the earth fairer and cleaner than we found it. We ask it in that Name which is above every name. Amen.

THE JOURNAL

On request of Mr. McFARLAND, and by unanimous consent, the reading of the Journal of the proceedings of Thursday, September 27, 1951, was dispensed with.

REVENUE ACT OF 1951

The Senate resumed the consideration of the bill (H. R. 4473) to provide revenue, and for other purposes.

The VICE PRESIDENT. The Chair, during the remainder of the debate, can recognize only Senators to whom time is yielded by those who control it.

Mr. McFARLAND. I suggest the absence of a quorum, and, Mr. President, I ask unanimous consent that the time consumed in calling the roll be not charged to either side.

The VICE PRESIDENT. The Senator from Arizona makes a point of no quorum. Is there objection to his unanimous-consent request? The Chair hears none, and it is so ordered. The Secretary will call the roll.

The Chief Clerk called the roll, and the following Senators answered to their names:

Butler, Md.	Ives	Neely
Cain	Johnson, Colo.	Pastore
Carlson	Johnson, Tex.	Robertson
Clements	Langer	Saltonstall
Connally	Lehman	Smathers
Dirksen	Martin	Smith, N. C.
Dworshak	Maybank	Stennis
Ferguson	McCarran	Underwood
George	McFarland	Watkins
Hayden	McMahon	Wiley
Holland	Millikin	

Mr. JOHNSON of Texas. I announce that the Senator from New Mexico [Mr. ANDERSON] is absent by leave of the Senate.

The Senator from Virginia [Mr. BYRD] is absent because of illness in his family.

The Senator from New Mexico [Mr. CHAVEZ] and the Senator from West Virginia [Mr. KILGORE] are absent on official business.

Mr. SALTONSTALL. I announce that the Senator from New Hampshire [Mr. BRIDGES], the Senator from Vermont [Mr. FLANDERS], the Senator from Missouri [Mr. KEM], and the Senator from Ohio [Mr. TAFT] are absent on official business.

The Senator from Wisconsin [Mr. McCARTHY] is absent by leave of the Senate.

The Senator from New Hampshire [Mr. TOBEY] is absent because of illness.

The Senator from Nebraska [Mr. WHERRY] is necessarily absent.

The VICE PRESIDENT. A quorum is not present. The Secretary will call the names of the absent Senators.

The names of the absent Senators were called.

The VICE PRESIDENT. A quorum is not present.

Mr. McFARLAND. I move that the Sergeant at Arms be directed to request the attendance of Senators.

The motion was agreed to.

The VICE PRESIDENT. The Sergeant at Arms will execute the order of the Senate.

After a little delay, Mr. AIKEN, Mr. BENNETT, Mr. BENTON, Mr. BREWSTER, Mr. BRICKER, Mr. BUTLER of Nebraska, Mr. CAPEHART, Mr. CASE, Mr. CORDON, Mr. DOUGLAS, Mr. DUFF, Mr. EASTLAND, Mr. ECTON, Mr. ELLENDER, Mr. FREAR, Mr. FULBRIGHT, Mr. GILLETTE, Mr. GREEN, Mr. HENDRICKSON, Mr. HENNINGSON, Mr. HICKENLOOPER, Mr. HILL, Mr. HOEY, Mr. HUMPHREY, Mr. HUNT, Mr. JENNER, Mr. JOHNSTON of South Carolina, Mr. KEFAUVER, Mr. KERR, Mr. KNOWLAND, Mr. LODGE, Mr. LONG, Mr. MAGNUSON, Mr. MALONE, Mr. MCCLELLAN, Mr. MCKELLAR, Mr. MONRONEY, Mr. MOODY, Mr. MORSE, Mr. MUNDT, Mr. MURRAY, Mr. NIXON, Mr. O'CONOR, Mr. O'MAHONEY, Mr. RUSSELL, Mr. SCHOEPPEL, Mrs. SMITH of Maine, Mr. SMITH of New Jersey, Mr. SPARKMAN, Mr. THYE, Mr. WELKER, Mr. WILLIAMS, and Mr. YOUNG entered the Chamber and answered to their names.

The VICE PRESIDENT. A quorum is present.

The pending question is on agreeing to the amendment offered by the Senator from North Dakota [Mr. LANGER], on which he has 15 minutes, and on

which, in opposition, the Senator from Georgia has 15 minutes.

THE KOREAN PEACE CONFERENCE STALEMATE

Mr. LANGER obtained the floor.

Mr. ROBERTSON. Mr. President, will the Senator from North Dakota yield to me for 30 seconds?

Mr. LANGER. I yield 30 seconds.

Mr. ROBERTSON. Mr. President, ever since July 10 the Communists in Korea have been backing and filling with us on a discussion of peace. There has been no recorded parallel in history when a nation with the power that we have has permitted a weaker enemy to drag out the discussions, clearly intended for the advantage of our enemy.

Mr. President, we cannot afford to continue these discussions into the winter months, with the attrition which is now happening to us and the opportunity to the enemy to build up its manpower, to leave us next spring in a worse position than we are in at the present time.

I say, Mr. President, much as we love peace, and much as we want peace, the time has come when we had better adopt the old military axiom, "The hotter the war, the sooner the peace," and notify our enemies that we are not going to be double-crossed any longer, that these are our terms on which we shall settle, and that if they are not going to settle, to say so, and then we will go all out to end a war that was forced upon the peace-loving but freedom-loving nations of the world.

The VICE PRESIDENT. The time of the Senator from Virginia has expired.

REVENUE ACT OF 1951

The Senate resumed the consideration of the bill (H. R. 4473) to provide revenue, and for other purposes.

Mr. LANGER. Mr. President, I desire to modify my amendment on page 1, line 9, by striking out "of \$50 or more."

The VICE PRESIDENT. The Senator from North Dakota modifies his amendment, which he has a right to do. The Chair asks Senators to help keep order. The Senate has entered into a limitation of time for debate, and it is desirable that we proceed as rapidly as possible. Therefore, the Chair hopes Senators will cooperate in trying to keep order. The Senator from North Dakota.

Mr. LANGER. Mr. President, strange as it may seem to Senators, absolutely everyone in the United States who earns a living is required to keep records, except gamblers and racketeers. They and they alone have the privilege of giving a lame explanation of where they get their money, and not only do they have that privilege, but the law requires that the collector of internal revenue shall accept that lame explanation. Unless we adopt this amendment the law is going to continue as it is.

As I view it, what the Senate is trying to do is to find some way of laying more taxes upon people who already are taxed too much. What it should be trying to do is to find some way of cutting taxes upon honest citizens and shifting the burden to the chiselers.

For too many years we have permitted grafters, racketeers, crooks, and plain,

petty thieves to dodge the tax responsibilities which belong to every American. I think it is about time that we started to crack down. I think it is about time that we started to close some of the loopholes in our tax laws.

The amendment I am sponsoring here today would close one of the biggest loopholes. It is the one through which every gambler and racketeer has crawled within the past few years when chased by Uncle Sam.

Time after time some big crook has been run to earth and asked to explain where he got \$40,000 or \$50,000 conveniently tucked away in a cigar box in his closet. When asked where he got it, the reply has always been, "Oh, I won it playing the races. I picked it up out at the track the other day."

That always ends it under the law, and no one can prove where he got the money, and no one can prove that he did not get it at the track. There is nothing in the world which the Bureau of Internal Revenue can do about it except to accept his word.

Of course, it is a different story along about March 15, when the tax collector comes around. When asked why he did not pay taxes on the \$40,000 or \$50,000, the big-shot hoodlum merely smirks and says, "Sure I won a lot of money at the tracks last year. But I dropped an even bigger bundle. Want to take a look at my losing tickets?"

With that, he can pull out a batch of pari-mutuel tickets on losing horses. As it stands now, those tickets have to be accepted as evidence that he lost more money than he won. Those losing tickets can be picked up from the ground at any race track by the millions of dollars worth every year. They are thrown away by disgusted bettors after race results are announced. But that makes no difference. The Internal Revenue Bureau is helpless.

Everybody knows it is a fraud. The hoodlum knows it is a fraud, and the Internal Revenue Bureau knows it is a fraud. But just the same, it is the law, and the big-shot gambler can get away with it. There is no way we can crack down on him unless we change the law, and that, Mr. President, is what I am proposing to do through this amendment.

This amendment is a very simple one. It merely requires horse players to keep books, and it sets up checks to determine whether their books are accurate.

First, it says that race tracks must keep a record of the names of all persons to whom they pay off in winnings. Second, it says that losses at race tracks cannot be charged off against income taxes, unless the person claiming the loss can produce signed receipts proving that he made the losing wager. Can anything be simpler or more just? Can anyone show any reason in the world why gamblers should not be compelled to keep records the same as any other person in the United States. Can anyone show me one single, valid objection to this amendment? The businessman has to keep books down to the last penny. The farmer has so many records to produce that many farmers have had to hire certified public accountants. We

do not even give the workingman a chance to figure out some way of ducking his taxes—we simply take them away from him before we let his boss hand over the pay check.

Mr. PASTORE. Mr. President, will the Senator yield?

Mr. LANGER. Mr. President, I am sorry that I cannot yield to the distinguished Senator, but I have only 15 minutes and I promised to yield to the Senator from Colorado [Mr. JOHNSON]. I regret that I have not the time to yield to my able friend, the Senator from Rhode Island.

Even the housewife has to keep records if she hires a maid. Incidentally, if the housewife does not fork up all the money the Government thinks she owes, an internal revenue collector simply visits her bank and takes the money, as is being done in Texas today.

Mr. President, my amendment would in no way interfere with the right of individual States to license horse and dog tracks and to set up pari-mutuel systems. It would make absolutely no change in that situation. In States where racing is permitted, people could still go to the horse and dog tracks. They could walk up to the pari-mutuel windows exactly as they have in the past and buy a ticket on the horse or dog whose breed they wanted to improve. If their horse or dog won, they could go back to the windows to collect their winnings. There would be but two differences. If they wanted to charge off losing tickets against their income taxes, they would have to get a receipt. And if they won \$50 or more, they would have to identify themselves so the race track could file a form with the collector of internal revenue. That is all there is to it. I do not see how it could possibly infringe upon the rights of any honest citizen, and I do not see how any honest citizen can object.

Over the years I have seen a number of fights in the Senate to plug loopholes in the tax laws. Some of those fights have been successful, others have been lost. Mr. President, let us not check this one up among the losing battles. Let us adopt this amendment as a signal to the world that this country is not going to give special privileges to gamblers and racketeers whenever the tax collector makes his rounds.

Mr. JOHNSON of Colorado. Mr. President, will the Senator from North Dakota yield?

Mr. LANGER. I yield.

Mr. JOHNSON of Colorado. I should like to ask a question so that I may correctly understand the Senator's amendment. Under his amendment, if I should walk up to a pari-mutuel window and place a bet of \$2, the Federal Government would collect a tax of 4 cents. On a bet of \$5 the Federal Government would collect a tax of 10 cents. Is that correct?

Mr. LANGER. That is correct.

Mr. JOHNSON of Colorado. It seems to me that that is a small tax, when we recall that Congress is placing a tax on the kitchen utensils used in the ordinary household, and a tax on every telephone call and every telegram that may be sent. If we take a trip, there is a tax

in connection with that. If we ship anything by freight, there is a tax. Yet we seem very tender about pari-mutuels. May I ask the Senator how much the revenue would amount to by reason of the 2-percent tax which is imposed? Would it amount to approximately \$35,000,000 a year?

Mr. LANGER. It would amount to \$100,000,000 a year.

Mr. JOHNSON of Colorado. That may be. I thought it would be about \$35,000,000. The withholding part of the tax is on the winnings, and it is to insure the Treasury the collection of the income tax on the winnings?

Mr. LANGER. That is correct. That is 20 percent. The record shows that last year in Arizona the total bets amounted to approximately \$6,083,000; in Arkansas, to nearly \$11,000,000; in California, to \$278,000,000; in Colorado, to \$8,762,000; in Delaware, to \$22,000,000; in Florida, to more than \$94,000,000; in Illinois, to \$247,000,000; in Kentucky, to \$27,000,000; in Louisiana, to more than \$15,000,000; in Maine, to more than \$9,000,000; in Maryland, to more than \$100,000,000; in Massachusetts, to more than \$56,000,000; in Michigan, to more than \$58,000,000; in Nebraska, to more than \$11,000,000; in New Mexico, to more than \$4,000,000; in New Jersey, to \$156,000,000; in New York to nearly half a billion dollars was bet last year; in Ohio, to more than \$33,000,000; in Oregon, to \$3,000,000; in Rhode Island, to \$61,000,000; in South Dakota, to \$330,000; in Washington, to \$11,000,000; in West Virginia, to \$23,000,000.

So that the withholding tax and the 2-percent tax in States where racing is licensed would bring in a very, very large revenue, as I said a little while ago, approximately \$100,000,000.

Mr. President, I ask for the yeas and nays on my amendment.

The VICE PRESIDENT. The demand for the yeas and nays is not sufficiently seconded.

Mr. GEORGE. Mr. President, I yield to the Senator from Kentucky [Mr. UNDERWOOD] 7 minutes.

The VICE PRESIDENT. The Senator from Kentucky is recognized for 7 minutes.

Mr. UNDERWOOD. Mr. President, this is a subject about which I think I know a little, or I should hesitate to take the time of the Senate in connection with it.

For approximately 14 years I was secretary of the National Association of State Racing Commissioners. The State commissions are regulatory bodies, like public utilities commissions. During that time I did not have any connection with any race track at all.

The State governments have been given the right to tax racing. That is one of the few sources of revenue the Federal Government has permitted the States to have. I know, as a matter of fact, that the State governments have endeavored to squeeze out of racing every single dime and every single dollar they possibly could get. That has been done in the State of Kentucky; it has been done in practically every other State. It is true that the figures show that more

than \$100,000,000 was taken in taxes from racing by the States during the past year. There are big figures in connection with pari-mutuel turn-over; and I wish to address the Senate a moment or two about that and about what the turn-over is.

If there are five men in a poker game, and they have \$100 between them, and bet that \$100 a hundred times, it amounts to \$10,000. But they still have the \$100 between them. They are shut up in a room, in a poker game, and they have \$100 which they bet 100 times, and by the calculation of calling that a turn-over it can be said that \$10,000 has been wagered. But we know that they do not have more than \$100 between them. These figures are built-up figures.

I desire to say something also about the principle of legalizing pari-mutuels. At the time the pari-mutuel system was adopted there was already betting in the United States, there was already racing in the United States, but it was illegal betting and it was bad racing. The laws to legalize pari-mutuel betting and setting up State commissions to control racing in the United States were passed, not to legalize racing, not to authorize it, not to permit it, because it already existed; it was already under way. But it was found in several States that the racing was corrupt, that it was crooked, and in some instances the same man who owned the track owned two or three stables of horses that were racing on the track, and he would also run a hand-book in the town at the same time.

There are persons who love racing as a sport. One can say that it has nothing to do with the standard of breeding, if he wants to, but anyone who says that does not know about the breeding of livestock and blooded stock in this country. Take what the King Ranch has done by importing Brahman cattle and adopting the same type of breeding practices in regard to Brahman cattle as was used to breed Stymie and Assault. The whole shape of beef cattle has been changed by breeding practices which have been adopted on farms which are not wholly horse farms but are also cattle farms and stock farms.

Mr. President, racing is a sport, it is a beautiful sport, and it cannot and should not be conducted in an illegal way. I have read from cover to cover some of the disclosures of the Kefauver committee. I was closely connected with racing for 14 years, and I never knew or heard of any of the people who are mixed up in this modern gangsterism. I never saw them at a race track; I never heard of their owning a horse; I never heard of their standing up and cheering in thunderous tones during a grueling stretch run at a race track and waiting to decorate some horse's neck with roses. They have nothing to do with the great sport that I know. It is a sport that has been in vogue far more than a hundred years. There was a time when Congress adjourned and went to see the Preakness.

As I have stated, the State governments have taken in taxes every single dollar they could get from racing, and, connected as I was with the National

Association of State Racing Commissioners, and with the Kentucky State Racing Commission, I helped them to do it. I drew the table that shows that \$100,000,000 was taken by State governments in taxes, and I know that the States took every single dime and every single dollar they could get.

California uses the tax money from racing to help the county fairs. Florida has used the money it receives from pari-mutuel taxes to match social security funds. This bill would drive this money to the bookmakers.

Mr. SMATHERS. Mr. President, will the Senator yield?

Mr. UNDERWOOD. Yes.

Mr. SMATHERS. As a matter of fact, the figures are as follows: Last year the State of Florida received \$14,984,000 from this tax, and \$8,264,000 of that amount was used for the old people of the State of Florida.

The VICE PRESIDENT. The time of the Senator from Kentucky has expired.

Mr. GEORGE. I yield the remainder of the time under my control to the senior Senator from Florida [Mr. HOLLAND].

Mr. HOLLAND. Mr. President, I assume that the distinguished Senator from North Dakota has offered his amendment in good faith, and that he means what he says when he takes the position that this tax would not be destructive of racing or of pari-mutuel wagering in those many States which in their own judgment have set up and legalized that system. Unfortunately the Senator has been misinformed on that fact, and I want that to be very clearly set forth in the RECORD.

In the first place, I want to tell the Senator and the Senate that out of the total amount wagered there is taken first the "take" of the tracks, and the pari-mutuel tax, which in my State amount altogether to between 15 and 16 percent.

In the next place, the Senator proposes to take an additional two percent by way of Federal tax on the total amount paid in to the pari-mutuels, which brings up the total reduction to an 18 percent slash of the entire amount.

Then the Senator proposes by his amendment to require a 20-percent withholding from that balance of the pool which is paid out to the winners at the end of the computation, which means, if the Senate will just think it through, that a 35-percent reduction, all told, would be made by the total amounts withheld each time a race is run.

I am asking the Senate how long it would take to dry up the whole amount that is being wagered at that sort of a pace. Of course, it is quite obvious that the industry could not continue. It is quite obvious that pari-mutuel racing would be doomed. It is quite obvious that those States who, in their own judgment, have set up parimutuel racing would find their right to do so completely negated by this measure, and this would be but another of that long chain of violations of State's rights and of refusal of the Federal Government to recognize the fact that a State has made, in many cases, an important part

of its financial structure out of this particular legislation.

Mr. JOHNSON of Colorado. Mr. President, will the Senator yield?

Mr. HOLLAND. Permit me to finish my remarks and then I shall be happy to yield.

I want to make it very clear, to start with, that this withholding tax plus the additional tax means about 35-percent reduction out of the total amount wagered each time there is a wager.

Mr. JOHNSON of Colorado. Mr. President, will the Senator yield on that point?

Mr. HOLLAND. If the Senator will allow me to complete my statement. I have but limited time.

The second point I should like to make is the fact that under the amendment, as set up here, this system would be completely destroyed, because of the record keeping that is required under this system. The Senator has amended his amendment now to provide that even on as small a pay-out as \$1 or \$2, or whatever it is, no matter how small, that in each case there must be a record taken of the name of the person who gets that pay-out, and in each case there must be a withholding tax of 20 percent; so it is quite obvious that the Senator from North Dakota, whether deliberately or not, has created a nuisance here which would by its very weight completely destroyed pari-mutuel wagering. There is not the slightest doubt about it, Mr. President and Senators. That will be the result of this set-up. Of course, whether it is designed to be so or not, the Senator from Florida cannot say, but the result of it would be certainly as I have stated.

Mr. President, this business of having your candy and your nickel too, is something which just does not exist. Those States which have this system set up generally make it a county option affair. Many counties have declined the responsibility of operating race tracks, because they know that they have, in connection with such an operation, very heavy problems of policing and other problems of that kind. It would simply be the case that in such a matter, by such a tax, we would pretend to let something go on which could not go on, and we would simply destroy both the local option of the counties and the disposition of the State to permit racing in those counties which want it, and we would permit the destruction of important sources of State revenue.

Mr. President, there is not any doubt that this is the case. Speaking both for myself and for my distinguished colleague, we want to say that we protest against anything which destroys an important source of revenue in our own State or in any other State—and there are several States that get more revenue out of pari-mutuel racing than we do. We protest against further interference on the part of the Federal Government, through the setting up of nuisance legislation, and that is all that this is, which will destroy the right and privilege of a State to resort to this particular form of taxation if it cares to do so.

I remind the Senate likewise that the Senate has already expressed its judgment on this matter by adopting the amendment proposed by the committee yesterday, which specifically exempts and excludes legalized pari-mutuel racing in several States from the operation of that particular so-called antigambling amendment.

Mr. President, this is the resort, a second time, to this forum for an expression upon a subject which the Senate has already passed upon, and passed upon in no uncertain terms.

Mr. President, it is just the fact, and there is no way to deny it, that the imposition of this tax is simply a destruction of something which has been set up by the sovereign will and undergo the sovereign discretion of various States, and which in those particular States does now contribute substantially to the revenue of those States, and it seems to the Senators from Florida, this would be direct interference and direct destruction of State taxation as well as of other important State's rights.

I now yield to the Senator from Colorado.

Mr. JOHNSON of Colorado. I simply wanted to keep the record straight with respect to the withholding feature. The withholding tax is only applicable to the winner. It is not a tax on everyone who makes a bet. The 2 percent is applied on any bet that is won.

Mr. HOLLAND. Exactly. And the point is that that withholding of 20 percent covers the whole of the pool, every bit of the pool, except the percentage which is held out to pay the tracks and pay the State, and there is not a question of doubt about it.

Mr. JOHNSON of Colorado. We withhold 20 percent of the wages of everybody, do we not?

Mr. HOLLAND. The Senator is overlooking a fundamental thing to which I address his attention. When a man receives wages he is getting income. When men come in and bet as a group they lose, because the State government and the local track take out of the whole pool some 15 or 16 percent, and what is left really operates as a net loss to the entire group of people who are foolish enough—and I am not one of those who is foolish enough—to wager money in pari-mutuel betting. But there is not the slightest doubt that if the Federal Government wanted to be fair, it would have to recognize losses as well as gains, and would have to face the fact, which is an undoubted fact, that the losses are greater to the average individual who is foolish enough to play this game, than the average winnings, because each time a bet is made a certain amount is taken out by the track and by the State.

The VICE PRESIDENT. The time of the Senator from Florida has expired.

Mr. HOLLAND. Mr. President, I intended to yield to my colleague, but yielded instead to the Senator from Colorado.

The VICE PRESIDENT. The time of the Senator from Florida has expired. He cannot yield unless he is granted time by the Senator from North Dakota.

Mr. HOLLAND. Mr. President, will the Senator from North Dakota yield to me so I may yield to my colleague for a question?

Mr. LANGER. Mr. President, I regret that I cannot yield any substantial time to the senior Senator from Florida. I have only 3 minutes myself. However, I yield 5 seconds to the junior Senator from Florida.

Mr. SMATHERS. Mr. President, I wish to say, in support of my colleague's argument, that racing can be destroyed by taxation, as evidenced by the fact that the New York legislature, this last year, passed a law reducing the amount of the State take, in realization that they were destroying this activity which supplies them with so much money.

The VICE PRESIDENT. The 5 seconds allotted the Senator have expired.

The Senator from North Dakota has 2 minutes remaining.

Mr. LANGER. Mr. President, on the question of States' rights, at the present time the State collects an income tax and the Federal Government collects an income tax. There was a time when it was thought that the income tax belonged to the State alone. The same thing is true of the gasoline taxes.

What we are trying to do by the amendment is to see to it that the operators of one business, a business conducted by racketeers, crooks, and thieves, keep books. There is no reason why they should not.

Mr. UNDERWOOD. Mr. President—

Mr. LANGER. Some of my colleagues have been yelling their heads off because they wanted revenue and more revenue. I want the RECORD to show that when I asked for the yeas and nays only five Senators held up their hands, namely, the Senator from Vermont [Mr. AIKEN], the Senator from West Virginia [Mr. NEELY], the Senator from Colorado [Mr. JOHNSON], the Senator from Connecticut [Mr. McMAHON], and myself.

Mr. CASE. Mr. President, the Senator did not look behind him.

Mr. LANGER. If the Senator from South Dakota held up his hand, I certainly want to include him.

The VICE PRESIDENT. The time of the Senator from North Dakota has expired. All time has expired.

The question is on agreeing to the amendment offered by the Senator from North Dakota [Mr. LANGER].

The amendment of Mr. LANGER was, on page 87, after line 18, to insert the following:

SUBCHAPTER D—PARI-MUTUEL PAYMENTS

SEC. 1240. Definition of pari-mutuel payment.

As used in this chapter the term "pari-mutuel payment" means any payment made by a pari-mutuel wagering enterprise on a wager placed with, or on a wager placed in, a wagering pool conducted by a pari-mutuel wagering enterprise.

SEC. 1241. Income tax collected at source.

(a) Requirement of withholding: Every person making a pari-mutuel payment after December 31, 1951, shall deduct and withhold upon such payment a tax equal to 20 percent of the amount thereof. If the withholding agent is unable to determine the person to whom such payment is due, such tax shall be deducted and withheld at the time

such payment would be made if such person were known.

(b) Liability for tax: The withholding agent shall be liable for the payment of the tax required to be deducted and withheld under this subchapter, and shall not be liable to any person for the amount of any such payment.

(c) Credit for tax withheld: For credit, against the income tax of the recipient of the income, of amounts deducted and withheld under this subchapter, see section 35.

SEC. 1242. Rates and payment.

(a) In general: Every person required under this subchapter to deduct and withhold any tax shall make a return of such tax and shall pay such tax at such time, for such period, and in such manner as the Secretary may by regulations prescribe, by making a return of the total amount of pari-mutuel payments with respect to which tax is required to be deducted and withheld by such person under this subchapter for such period and paying a tax in an amount equal to 20 percent of such total amount.

(b) Adjustment of tax: If more or less than the correct amount of tax due for any period under subsection (a) is paid with respect to such period, proper adjustments with respect to the tax shall be made, without interest, in such manner and at such times as may be prescribed by regulations made under this subchapter.

On page 50, line 4, strike out "and royalties" and insert in lieu thereof "royalties, and pari-mutuel payments."

On page 50, line 8, strike out "or interest" and insert in lieu thereof a comma and "interest, or pari-mutuel payment."

On page 50, line 13, insert "pari-mutuel payment," after "interest."

On page 59, line 22, insert "or D" after "subchapter A."

On page 61, line 13, strike out "and royalties" and insert in lieu thereof "royalties, and pari-mutuel payments."

On page 62, lines 20 and 21, strike out "or 1221" and insert in lieu thereof "1221, or 1241."

On page 124, line 6, insert before the period a comma and the following: "except that wagers placed with, or wagers placed in a wagering pool conducted by, a pari-mutuel wagering enterprise licensed under State law shall be taxed at a rate of 2 percent of the amount thereof."

On page 125, line 16, strike out all beginning with "(1)" through "(2)" in line 19.

On page 127, line 25, insert after "person" a comma and "other than a pari-mutuel wagering enterprise licensed under State law."

Mr. LANGER. Mr. President, I ask for a division. I could not obtain the yeas and nays.

On a division, the amendment was rejected.

MESSAGES FROM THE PRESIDENT— APPROVAL OF BILLS

Messages in writing from the President of the United States were communicated to the Senate by Mr. Miller, one of his secretaries, and he announced that the President had approved and signed the following acts:

On September 27, 1951:

S. 47. An act for the relief of Madeleine Quarez;

S. 501. An act for the relief of Willem Houwink;

S. 520. An act for the relief of Wilma M. Stiehl;

S. 1425. An act for the relief of Mrs. Okuni Kobayashi; and

S. 1562. An act for the relief of Harvey Marden.

On September 28, 1951:

S. 76. An act for the relief of Herbert H. Heller;

S. 426. An act for the relief of Teruko Okuaki;

S. 1028. An act for the relief of Mrs. Lou Wong Shong Ngan;

S. 1107. An act for the relief of I. N. Norman; and

S. 1504. An act for the relief of Valmal Eileen Mackenzie.

MESSAGE FROM THE HOUSE

A message from the House of Representatives, by Mr. Maurer, one of its reading clerks, announced that the House had agreed to House Resolution 441, as follows:

IN THE HOUSE OF REPRESENTATIVES, U. S.,

September 27, 1951,

Resolved, That the language published in the CONGRESSIONAL RECORD on Wednesday, September 26, 1951, on page 12377, in the report of an address to the Senate by the Senator from Michigan, Mr. MOORE, is improper, unparliamentary, and a reflection on the character of a Member of the House, the gentleman from Michigan, Mr. MEADER, and constitutes a breach of privileges and is calculated to create unfriendly relations and conditions between the House of Representatives and the Senate: Therefore be it

Resolved, That a copy of this resolution be transmitted to the Senate and that the Senate be requested to take appropriate action concerning the subject.

TRANSACTION OF ROUTINE BUSINESS

By unanimous consent, the following routine business was transacted:

CONSERVATION OF WATER AND RELATED NATURAL RESOURCES OF ALASKA

The VICE PRESIDENT laid before the Senate a letter from the Assistant Secretary of the Interior, transmitting a draft of proposed legislation to authorize the Secretary of the Interior to investigate and report to the Congress on the conservation, development, and utilization of the water and related natural resources of Alaska, which, with the accompanying paper, was referred to the Committee on Interior and Insular Affairs.

PETITION

The VICE PRESIDENT laid before the Senate a resolution adopted by the board of directors of the Property Owners' Federation of Puerto Rico, at San Juan, P. R., relating to certain charges against the Governor and government of Puerto Rico, which was referred to the Committee on Interior and Insular Affairs.

WILLIAM N. OATIS—RESOLUTION OF FRATERNAL ORDER OF EAGLES, SOUTH MILWAUKEE, WIS.

Mr. WILEY. Mr. President, the American people have been tremendously aroused by the brutal imprisonment of Associated Press Correspondent William N. Oatis. The American Congress has already spoken on this issue. Neither we, however, nor 154,000,000 Americans will be satisfied until Bill Oatis is free.

As an expression of the sentiment in the grass roots of our country, I send to

the desk a resolution which has been sent to me by numerous aeries of the Fraternal Order of Eagles in my State. This resolution addresses itself not only to the Oatis case but to the related problem of the freedoms which are allowed the Soviet news agency, Tass—freedoms which the Senate and House Press Galleries have voted to maintain intact, incidentally.

I ask unanimous consent that this particular resolution as forwarded to me by the South Milwaukee, Wis., Aerie, No. 1461 be printed in the RECORD and appropriately referred.

There being no objection, the resolution was referred to the Committee on Foreign Relations, and ordered to be printed in the RECORD, as follows:

RESOLUTION ON WILLIAM N. OATIS

Whereas William N. Oatis, Associated Press bureau chief in Prague, Czechoslovakia, a free newspaperman who was performing his duties according to the standards and criteria of the free press of the world, was brutally snatched and imprisoned by the Communist Government of Czechoslovakia without explanation; and

Whereas Mr. Oatis was arrested and held in detention without access to friend, Embassy representative, or trusted legal counsel; and

Whereas he was brought to trial and accused of "insisting on obtaining accurate, correct, and verified information," which is the definition of the work of a free press; and

Whereas he was forced into admission of espionage because of his reporter's instinct for presenting the factual rather than the fictional; and

Whereas he was convicted and sentenced to 10 years of imprisonment by a trial which was universally condemned by all free nations as an outrageous kangaroo court, completely bereft of the principles of justice and the dignity of the human being; and

Whereas by its action, the Communist-dominated Czech Government showed its scorn for the principle of freedom of information and its hatred for our free world; and

Whereas representatives of the Soviet news agency Tass have the free run of the United States of America, and are permitted to attend press conferences at our national seat of government, at which often much off-the-record information is discussed: Now, therefore, be it

Resolved, That South Milwaukee Aerie, No. 1461, of the Fraternal Order of Eagles urges the Federal Government and its agencies to be unceasing in its efforts to secure the freedom of Mr. Oatis by honorable means, and we also offer our support and the vitality of our membership to the executives of the Associated Press in their campaign to secure the release of Mr. Oatis by the communication of the true facts of the case to the free peoples of the world; and be it further

Resolved, That Aerie, No. 1461, of the Fraternal Order of Eagles urges the Federal Government to bar the correspondents from the Soviet news agency Tass as well as all satellite nation correspondents from official government press conferences where vital information may be revealed until the release of Mr. Oatis has been secured.

Adopted this 13th day of September 1951.

Attest:

THEODORE H. KIECK,
Worthy President.
WILLIAM MEYER,
Secretary.

LIBERATION OF POLAND—RESOLUTION

Mr. SMITH of New Jersey. Mr. President, at a recent mass meeting held in

Passaic, N. J., and sponsored by the Central of Polish Organizations, a resolution was adopted which I would like to call to the particular attention of my colleagues in the Senate.

I know that we have all been concerned over the plight of the people of Poland and the situation they are faced with today. This resolution calls attention to the fact that Americans of Polish descent realize that the Polish nation is not governed by representatives of its own choosing but is controlled directly by Moscow.

We all look forward to the day when the people of Poland will be liberated from Communist control and will once again join the other free nations of the world.

I ask unanimous consent that the resolution be appropriately referred and printed in the body of the RECORD in connection with these remarks.

There being no objection, the resolution was referred to the Committee on Foreign Relations, and ordered to be printed in the RECORD, as follows:

At a mass meeting held on September 9, 1951, held at Polish Peoples Home, 1-3 Monroe Street, Passaic, N. J., and sponsored by the Central of Polish Organizations, the following resolution was adopted:

Whereas the Central of Polish Organizations representing 47 societies in the city of Passaic and vicinity, including both Passaic and Bergen Counties and representing over 20,000 Americans of Polish descent are annually calling a mass meeting to mark the wanton attack of Nazi Germany and subsequently the attack of Communist Russia upon the freedom-loving nation of Poland, to call to the attention of the American Nation and all other liberty-loving nations of the world the fact that the people of Poland despise and hate any form of communism and fascism; and

Whereas the Americans of Polish descent realize and know that the Polish nation is not governed by representatives of its own choosing; that it is governed by the puppets of Moscow and controlled entirely by the rulings of Moscow; and

Whereas it is the purpose of this meeting to call this fact to the attention of the American people so that the acts of the puppets foisted upon the Polish people by Moscow should never be accepted as the willful acts of the Polish people, and that the words spoken by the so-called Polish delegates to the conference concerning the signing of the Japanese Treaty should not be taken or adopted as the words of the Polish people and the Polish nation; and

Whereas the Polish people were the first nation to feel the destructive and ravaging forces of Nazi Germany and Communist Russia in defense of freedom; Now, therefore, it is resolved as follows:

We here assembled, and on behalf of over 20,000 Americans of Polish descent do hereby pay heart-felt tribute to the Polish Nation and to the Polish people on the occasion of the twelfth anniversary of the iniquitous ravaging and destructive attack upon the Polish nation by the Nazi and Communist hordes, for their heroic resistance against their Communist masters and against all kinds of aggression against freedom-loving peoples.

We join today with the soldiers of all democratic nations fighting in Korea in defense of freedom in the face of the shameful aggression of the Communists. We join with others in the ranks of those organizations who are fighting communism in America.

We express our sincere thanks to the Members of the Congress of the United States of America who brought to the attention of the Congress the necessity for an investigation concerning the murder of thousands of Polish officers at Katyn. We give our thanks to the Polish-American Congress in rendering invaluable assistance in the investigation of the murder at Katyn. We thank the American press and radio for bringing to the attention of the American people the wanton murder of the thousands of officers at Katyn. We render sincere thanks to the Swedish nation for generously giving political asylum to the Polish mariners who were seeking freedom and who by such action showed that the Communist puppets controlling the Polish nation are attempting to destroy the dignity of man by enslaving the peoples of Poland.

We join with the Polish-American Congress, with the Polish Government in exile in London and with all other groups urging that the United States of America should not change or attempt to change the presently established western boundaries of Poland. We appeal to the American Congress to make further provisions to permit the entry into this country of all those soldiers who fought for the freedom of Poland and other nations during World War II. We appeal to the American Nation and to the United Nations Organization and to the American people as a whole not to recognize the present Communist leadership of Poland as the leadership that represents the Polish people.

We express our sincere thanks to the Polish American Congress, the Committee on American Relief for Poland and to the Polish Immigration Committee for the assistance given to the displaced persons of Poland. We condemn the sending of Polish soldiers to Korea, to China, or to any other place to do the dirty work of aggression of their Communist masters. We call upon the Americans of Polish descent to fight as they always have in the defense of our country against communism or any other aggressor. We appeal to them to increase their purchases of United States Defense Bonds. We pledge our every effort as Americans to fight for the liberation of the Polish nation from the bonds of Communistic control and to correct the shameful agreements of Yalta and Tehran.

We rededicate ourselves and our every effort in behalf of this wonderful country of America and pledge the efforts and the blood of our families in defense of our country.

And it is further resolved that a copy of this resolution be forwarded to Secretary of State Dean Acheson, to the Swedish Government, to the United States Senators SMITH and HENDRICKSON, and to Congressmen CANFIELD, TOWE, and WIDNALL.

COMMITTEE ON RESOLUTIONS,

By MANFIELD G. AMLICKE, *Chairman*.

FEDERAL, STATE, AND CITY RELATIONS IN FIELD OF TAXATION—RESOLUTION OF CITY COUNCIL OF MINNEAPOLIS, MINN.

Mr. HUMPHREY. Mr. President, I present for appropriate reference and ask unanimous consent that a resolution adopted by the City Council of the City of Minneapolis, Minn., at a meeting held September 14, 1951, endorsing S. 1146, relating to the establishment of a commission to review Federal, State, and city relations in the field of taxation, now pending in the Senate, be printed in the RECORD.

There being no objection, the resolution was referred to the Committee on Finance, and ordered to be printed in the RECORD, as follows:

Resolution endorsing S. 1146 now pending in the United States Senate relating to the establishment of a commission to review Federal, State, and city relations in the field of taxation

Whereas the city of Minneapolis is confronted with difficulty in financing governmental costs connected with public welfare, public sanitation, public health and public convenience because financial resources of the city are limited mainly to general property taxes, and

Whereas the present trends of increased costs aggravate such financial difficulty, and

Whereas the Federal Government and the State government have entered into fields of taxation other than taxes on general property which restrict the availability of nonproperty tax resources to the city government, and

Whereas the United States Senate passed S. 1146, a bill having to do with a study of Federal, State, and city relations in the field of taxation, but subsequent to passage recalled the bill to the Senate: Now, therefore, be it

Resolved by the City Council of the City of Minneapolis, That the City Council of the City of Minneapolis endorse the proposal to undertake a review of Federal, State, and city relations in the field of taxation; be it further

Resolved, That the city council request the Representatives from Minnesota in the Congress of the United States to exert every effort to secure passage of legislation similar to S. 1146; be it further

Resolved, That a copy of this resolution be transmitted to the Representatives from Minnesota in the Congress of the United States.

Passed September 14, 1951.

STANLEY ANDERSON,

President of the Council.

Approved September 17, 1951.

ERIC G. HOYER,

Mayor.

Attest:

ARLENE R. FINKLE,

City Clerk.

REPORTS OF COMMITTEES

The following reports of committees were submitted:

By Mr. PASTORE, from the Committee on Post Office and Civil Service:

S. 354. A bill to amend Public Law 106, Seventy-ninth Congress, with regard to compensation for overtime and holiday employment; with amendments (Rept. No. 843).

By Mr. LONG, from the Committee on Interior and Insular Affairs:

H. R. 5102. A bill to authorize the Secretary of the Navy to enlarge existing water-supply facilities for the San Diego, Calif., area in order to insure the existence of an adequate water supply for naval and Marine Corps installations and defense production plants in such area; with amendments (Rept. No. 844).

CONSOLIDATED GENERAL APPROPRIATION BILL—INDIVIDUAL VIEWS

Mr. LODGE. Mr. President, on behalf of the Senator from Nebraska [Mr. WHERRY], from the Committee on Rules and Administration, I report favorably, without amendment, the concurrent resolution (S. Con. Res. 27) providing for a consolidated general appropriation bill for each fiscal year, and I submit a report (No. 842) thereon.

Mr. HAYDEN. Mr. President, I submit my individual views on the concurrent resolution (S. Con. Res. 27), just reported by the Senator from Massa-

achusetts [Mr. LODGE] for the Senator from Nebraska [Mr. WHERRY], and I ask unanimous consent that my views be included in the report of the committee.

The VICE PRESIDENT. The report of the committee will be received, and the concurrent resolution will be placed on the calendar; and, without objection, the individual views of the Senator from Arizona will be included in the report.

SLAUGHTER QUOTAS AND ALLOCATIONS OF LIVESTOCK—AUTHORITY TO SUBMIT INDIVIDUAL VIEWS

Mr. MAYBANK. Mr. President, I ask unanimous consent that the Senator from Kansas [Mr. SCHOEPPEL] be permitted to submit his individual views during the recess of the Senate on the bill (S. 2180) to provide for slaughter quotas and allocations of livestock, and that they be included in Senate Report No. 840.

The VICE PRESIDENT. Is there objection to the request of the Senator from South Carolina? The Chair hears none, and it is so ordered.

BILLS INTRODUCED

Bills were introduced, read the first time, and, by unanimous consent, the second time, and referred as follows:

By Mr. DIRKSEN:

S. 2189. A bill for the relief of Demetrios A. Kritsas; to the Committee on the Judiciary.

By Mr. BRICKER (for himself, Mr. CAPEHART, and Mr. FERGUSON):

S. 2190. A bill to prohibit unreasonable suppression of information by the Executive Branch of the Government; to the Committee on Expenditures in the Executive Departments.

(See the remarks of Mr. BRICKER when he introduced the above bill, which appear under a separate heading.)

By Mr. KNOWLAND:

S. 2191. A bill for the relief of Marguarete Emelianoff; to the Committee on the Judiciary.

PROHIBITION OF SUPPRESSION OF INFORMATION BY EXECUTIVE BRANCH

Mr. BRICKER. Mr. President, on behalf of myself, the Senator from Indiana [Mr. CAPEHART], and the Senator from Michigan [Mr. FERGUSON], I introduce for appropriate reference a bill providing for the repeal of Executive Order No. 10290, dated September 24, 1951, which is the President's so-called censorship order on the various executive departments.

The VICE PRESIDENT. The bill will be received and appropriately referred.

The bill (S. 2190) to prohibit unreasonable suppression of information by the executive branch of the Government, introduced by Mr. BRICKER, was read twice by its title, and referred to the Committee on Expenditures in the Executive Departments.

EXECUTIVE MESSAGES REFERRED

As in executive session,

The VICE PRESIDENT laid before the Senate messages from the President of the United States submitting sundry nominations, which were referred to the appropriate committees.

(For nominations this day received, see the end of Senate proceedings.)

ADDRESSES, EDITORIALS, ARTICLES, ETC., PRINTED IN THE APPENDIX

On request, and by unanimous consent, addresses, editorials, articles, etc., were ordered to be printed in the Appendix, as follows:

By Mr. THYE:

Address delivered by himself at the Turkey Day Festival in Worthington, Minn., on September 26, 1951, regarding individual initiative of American citizens.

By Mr. LODGE:

Editorial entitled "The Willson Era," published in the Worcester (Mass.) Republican of September 23, 1951, dealing with President Willson's efforts to secure the entry of the United States into the League of Nations.

EMIL RIEVE—TESTIMONIAL MESSAGE OF SENATOR DOUGLAS

Mr. DOUGLAS. Mr. President, I ask unanimous consent to have printed in the RECORD a brief testimonial message I have today sent to the chairman of the dinner meeting in Boston Saturday evening honoring Emil Rieve, president of the Textile Workers' Union of America, who with the members of his union has made an outstanding record of service to the labor movement and to his country and well deserves the tributes that will be accorded him tomorrow.

There being no objection, the message was ordered to be printed in the RECORD, as follows:

SEPTEMBER 28, 1951.

Chairman, Testimonial Dinner to EMIL RIEVE, Hotel Bradford, Boston, Mass.:

I want to join the many friends of Emil Rieve in paying tribute to the fine service he has rendered to his own union, the labor movement, and to his country.

Faced with unusual obstacles, he and his associates in the leadership of the Textile Workers' Union of America have organized a great and growing union which has won impressive gains in wages and working conditions for its members. This has been of benefit, not only to the union men and women, but also to the communities in which they live. The resulting improvements in employer-employee relationships have advanced the development of free collective bargaining and the stabilization of industrial relations in this country.

The contribution of Mr. Rieve and your union to other forward-looking programs affecting human welfare are also well known. In educational work, civil rights, economic policy, and international activity to stop Communist aggression, the union under his leadership has made an impressive record. His own personal service in high Government posts has likewise won well-merited acclaim and the confidence of many here in Washington. I am glad, therefore, to send heartiest congratulations to Mr. Rieve on the occasion of the testimonial dinner to him in Boston on September 29 and to send my best wishes to him and to the union for many more years of distinguished service.

PAUL H. DOUGLAS,
United States Senator.

REVENUE ACT OF 1951

The Senate resumed the consideration of the bill (H. R. 4473) to provide revenue, and for other purposes.

Mr. HUMPHREY. Mr. President, I call up my amendment designated 9-24-51-D.

The VICE PRESIDENT. The amendment offered by the Senator from Minnesota for himself and other Senators will be stated.

The CHIEF CLERK. Beginning on page 160, at line 14, it is proposed to strike out all through line 2 on page 163, and insert in lieu thereof the following:

SEC. 319. Percentage depletion and intangible drilling and development costs.

(a) Reduction in percentage depletion for oil and gas: Section 114 (b) (3) (relating to percentage depletion for oil and gas wells) is hereby amended to read as follows:

"(3) Percentage depletion for oil and gas wells: In the case of oil and gas wells the allowance for depletion under section 23 (m) shall be 15 percent of the gross income from the property during the taxable year, excluding from such gross income an amount equal to any rents or royalties paid or incurred by the taxpayer in respect of the property, and the intangible drilling and development deduction determined under subsection (c) of this section. Such allowance shall not exceed 50 percent of the net income of the taxpayer (computed without allowance for depletion) from the property, except that in no case shall the depletion allowance under section 23 (m) be less than it would be if computed without reference to this paragraph."

(b) Reduction in percentage depletion for sulfur and nonmetallic minerals: The first sentence of section 114 (b) (4) (A) (relating to percentage depletion for coal, etc.) is hereby amended to read as follows: "The allowance for depletion under section 23 (m) shall be, in the case of metal mines and in the case of sulfur mines or deposits, 15 percent, and in the case of coal mines, bauxite, fluorspar, flake graphite, vermiculite, beryl, feldspar, mica, talc (including pyrophyllite), lepidolite, spodumene, barite, ball, sagger, and china clay, phosphate rock, rock asphalt mines, trona, bentonite, gilsonite, the nardite (from brines or mixtures of brine), and potash mines or deposits, 5 percent, of the gross income from the property during the taxable year, excluding from such gross income an amount equal to any rents or royalties paid or incurred by the taxpayer in respect of the property."

(c) Effective date: The amendments made by this section shall be applicable only with respect to taxable years beginning after December 31, 1951.

The VICE PRESIDENT. The Senator from Minnesota has an hour and a half in support of the amendment, and the Senator from Georgia [Mr. GEORGE] has an hour and a half in opposition.

Mr. HUMPHREY. Mr. President, the amendment which I am about to discuss is commonly known for the purposes of this debate as the depletion-allowance amendment. The amendment is divided, as the clerk stated it, into two specific provisions. One relates to percentage depletion for oil and gas wells. The second is percentage depletion for sulfur and nonmetallic minerals.

Mr. President, the suggestions which I am about to make in reference to this amendment are suggestions which have been recommended by the Department of the Treasury and suggestions which have been proposed by the President in special messages to the Congress in reference to the whole tax program as it pertains to depletion allowances.

I wish to say at the outset that I recognize that this is a very complex, intricate part of the tax bill. It has grown more or less like Topsy, and therefore it is not easy to trace it all the way through the Internal Revenue Code. However, I

shall try to point out what I consider to be the issue in reference to depletion allowances.

I think the issue can be fairly stated. It is whether or not depletion allowances are necessary as a so-called incentive, and whether or not the depletion allowances are extravagant in terms of the tax benefits which they confer upon a limited number of people. I think that is the way we ought to discuss this amendment, and that we ought to make our decision on the basis of tax equities.

Furthermore, I wish to warn the Senate—not in the usual harsh sense of the word “warn” but in the sense of kindly, thoughtful suggestion—that we are raising the earned income-tax rates substantially. The earned-income tax rates will be raised on every individual with a taxable income. We are raising the corporate tax rates substantially—an additional 5 percent. We raised them 5 percent last year. In other words, not only American business enterprises, but also the average citizens with earned income, are paying substantially higher taxes today than they paid last year or 2 years ago. The new bill which we now have before us will bring those rates up relatively near the wartime peaks.

First, I wish to direct my attention to depletion allowances as they pertain to gas and oil. It is my desire during this discussion to continue to preserve continuity, and, therefore, until I have completed that which I have prepared, I do not intend to yield for purposes of interrogation. At the conclusion of the remarks which I have carefully prepared, I shall be more than happy to yield for whatever interrogation any Member of the Senate may wish to offer.

In 1894, when a pioneering income-tax law was under consideration, the report of the House Committee on Ways and Means included the following statement:

Here we have a “Government of the people, by the people, and for the people.” We boast that our motto is “Equal rights to all, and special privileges to none.” Here we claim that the burdens of government ought to be borne in proportion to the ability of each citizen who is protected by it. Yet under our peculiar system, there are citizens of great wealth, who * * * pay little more to the support of the Government than is paid by the day laborer, who has nothing. (House Report No. 276, 53d Cong., 2d sess., p. 5.)

It is my intention not only to buttress this statement by general observations, but to show how, under the depletion allowances permitted in the present tax laws, this statement, which was made in 1894, continues to be verified, for those with fabulous wealth are actually paying, percentage-wise on their income, as little as is paid by a taxpayer in the lowest tax bracket under our present law or under the proposed amendments to the present law.

I call these words to the attention of the Senate for two reasons: First, because in spite of the great improvements in our tax system since 1894, the statement remains true; and, second, because I should like to remind Senators that the entire history of our tax legislation, like that of our Government, is a history of

expanding democracy. Since the beginning of our country, there have been groups who fought to gain or retain inequitable privileges, and there have been Congresses with the moral strength and integrity to withstand the pressures of special-interest groups and distribute the burdens of Government equitably. We have made enormous progress in the development of a democratic tax system. Yet today, as 50 years ago, it remains true that “there are citizens of great wealth who pay little more to the support of Government than is paid by the day laborer.”

Is that an exaggerated statement? No. To document it, let me quote an instance cited recently by the President. At the time of my original presentation of the analysis of the tax bill I said that the President quoted from records of the Bureau of Internal Revenue. I asked the Bureau of Internal Revenue to give me those records. I have them with me today, and I shall introduce them in evidence in support of this statement. This is what the President said:

During 5 years, 1943-47, when it was necessary to collect an income tax from people earning less than \$20 a week, one oil operator was able * * * to develop properties yielding nearly \$5,000,000 in a single year without payment of any income tax.

There are loopholes—broad, gaping loopholes—in our tax laws. They are loopholes which make it possible for certain categories of individuals and corporations to escape taxation on a large portion of their income. In themselves these loopholes are reprehensible. In the present situation, when we need revenue so badly that we are about to tax the man who makes not even \$20, but only 12 pitiful dollars a week, they are unforgivable.

The specific avenue of escape from taxation which I wish to talk about is embodied in the tax provision under the title of “percentage depletion allowances.” These special allowances are available to oil companies, oil-well owners, and, to a lesser degree, the owners of other mineral properties.

The provisions relating to percentage depletion are among the most complicated in our tax law. But it is necessary to probe these complexities, and the other complicated tax provisions applying to mineral properties, if we are to comprehend fully the drastic need for the revision of these laws.

The official theory behind the percentage-depletion allowances is that oil wells and other mineral properties are exhausted in the process of producing them, that this exhaustion constitutes a depletion of capital, and that to tax all the income derived from the property would in fact be to tax capital. Therefore the present income-tax law recognizes this exhaustion of assets as a deductible cost in the determination of net taxable income.

I desire to make it crystal clear that I am not now asking for the abolition of the percentage depletion allowance. I am asking for an adjustment of the rates of the percentage depletion. We are not now asking for the abolition of the principle, or even for a sizable cut of the percentage depletion.

Mr. KERR. Mr. President, will the Senator yield?

Mr. HUMPHREY. I am sorry, but I cannot yield at this point.

Mr. KERR. For just a minute.

Mr. HUMPHREY. As I said before—

Mr. KERR. One question.

Mr. HUMPHREY. As I said, I wanted to complete my statement first.

The VICE PRESIDENT. The Senator from Minnesota declines to yield.

Mr. HUMPHREY. I will come back to the Senator from Oklahoma, if he will make a note of it.

Mr. KERR. The Senator from Minnesota has not left me yet.

Mr. HUMPHREY. I know that this debate will be very interesting. As I left my home this morning I told my wife, “Take a good look at this furrowed brow, because when I return this evening it will be bloody.”

I know what is in store today. I am flanked on my right and on my left by two distinguished and capable Members of this body, who are very powerful orators and who know all the tricks of oratory, and they are indeed very articulate. So this will be a very interesting 3 hours. I do not know whether I will come away from the debate refreshed. Certainly it will be very interesting.

We will now move out into the fray. I see further trouble before me in the form of the distinguished Senator from West Virginia [Mr. NEELY]. I had hoped that this would never come about; but good men do find it necessary on occasion to cross swords, and I welcome my good friend from West Virginia to the fray.

I hope this will be understood in the spirit in which it is stated. We have heard many comments about pork-barrel legislation every time we have discussed appropriations for rivers and harbors. I have not usually joined in the epithets; but if there is such a thing as pork-barrel legislation—and there has been a good deal said about it—perhaps the subject of the debate in which we are about to engage should be referred to as oil-barrel legislation. As somebody said to me, “Not only that, Senator, but we will be cooking with gas with a 27½ percent depletion allowance every time we light up the burner.”

Now to proceed.

Under the present law, the amount of percentage depletion bears no relation to the capital cost of the property, but only to the income. The rates of percentage depletion under our present laws range from as high as 27½ percent of gross income in the case of petroleum to as low as 5 percent in the case of various other minerals such as bauxite, fluorspar, and potash. The pending bill would further expand these allowances.

The total deduction in all cases is limited to 50 percent of the net income from the particular property. Since the percentage depletion allowances are unrelated to the capital investment, the tax-free recoveries through percentage depletion are often many times the original investment. Other provisions of the tax law allow the full recovery of the real capital investment. Operating expenses,

including intangible drilling costs and development costs, such as labor, trucking, supplies, pumping, and so forth, are deductible as current expenses, or on the basis of "annual" or "adjusted-basis" depletion.

I may say to my good friend from West Virginia that this bill contains a little amendment which gives the same kind of intangible cost of exploration to coal mines. Coal has been out in the cold. With this little "gimmick" no one will have to worry. We will have percentage depletion for coal-mine exploration costs. Once the tax-avoidance device is opened, everyone gets into the act. People will always like to figure out how they can keep all the income they have or to pay as little as possible by way of taxes. I might add that in the case of minerals, once the costs for exploration and development are deducted, they then have the same deduction upon future depletion allowances. But not in the case of gas and oil.

The deduction of costs in no way affects the future percentage depletion allowance, and the result is, as Secretary Snyder has said, "a double deduction for recovery on the same capital investment."

More concretely, the result of the percentage depletion allowance is that many corporations and individuals, notably those engaged in the extraction and refining of petroleum and the manufacture of petroleum products, enjoy large nontaxable incomes. Last year the Treasury conducted an investigation on this subject, to determine the extent of tax evasion made possible by this special treatment. Some of the specific conclusions of that study are pertinent to this discussion. More significant was the fact that the total revenue cost for all corporations resulting from percentage depletion came to at least \$400,000,000 in 1947. I believe it is fair to estimate that it will be three-quarters of a billion dollars in 1951 under current prices and current production.

Let us now bring out the facts as to the size of these corporations, because they are of all sizes—there are the healthy, the weak, the meek, the emaciated and the well fed—but despite all that 80 percent of all the depletion allowances go to corporations. I think it is fair to say that most of the 80 percent goes to corporations with \$100,000,000 of capital investment or more, not to the poor "stripper" and the small operator. I speak boldly as I look at my friends before me. In order to get all the facts before the Senate, I shall have to speak out sharply and critically and comprehensively, so that we can draw out the latent talent. I may say that I have seen more ability demonstrated on the tax bill in terms of the forensic art and logic, than we have had at any time in the past. That has been so despite the occasional cross words which have sputtered forth from time to time. Therefore, this should be an intellectual experience for all of us.

Since corporations account for approximately 80 percent of all depletion deductions, it is safe to say that in that year the Treasury was deprived of half

a billion dollars in income taxes, simply because the percentage depletion allowances create a privileged class of citizens who are not taxed on the same basis as the rest of the Nation.

The bulk of the benefit from this exemption went to the petroleum industry, which received 85.5 percent of the depletion allowances, as compared with 55 percent of the gross income for all corporations included in the survey. It was further discovered—and I ask Senators to note this point carefully—that more than 70 percent of these allowances went to concerns whose primary business was manufacturing, not exploration and extraction. I emphasize that point, Mr. President.

So let us pin that down right now; let us understand clearly that depletion allowances have no direct relationship to exploration and extraction, inasmuch as more than 70 percent of depletion allowances have gone to concerns whose primary business is manufacturing or processing.

One may well wonder and ask how such a provision came into our tax law. Actually, there have been percentage depletion allowances on mineral properties for as long as there have been income-tax laws. Before 1918 they were negligible. In that year, when the First World War made it necessary to stimulate the production of strategic materials, the system of discovery depletion allowances was enacted.

Under the discovery depletion system, the owner of a mineral property was allowed to recover, tax free, not only his costs, but also the appreciated value of his property, as estimated at the time of discovery.

In other words, that is a kind of depreciation. Of course, a man is able to have the benefit of depreciation in the case of a building which he owns, or a farmer enjoys the benefit of a depreciation allowance or deduction in the case of his farm buildings. That is handled on the basis of a regular depreciation schedule. However, in the case of the system of discovery-depletion allowances, the operator was able to recover, tax free, his exploration and intangible drilling costs in the case of oil, and his exploration costs in the case of mining. The purpose was to encourage those who were supposed to be looking for new pools of oil.

So, Mr. President, under the discovery-depletion system, the owner of a mineral property was allowed to recover, tax-free, not only his costs, but also the appreciated value of his property as estimated at the time of discovery.

By 1926, however, discovery depletion had proved completely unworkable. It was too difficult to ascertain in advance the amount and life of production and the market price of the product. In many cases the deduction under discovery depletion proved far in excess of the total income from the property. Therefore, in that year the present system of percentage depletion was devised.

Since that time, the conditions of the petroleum industry have radically changed. Since that time, the working of the law and the development of the

petroleum industry have amply demonstrated that if there ever was a need for the percentage-depletion system, the time of that need has long since passed. For more than 13 years the Treasury has pointed to the inequity in the tax treatment of mineral interests. For a similar length of time, Congress has turned a deaf ear.

I am well aware of the arguments which members of the petroleum industry, their spokesmen, and many of my distinguished colleagues in the Senate advance in favor of this special treatment. No unified, coherent argument is employed by these defenders of special position. Instead, they use rather a hodge-podge of different arguments. At one time it is claimed that mineral properties represent the creation of new capital. At another time it is claimed that great risk must be offset by great profits. At another time it is claimed that the independent producer would be put out of business by the abolition of the allowances, and that the entire petroleum industry would fall to the mammoth corporations. However, behind all these arguments is the real one, namely, the claim of one group to special privileges and special profits, authorized under the tax laws of the United States.

The defenders of the allowances maintain that the oil business involves risks so much greater than the risks involved in other businesses that special tax profits are necessary as an incentive to exploration.

Mr. President, I was privileged to be born and brought up in the great State of South Dakota. If ever there was an area where risks had to be taken, it was there. One had no more idea whether he would get a crop than he could tell whether he would be alive in the morning. For year after year there were no crops, and then in the next year a good crop might be made, but in the following year perhaps no crop would be made. Did any farmer get a percentage depletion allowance or any other special tax concessions because of that situation? After all, Mr. President, what is more important: Wheat to be used to feed the people, or petroleum? Of course both of them are important. If they are equally important, why do they not receive equal treatment? However, they do not receive equal treatment at all. If a farmer makes a good crop, he pays an income tax on his profits. He is allowed depreciation on his farm buildings. However, does he get a depletion allowance for his soil? The soil, too, can be used up. In fact, all over America we see the evidence of the ravages of soil deterioration. Many areas in this country have been virtually destroyed as a result. It is said that the Gobi Desert in China was at one time a fertile garden.

Mr. FREAR. Mr. President, will the Senator yield?

Mr. HUMPHREY. Mr. President, I stated that I shall not yield during my remarks.

Mr. FREAR. I am sorry.

Mr. HUMPHREY. But I shall yield not too long from now.

Likewise, Mr. President, there is no depletion allowance for a farmer who plants a flax crop; yet flax drains the fertility of the soil. No depletion allowance is given to a farmer who plants cotton; yet cotton drains the fertility of the soil. The same can be said of one crop after another.

The farmer is allowed for depreciation on his buildings, but not for depletion of the fertility of his soil. All over America there are millions and millions of acres of soil which have been eroded. That is a continuing problem. The greatest asset of the Nation is the land. Yet I have read reports by the Department of Agriculture to the effect that terrific amounts of rich and fertile top soil are being lost every year as a result of soil erosion and soil depletion. Despite all the Government programs to combat soil erosion, it is still gaining in the race for the maintenance of the fertility of the soil. If we are to give depletion allowances to gas and oil companies and to the producers of every nonmetallic mineral and to the mineral producers, we can give depletion allowances to farmers.

If we were to give the farmers a depletion allowance amounting to 27½ percent of their gross income, imagine what would happen to the Government's revenue from farmers—farmers who have witnessed the fertility of their soil being lost, farmers who during the time of the dust bowl witnessed the entire topsoil being blown away. Did the Government give those farmers the benefit of any percentage depletion for that loss? None at all was given, Mr. President. Yet the soil is an expendable commodity and an expendable resource. The fertility of the soil is as expendable as is a mineral. To be sure, it is said that the soil can be replaced, but, of course, the cost of doing that is tremendous. No development-costs allowance is permitted for tax-deduction purposes, either.

As I have said, it is argued that the depletion allowances should be continued because the oil business involves risks. Of course, great risks are involved in oil exploration. However, what the industry overlooks in its argument is the fact that profits in that industry, with or without special depletion allowances, are also great.

Very soon I shall bring to the attention of the Senate the profit statements and the stock-market reports of the large oil companies, and I shall point out that among all the securities that are considered to be gilt-edge, the five leading stocks on the stock exchanges are oil stocks.

I understand full well that if a man invests \$100,000 in a hotel, he has that hotel to show for his investment, and I understand full well that if he sinks \$100,000 into an oil well that proves to be dry, he has nothing to show for his investment. I understand that some sort of special incentive may be necessary in order to induce investors to take such risks, but, Mr. President, surely the program of "give aways" that exists under the present law greatly exceeds the real requirements of incentive."

As we discuss this item of incentives, I shall buttress my argument by presenting a complete statement of incentives given to the producers of non-metallic minerals and other minerals. Surely the combined intelligences of the Congress could devise some means whereby incentive could be provided without granting benefits completely disproportionate to risk. Certainly there can be no justification for a mammoth 27½-percent allowance while we are burdening the rank and file of the American people with added taxes.

Spokesmen for the privileged petroleum industry are also wont to dwell on the small-scale operator who invests his entire capital in the search for oil. And they are wont to overlook the fact that giant corporations are the real beneficiaries from the percentage-depletion allowances. I refer you again to the Treasury Department's survey, which shows conclusively that in 1947, for example, firms with assets of \$100,000,000 and over had depletion allowances of 20 percent of their gross and 38 percent of their net income as against 9 percent of gross income and 34.5 percent of net income for corporations with assets between \$100,000 and \$1,000,000.

Mr. President, I bring these facts out because there has been a complete survey made in the oil industry, as well as in other industries which are privileged to receive depletion allowances. I have in my hands the report on that survey, which was presented by Secretary Snyder before the Committee on Ways and Means of the House of Representatives on February 3, 1950, and the facts speak for themselves. The record indicates that the chief beneficiaries of depletion allowances are not the small operators, but the large operators, and I point out that the reason for that is that under the terms of the tax law, the allowance is 27½ percent or 50 percent of net income, but not over 50 percent.

It so happens that small operators, particularly some of the strippers, have high production costs, and when one has high production costs and a limited limited amount of production, he cannot possibly enjoy the benefits of 27½-percent depletion, because he is checkmated by the 50 percent on net income ceiling. Remember, my colleagues, that depletion is figured on gross income, 27½ percent, but the law also provides for a 50 percent of net income reduction for tax deductible purposes.

For example, let us assume that there was a stripper who had a well which was producing 500 barrels of oil a year, at \$2 a barrel. That would mean a return of \$1,000. Let us assume that the cost of the stripping operation was \$700 a year. That would mean that \$300 would be left over as his net income. But he could get only 50 percent of that \$300 maximum. Twenty seven and one-half percent of \$1,000 is \$275, so theoretically without this limitation of 50 percent on net income the small stripper would be getting \$275 of a depletion allowance; but he cannot, and the reason why he cannot is that the 50-percent ceiling stands on top of him, and that means that the most he can get is \$150. which

would be a 15-percent depletion allowance. I have not merely selected an example at random. It is a well known, established fact that the stripper operation is more costly than the gusher type of operation or the big well, the heavy producer.

I have listened to Senators, since I brought this matter to the attention of the Senate about the small producer. What about the strippers? First of all, I may say that I was also told that one of the reasons for depletion allowance was that it was necessary to make exploration. The stripper is not exactly an explorer, because he does not have the money with which to make exploration. So percentage depletion does not apply to poor little Grandpa Jones, who has only a few dollars in his pocket, and is operating merely one single little well, which produces only about 2 barrels a day. It does not apply to him.

Secondly, depletion does not give him any real benefit at 27½ percent, because of the costs involved in the production of his oil. It simply does not give it. The fact of the matter is that the record, the statistics, the revenue figures, the indisputable revenue figures reveal conclusively that the beneficiaries of depletion allowances are the large producers and the great corporations. They are the main beneficiaries, and I submit that 80 percent of all depletion allowances go to the large corporations, whose primary business is not exploration, whose primary business is not the development of new oil fields. They are the beneficiaries of 80 percent of all the tax-depletion allowances.

If the Government of the United States needs to do something to provide an incentive, if it needs to do something to keep the strippers going, if it needs to do something to keep the little producer going, the Government of the United States would be far better off to have a type of subsidy program, a type of incentive program, paying some amount directly to the little fellow, rather than permitting the larger operators to use the depletion allowance as a means of tax avoidance.

In 1947 the allowable depletion of corporations with assets of \$100,000,000 and over was 13 times their basic depletion as compared with about 8 times for corporations with assets between \$1,000,000 and \$10,000,000. Either way though, large or small, the corporations recovered many times their original investment. One wonders why the owners of mineral properties, of oil properties in particular, are entitled to such special treatment: Why, when all other businessmen are allowed to recover the cost of their investment only once, oil companies are allowed to recover theirs 8 or 13 times, as the case may be.

Mr. President, I think I shall support my contention with a few general observations, with a few of the tables and statistics with which I have been provided.

I have before me what is known as table No. 2, showing mineral-depletion allowances for select corporations by industry groups, 1946 and 1947. The industry groups included in this table are:

Mining and quarrying: Metal mining, coal, crude oil, and natural gas, non-metallic mining not allocable.

Manufacturing: Chemicals and allied products; petroleum and coal products; iron, steel, and products; nonferrous metals and products; stone, clay, and glass products.

Let us simply take a look at the figures as to oil. For crude oil and natural gas, the allowable depletion for 1947 was \$110,500,000; and these figures cover 352 corporations; the crude oil and natural gas figures related to 66 corporations. This was an excess over basic depletion, which would be similar to depreciation, of \$100,000,000. In other words, the percentage of allowable depletion was 90.6 percent over regular depreciation in the case of a man, for example, who owns a farm or a hotel or an industry.

Let us consider petroleum and coal products used in manufacturing. Forty-five companies are involved. They received \$538,700,000 in allowable depletion, or depreciation. If they had been treated as ordinary businesses, there would have been about \$30,000,000 to which they would have been entitled for tax deduction purposes. So 45 corporations actually received \$500,000,000, in round figures, in excess of what would come to an ordinary manufacturing plant. The same companies, particularly the producers of crude oil and natural gas, were allowed tax-free all intangible drilling and exploration costs. They were all charged off.

I may also say that in the case of the producers of natural gas there is special treatment for them in excess profits taxation. They level off according to a base period, and any production in excess of that during the period from 1946 to 1950 is given special exemption under the excess-profits-tax law. I wanted to be sure of this, and I checked into it last evening. I checked into it again this morning just before I came to the floor.

Mr. President, we are talking about depletion allowances and to whom they accrue. President Truman, in a speech to Congress, said:

I know of no loophole in the tax laws as inequitable as the excessive depletion exemptions now enjoyed by oil and mining interests.

Surely, in this time of crisis, when extraordinary expenditures are requiring extraordinary taxes, Congress can find the courage and strength to withstand the powerful lobbies of the oil industry and revise the section of the tax law which places in a special privileged category an industry well able to stand alone.

I am aware, Mr. President, that recent international events have enhanced the importance of the domestic oil industry. Developments in Iran make oil of utmost importance to our defense program. To be sure, oil is necessary. But that is no excuse for allowing the oil and other mining interests, through depletion al-

lowances, to hold up the American Government, at the expense of the American taxpayer, to the tune of \$750,000,000 a year, particularly in view of present prices and present production.

Again I quote from the President's 1950 tax message:

I am well aware that these tax privileges are sometimes defended on the ground that they encourage the production of strategic minerals. It is true that we wish to encourage such production. But the tax bounties distributed under the present law bear only a haphazard relationship to our real need for proper incentives to encourage the exploration, development, and conservation of mineral resources. A forward-looking resources program does not require that we give hundreds of millions of dollars annually in the tax exemptions to a favored few at the expense of the many.

Again, Mr. President, I remind the Senators, the few who are present, and I remind the American people, the few who may read the RECORD, that 80 percent of depletion allowances, 80 percent of the benefits, are given to corporations whose primary business is manufacturing, and which are not primarily engaged in exploration or development, according to the Treasury Department.

Mr. KERR. Mr. President, will the Senator yield?

Mr. HUMPHREY. I shall yield at the conclusion of my remarks.

Mr. KERR. I am sure the Senator does not want to make an inaccurate statement.

The VICE PRESIDENT. The Senator from Minnesota declines to yield.

Mr. HUMPHREY. If the Senator from Oklahoma feels that I have made an inaccurate statement, he may correct it at the conclusion of my remarks. I have quoted only what the United States Treasury has stated in an official document submitted to the House Ways and Means Committee. If the Senator from Minnesota is wrong, then so is the Government of the United States, at least the taxing area of the Government known as the Bureau of Internal Revenue, and the Treasury Department.

I refer the Senate to a large number of incentives already available to the mining industry, and in some instances to gas and oil companies. That list was placed in the RECORD by me last Thursday. I shall take a little time to discuss with the few loyal Members of this body who are with us, an additional tax incentive for the mining industry.

Since my amendment contains two sections, and I have been giving most of my attention to oil and gas, I should like to give some attention to the matter of mining. But before I do that, I have some other documentation which I wish to bring to the attention of the Senate. I first wish to refer to the hearings before the House Committee on Ways and Means in 1950, page 3023. I read:

INCREASES IN EARNED SURPLUS OF SIX INDEPENDENT OIL PRODUCERS, 1938-48

During the past 10 years six independent oil producers have increased their earned surplus from \$15,000,000 to \$135,000,000, or

nearly 800 percent. Since 1940 the annual increase in earned surplus for these companies has exceeded 25 percent in each year and amounted to nearly 50 percent in 1948.

On page 3025 of the House hearings before the Ways and Means Committee I find this statement:

Managers of investment funds regard the oil stocks as among the safest and most promising of investments. In fact, a compilation of the common stocks held by all important investment trusts shows oil stocks holding the five highest positions on the list.

The 10 heaviest holdings by both closed-end and open-end trusts, compiled by Aigeltinger & Co. as of June 30, 1949, are listed below.

They are shown as the Gulf Oil Co., Amerada Petroleum Co., Continental Oil Co., Standard Oil of New Jersey, and the Texas Co. Those five are at the head of the list.

I ask unanimous consent that the complete statement by the Treasury Department from which the above came be printed at this point in the RECORD.

There being no objection, the matter was ordered to be printed in the RECORD, as follows:

EFFECT OF SPECIAL DEPLETION ALLOWANCES ON PROFITS OF PRINCIPAL SULFUR PRODUCERS

The tax effects of existing special percentage depletion allowances for sulfur and the relationship between these allowances and exploration expenditures are indicated by the following data for three sulfur producers representing about 85 percent of sulfur production in the United States.

During the 19-year period from 1930 to 1948, inclusive, published financial reports for these three sulfur producers showed profits of \$262,000,000 after income taxes. Their average net income after taxes for the 19-year period amounted to \$13,000,000 per year. Their dividend payments aggregated \$216,000,000 or \$11,000,000 per year. For the 19-year period, retained profits after taxes and dividend payments totaled over \$40,000,000.

The aggregate net worth of the three corporations increased from \$42,000,000 in 1930 to \$104,000,000 in 1948, an increase of about 150 percent. Retained earnings were equal to two-third of this increase. During the 19-year period these companies obtained \$20,500,000 of net additional capital from outside sources.

The combined expenditures of the three corporations for exploration amounted to \$7,000,000 during the 19-year period, or approximately \$370,000 per year, compared with average yearly dividends of \$11,000,000.

Cumulative data on the amount of allowable depletion taken by these corporations during the 19-year period are not available. However, in 1946 the allowable depletion amounted to \$11,200,000 and in 1947 to \$13,800,000, or nearly twice their combined expenditures for exploration during the entire 19-year period. The computed tax savings derived by these corporations from percentage depletion in these 2 years were \$4,200,000 and \$5,200,000, respectively. The indicated tax savings for 1947 alone were over 70 percent of the total expenditures for exploration during the entire 19-year period.

Since these companies have recovered more than the original cost of their mining properties through depletion allowances in prior years, the existing percentage depletion allowances are fully reflected in tax savings to them.

Earnings of 3 major sulfur producers compared with dividends and exploration expenses, 1930-48

I. Net income after taxes.....	\$261,561,65
II. Dividends paid.....	215,896,971
III. Increase in net worth:	
Net worth 1930.....	42,154,260
Net worth 1948.....	104,398,081
Increase.....	62,243,821
From retained earnings.....	141,741,843
From outside sources.....	20,501,978
IV. Exploration expense:	
Total.....	7,022,457
Annual average.....	369,603

¹This figure does not agree with the difference between net income and dividends paid because of a discrepancy of \$3,922,851 between the net income and earned surplus accounts.

²Total outside capital raised during the period amounted to \$25,825,000, including an issue of \$3,000,000 in debentures and of \$2,500,000 in preferred stock, both of which were retired. About \$20,000,000 of the equity capital raised represents issue of stock in exchange for property.

Source: Moody's Manual of Investments, Industrials, 1932-49; and Special Tabulation, Statistical Division, Bureau of Internal Revenue.

THE PROPOSED REDUCTION IN THE RATE OF PERCENTAGE DEPLETION FROM 27.5 PERCENT TO 15 PERCENT OF GROSS INCOME WOULD LEAVE THE OIL AND GAS INDUSTRY IN A RELATIVELY STRONG PROFIT CONDITION

1. In 1946, the 163 oil and gas corporations examined by the Treasury Department which represented over three-fourths of the entire industry reported \$447,000,000 of allowable depletion. These corporations and net taxable incomes of \$640,000,000 had reported Federal income-tax liabilities of \$215,000,000. Their net income after taxes (adjusted by adding to their taxable net income the \$405,000,000 of excess depletion allowance and the \$381,000,000 claimed as a deduction on account of development costs) amounted to \$1,211,000,000. The reduction in the rate of percentage depletion from 27½ percent to 15 percent would have increased the tax liabilities of these corporations by \$61,000,000 and would have reduced their net profits remaining after taxes from \$1,211,000,000 to \$1,150,000,000, or by approximately 5 percent.¹

2. In 1947, the 153 oil and gas corporations examined by the Treasury Department which represented over three-fourths of the entire industry reported \$678,000,000 of allowable depletion. These corporations had net taxable incomes of \$1,243,000,000 and reported Federal income tax liabilities of \$402,000,000. Their net income after taxes (adjusted by adding to their taxable net income the \$634,000,000 of excess depletion allowance and the \$471,000,000 claimed as a deduction on account of development costs) amounted to \$1,946,000,000. The reduction in the rate of percentage depletion from 27½ percent to 15 percent would have increased the tax liabilities of these corporations by \$102,000,000 and would have reduced their net profits remaining after taxes from \$1,946,000,000 to \$1,844,000,000, or by approximately 5.2 percent.

¹These computations allow for depletion on costs actually capitalized. In the absence of comparable data for all preceding years, no allowance is made for increase in cost depletion which would result if the expensed development costs were capitalized. This adjustment would not affect the result substantially.

3. If the net income is adjusted for excess depletion alone, without adding the amounts for development costs expensed, the reduction in the rate of special depletion to 15 percent, would have reduced net profits remaining after taxes by 7.3 percent in 1946 (par. 1 above) and by 6.9 percent in 1947 (par. 2 above).

4. Comparable data for later years are not available. However, partial data obtained from 1948 tax returns as well as reliable published sources of information of the trend of profits in the oil industry indicate that profits in 1948 were substantially above those reported for the preceding year.

An examination of the income tax returns of the four largest oil and gas corporations included in the Treasury Department study indicates that the proposed reduction in the rate of percentage depletion from 27½ percent to 15 percent of gross income would not affect appreciably the profit positions of these corporations. It would reduce the combined net income of these four corporations (after adjustment for excess depletion and development cost deductions) from \$473,000,000 to \$447,000,000, or 5.6 percent. If the net income is adjusted for excess depletion alone, without adding the amounts for development costs expensed, net income would be reduced from \$354,000,000 to \$327,000,000, or 7.5 percent. Data for the separate corporations are presented below:

[Amounts in millions of dollars]¹

	Corporation A	Corporation B	Corporation C	Corporation D	Total
Net taxable income.....	53.9	85.0	73.5	69.5	281.9
Income tax liability.....	21.4	30.7	23.0	26.4	101.5
Net income after tax.....	32.5	54.3	50.5	43.1	180.4
Reduction in allowable depletion from rate reduction to 15 percent.....	15.3	11.8	15.7	27.3	70.1
1. Net income adjusted for excess depletion and development expense deduction.....	89.8	120.7	121.7	140.9	473.3
Reduction in net incomes from reduced depletion rate:					
Amount.....	5.8	4.5	6.0	10.4	26.7
Percent.....	6.5	3.7	4.9	7.4	5.6
2. Net income adjusted for excess depletion alone.....	67.8	84.8	92.5	108.6	353.7
Reduction in net income from reduced depletion rate:					
Amount.....	5.8	4.5	6.0	10.4	26.7
Percent.....	8.6	5.3	6.4	9.6	7.5

¹These computations allow for depletion on costs actually capitalized. In the absence of comparable data for all preceding years no allowance is made for increase in cost depletion which would result if the expensed development costs were capitalized. This adjustment would not affect the result substantially.

INCREASES IN EARNED SURPLUS OF SIX INDEPENDENT OIL PRODUCERS, 1938-48

During the past 10 years six independent oil producers have increased their earned surplus from \$15,000,000 to \$135,000,000, or nearly 800 percent. Since 1940 the annual increase in earned surplus for these companies has exceeded 25 percent in each year and amounted to nearly 50 percent in 1948.

The detailed figures for each of the six companies and the totals are shown in the attached table.

Changes in earned surplus accounts of 6 oil- and gas-producing companies, 1938-48

[Dollar amounts in millions]

Year	Amerada Corp.	Louisiana Land & Exploration Co.	Seaboard Oil Co. (Delaware)	Sunray Oil Corp. ¹	Superior Oil Co.	Texas Gulf Producing Co.	Total ²	Percent change From preceding year	From 1938
1938.....	\$4.9	\$1.1	\$2.6	\$1.3	\$0.2	\$5.0	\$15.1	—	—
1939.....	4.6	.7	3.1	1.5	.9	5.4	16.1	+6.6	+6.6
1940.....	4.8	.5	3.1	1.7	.3	3.8	13.5	-16.1	-10.6
1941.....	5.8	.6	3.1	2.1	1.4	4.0	17.1	+26.7	+13.2
1942.....	7.5	.6	3.4	2.5	5.0	4.4	23.3	+36.3	+54.3
1943.....	10.7	1.2	4.1	3.0	8.6	4.6	32.2	+38.2	+113.2
1944.....	13.6	1.6	4.7	3.7	12.2	5.0	40.8	+26.7	+170.2
1945.....	15.6	2.1	6.2	4.6	17.1	5.4	51.0	+25.0	+237.7
1946.....	21.5	3.2	9.1	6.4	18.5	6.3	65.0	+27.5	+330.5
1947.....	31.6	4.7	13.2	10.7	22.4	7.9	90.4	+39.1	+498.7
1948.....	44.8	6.1	17.5	20.2	36.0	10.7	135.2	+49.6	+795.4

¹ For 1943 and following years reduced by the 1.6 million dollars added as a result of the merger with Superior Oil Corp.

² Columns may not add to total because of rounding.

Source: Moody's Manual of Investments, Treasury Department, Tax Advisory Staff of the Secretary.

ESTIMATED RATES OF RETURN FOR OIL AND GAS COMPANIES

The accompanying table presents available series showing the estimated rates of return for oil companies for the years 1936-48, including the estimates provided to the committee by Mr. R. V. Rodman in his testimony on February 8, 1950. The data indicate that petroleum and natural gas companies generally realize higher rates of return than do companies engaged mainly in refining and similar operations. The differences among the various estimates are not conspicuously large for the war and prewar years. For the postwar years, however, the data presented by R. V. Rodman differ markedly from the estimates provided by the National City Bank and by the Securities and Exchange Commission.

The estimates of both the National City Bank and of the Securities and Exchange Commission show a marked increase in rates of return of oil companies since the end of the war. According to the National City Bank estimates, the rates of return of crude petroleum and natural gas companies increased from 17.3 percent in 1945 to 35.9 percent in 1948. According to the Securities and Exchange Commission estimates, the rates of return for such companies have increased from 14 percent in 1945 to 25.1 percent in 1947. By contrast, the estimates presented by Mr. R. V. Rodman show an increase from 8.1 percent in 1945 to 17.9 percent in 1948.

Comparison of estimates of rate of return after taxes on net worth for oil companies, 1936-48

Year	Source of estimates				
	R. V. Rodman ¹	National City Bank ²		Securities and Exchange Commission ³	
	Oil companies	Oil and gas producers	Petroleum products	Oil and gas producers	Oil refining
	Percent	Percent	Percent	Percent	Percent
1936...	7.5	(⁴)	8.3	(⁴)	7.5
1937...	9.7	9.2	10.0	(⁴)	10.0
1938...	5.0	6.3	4.6	(⁴)	4.9
1939...	5.3	5.3	5.0	(⁴)	5.3
1940...	6.3	4.3	6.9	(⁴)	6.1
1941...	8.8	8.3	8.6	(⁴)	8.7

Footnotes at end of table.

Comparison of estimates of rate of return after taxes on net worth for oil companies, 1936-48—Continued

Year	Source of estimates				
	R. V. Rodman ¹	National City Bank ²		Securities and Exchange Commission ³	
	Oil companies	Oil and gas producers	Petroleum products	Oil and gas producers	Oil refining
	Percent	Percent	Percent	Percent	Percent
1942...	6.6	8.3	7.0	11.2	6.6
1943...	7.9	11.8	8.1	13.8	8.1
1944...	8.9	14.0	9.3	13.9	9.8
1945...	8.1	17.3	8.8	14.0	8.9
1946...	9.6	12.1	10.7	14.7	10.6
1947...	13.6	24.1	15.7	25.1	15.8
1948...	17.9	35.9	22.1	(⁴)	(⁴)

¹ Hearings before the Committee on Ways and Means, Feb. 8, 1950, for years 1923-48. Source described as follows: "1923-43 as compiled by economics department of Atlantic Refining Co., and published in the Petroleum Almanac; p. 283, 1944-48, compiled from financial statistics of the same companies."

² National City Bank Monthly Bulletin. Data taken from most recent published reports.

³ Securities and Exchange Commission, survey of American listed corporations, Data on Profits and Operations. Companies selected are those with securities listed on national stock exchanges.

⁴ Not available.

⁵ Includes companies engaged in crude and refining operations in 1936.

Source: Treasury Department, Tax Advisory Staff of the Secretary.

COMPARISON OF TAXES PAID BY OIL COMPANIES WITH ALL MANUFACTURING COMPANIES AS MEASURED BY THE DIFFERENCE OF RATES OF RETURN BEFORE AND AFTER TAXES

The accompanying table presents estimates of the rates of return computed before and after taxes for crude petroleum and natural gas, oil refining, and all manufacturing companies for the years 1942-47. These data indicate the importance of taxes paid, in relation to rates of return and net worth for the three industrial groups. In the case of oil companies, particularly crude petroleum and natural gas, taxes have relatively small effect on the rate of return computed as a percentage of net worth.

Rates of return on net worth before and after taxes, oil companies and all manufacturing companies, 1942-47

Year	Crude petroleum and natural gas			Oil refining			All manufacturing		
	Before taxes	After taxes	Difference	Before taxes	After taxes	Difference	Before taxes	After taxes	Difference
	Pct.	Pct.	Pct.	Pct.	Pct.	Pct.	Pct.	Pct.	Pct.
1942...	13.3	11.2	2.1	10.6	6.6	4.0	25.7	9.6	16.1
1943...	17.9	13.8	4.1	13.5	8.1	5.4	27.9	9.7	18.2
1944...	16.8	13.9	2.9	15.2	9.8	5.4	28.0	10.1	17.9
1945...	16.2	14.0	2.2	10.7	8.9	1.8	19.9	9.6	10.3
1946...	17.1	14.7	2.4	14.0	10.6	3.4	17.6	11.9	5.7
1947...	30.4	25.1	5.3	21.4	15.8	5.6	27.4	17.2	10.2

¹ Source: Securities and Exchange Commission, Survey of American Listed Corporations, Data on Profits and Operations.

Treasury Department, Tax Advisory Staff of the Secretary, Mar. 2, 1950.

The argument has been made that a high depletion allowance for the oil industry is justified by the "risky" nature of the oil business. One indication of the relative position of the oil industry in the matter of risk is shown by the holdings of common stocks in conservative investment portfolios. Managers of investment funds regard the oil stocks as among the safest and most prom-

ising of investments. In fact, a compilation of the common stocks held by all important investment trusts shows oil stocks holding the five highest positions on the list.

The 10 heaviest holdings by both closed-end and open-end trusts, compiled by Aigeltinger & Co. as of June 30, 1949, are listed below:

Stock	Value	Number of trusts holding
	Millions	
Gulf Oil.....	\$29.2	67
Amerada Petroleum.....	26.4	26
Continental Oil.....	23.1	55
Standard Oil, New Jersey.....	21.1	70
Texas Co.....	19.9	51
Montgomery Ward.....	19.7	67
Sears, Roebuck.....	19.1	45
Phillips Petroleum.....	17.8	62
North American Co.....	17.3	39
General Motors.....	17.0	62

Source: From Commercial and Financial Chronicle, Jan. 19, 1950.

Publicly reported earnings of the oil industry are relatively high in relation to net assets, as compared with industrial corporations as a group.

Reported net incomes of 44 companies in the petroleum products industry and 44 companies in the oil-and-gas producing industry for 1947 and 1948, as compared with all industries, are shown in the following table:

	Number of companies	Net income		Return on net book assets ¹	
		1947	1948	1947	1948
		Millions	Millions	Percent	Percent
Petroleum products.....	44	\$1,255	\$1,954	15.7	22.1
Oil and gas ²	44	82	144	24.1	35.9
All industries.....	3,262	9,538	11,674	12.3	14.0

¹ Net assets, beginning of year, based on excess of total balance sheet assets over liabilities.

² Net income in some cases before depletion charges.

Source: National City Bank of New York.

The additional tax burden, estimated to result from the proposed change in depletion allowances, would be a relatively small burden for the petroleum industry as a whole, particularly in view of the relatively high current earnings in relation to capital investment.

The reported net income (after taxes) of 30 leading oil companies comprising approximately two-thirds of the industry, for 1947 and 1948, as compiled by the department of petroleum economics of the Chase National Bank, is shown in the following table:

[In millions of dollars]		
	1947	1948
Net income ¹	1,219	1,877
Total gross capital investment ²	14,776	16,820
Total net capital investment ²	7,069	8,489

¹ After taxes, reserves for depletion, depreciation, etc.

² End of year.

Income from the same 30 companies in 1949 was 28 percent below that in 1948, or at an annual rate of approximately \$1,350,000,000.

Mr. HUMPHREY. Let me come back to the statement. Conservative investment companies do not invest their funds in risks. Conservative investment companies invest their funds in what they consider to be stable, productive stocks and bonds. Conservative investment companies are not engaged in spec-

ulation; they are engaged in what they believe to be, on the basis of the financial history of a stock or a bond, an investment in a commodity or a stock or bond that will yield a good rate of interest or dividend year in and year out.

I lay no claim to being an expert in the field of investment, but I submit that anyone who even gives it a casual glance knows that an investment company that is investing other people's money, that has a reputation for being a conservative investment company, does not get itself involved in risky stocks and bonds.

Mr. MONRONEY. Mr. President, will the Senator yield?

Mr. HUMPHREY. I said I would not yield until a little later on. I shall give an opportunity to all Senators who wish to interrogate me.

Mr. President, some time ago I mentioned that there had been brought to our attention by the President and the Secretary of the Treasury companies which had made rather fabulous profits and had paid little or no tax because of oil-depletion and gas-depletion allowances.

I ask unanimous consent to have incorporated at this point in the RECORD a special memorandum or report prepared by the Secretary of the Treasury and presented before the Committee on Ways and Means of the House of Representatives on February 3, 1950, as exhibit 2. I refer particularly to table No. 9 which refers to deductions and tax liabilities of 10 selected individual oil and gas operators for the 5-year period 1943 through 1947.

There being no objection, the report was ordered to be printed in the RECORD, as follows:

SPECIAL DEPLETION ALLOWANCES FOR MINERAL PROPERTIES

One of the major avenues of escape from income tax is the special depletion allowance now accorded mineral properties. This subject has received consideration by congressional committees on a number of occasions.

Nearly 25 years have passed, however, since the date of the investigation of depletion costs on which present allowances were established. In the intervening years there have been important basic changes in these industries.

This study presents current information on the basic aspects of this problem and discusses the considerations affecting the desirability of the present allowances.

I. PRESENT PROVISIONS

The Federal income tax recognizes depletion of wasting mineral assets as a deductible cost in determining net taxable income. The purpose is to allow the taxpayer to recover, tax free, the capital he has invested in the mineral property. Special allowances in excess of cost are granted to certain groups of taxpayers. In most cases these special allowances are based on a percentage of gross income. Of less importance are special allowances based on discovery value.

A. Percentage depletion

Percentage depletion is computed as a specified percentage of gross income, without regard to the capital cost of the property. The rates range as high as 27½ percent of gross income in the case of petroleum, but the deduction is limited to 50 percent of the net income (computed with-

out regard to depletion) from the particular property. The following percentages of gross income are allowed different minerals under present law.

Mineral:	Rate on gross income percent
Oil and gas.....	27½
Sulfur.....	23
Metals.....	15
Coal.....	5
Bauxite, fluorspar, flake graphite, vermiculite, beryl, feldspar, mica, talc (including pyrophyllite), lepidolite, spodumene, barite, ball, sagger, and china clay, phosphate rock, rock asphalt, trona, bentonite, gilsonite, thenardite, and potash.....	15

Percentage depletion continues to be deductible even after 100 percent of the invested capital has been retrieved tax-free. The total tax-free recoveries may be substantially in excess of the cost of the property, and in a large number of cases amount to many times the capital investment.

B. Discovery depletion

Those minerals which are not eligible for percentage depletion may qualify for discovery depletion, under certain conditions. Owing to the wide range of minerals excluded because they are eligible for percentage depletion, and the special conditions attaching to the use of discovery depletion, it applies only to certain nonmetallic substances and is of limited significance at the present time.

Under discovery depletion, a taxpayer who discovers a mine on an unproven tract, the value of which is materially larger than the cost to the taxpayer, is allowed depletion deductions designed to amortize the appreciated discovery value over the economic life of the mine. As in the case of percentage depletion, the annual deduction for discovery depletion is limited to 50 percent of the net income from the property. However, aggregate tax-free recoveries under this method are limited to the discovery value.

C. Cost or adjusted-basis depletion

Percentage depletion is one of the most complex provisions in the tax law. Depletion allowances are computed with respect to each individual mineral property. Mineral taxpayers commonly own several, and in many cases thousands of properties. Each year for each property the taxpayer takes the largest depletion deduction allowable. Both gross and net income must be determined for each separate property to compute percentage depletion. Moreover, a corporate taxpayer's accounting for each property entitled to percentage depletion must reflect each of the three different depletion concepts: (1) Allowable depletion, including percentage or discovery depletion; (2) adjusted-basis depletion; and (3) strict cost depletion.

In all cases the taxpayer is allowed depletion based on cost as a minimum. The annual cost depletion (usually termed adjusted basis depletion) is computed by subtracting the original cost, less amounts previously recovered tax-free, over the estimated remaining life of the property, measured in units of mineral product. Increased deductions for percentage depletion reduce the remaining cost or adjusted basis more rapidly. Therefore, the adjusted-basis depletion, which represents the minimum annual deduction, must be recomputed at a lower figure each year after percentage depletion is

taken.¹ When the original cost is exhausted through depletion allowances the adjusted-basis depletion is reduced to zero, although percentage depletion may continue to be deducted.

Corporations also account for annual cost depletion computed without regard to amounts recovered from time to time through percentage depletion, in determining their net profits for reports to stockholders and other purposes. Cost depletion in this sense is also recognized for tax purposes in connection with the treatment of liquidating dividends in the hands of the stockholders.²

For purposes of determining gains or loss upon sale or other disposition of a depletable property, the tax basis is reduced by the total amount of allowable depletion (percentage, discovery, or adjusted-basis depletion) in previous years.³ While percentage depletion may continue even though more than 100 percent of the basis has been recovered tax-free, the basis for determining gain or loss is reduced only to zero.

D. Expensing of capital costs

In addition to depletion allowances, certain capital costs of developing mineral properties are treated as expenses incurred in doing business and allowed as deductions in the year incurred. This expensing treatment does not reduce allowable percentage depletion in future years, which is based on the income from the developed property. This results in a double deduction for recovery on the same capital investment.

Owners of oil or gas wells have wide opportunities for expensing capital costs incurred in developing their properties. At their option they may treat intangible drilling and development costs of wells—including expenditures for labor supplies repairs, and hauling—as current expenses deductible from taxable income from any source. For example, 90 percent of an oil operator's capital outlay, exclusive of depreciable items, may be for intangible drilling and development costs. If this is deducted as a current expense and thus recovered tax free at the outset, only 10 percent of the investment remains to be recovered through depletion allowances. Hence, depletion allowances based on the entire income in effect overlap the initial deduction of a large portion of the capital outlays.

In the case of mines, development costs can be immediately offset against income only to the extent that there are receipts derived from the mine during the development period. However, if considerable quan-

¹ In addition to determining the minimum annual allowance, the adjusted-basis depletion is important in computing the net operating loss deduction. Under the present 2-year carryback and 2-year carry-forward of net operating losses, the loss to be carried over is reduced by the excess of percentage over cost depletion (and similar tax-exempt items) in the year in which the loss occurs. Similarly, the amount of the loss which is deductible is reduced by the amount of such exempt income in the year to which the loss is carried.

² Under existing law dividends to stockholders are taxable to the extent they are paid out of earnings and profits. For this purpose, earnings and profits are computed on the basis of cost depletion.

³ For years prior to 1932, the excess of percentage over cost depletion was not applied to reduce the tax basis.

titles of ore are taken out while developing a mine to full producing status, it is possible for a taxpayer to recoup tax-free immediately a large part of the capital costs of development.

II. BACKGROUND AND DEVELOPMENT OF SPECIAL DEPLETION ALLOWANCES

The original income tax legislation provided a reasonable allowance, not to exceed 5 percent of gross income, for wasting mineral assets. This was later changed to a more specific allowance of depletion based on cost or 1913 value.

Allowances in excess of cost depletion were first granted in the form of discovery depletion in 1918 as a measure to stimulate mineral exploration for war purposes and to lessen tax burdens on small-scale prospectors who made discoveries after years of fruitless search. Discovery depletion deductions allowed the discoverer of any new mineral deposit to retrieve not only his costs but also the materially larger appreciated value of the property at the time its profitability was established. Since no limit was placed on the discovery depletion deductions, in many cases the deduction was in excess of the income from the discovered property and served to offset income from other sources. To prevent such excessive discovery depletion allowances, the annual deduction was limited in 1921 to 100 percent of the net income from the mineral property. In 1924, the limit was reduced to 50 percent of the net income from the property, in order to provide for the taxation of at least one-half of the income from these properties.

Percentage depletion was substituted for discovery depletion in the case of oil and gas properties in 1926 and extended to metals, sulfur, and coal in 1932. The original percentage-depletion rates, still embodied in present law, were in general fixed at levels which would permit the respective industries approximately the same total annual depletion they had previously enjoyed under discovery depletion.

Despite the recommendation of the Treasury in 1942 that percentage depletion be eliminated, it was extended in 1942 and 1943 as a temporary measure to certain nonmetallic minerals at the 15-percent rate applicable to metals. In 1947 the temporary wartime extensions were made permanent, and in addition some items not previously covered were granted the special allowance. Since 1947 a wide range of nonmetallic producers who have not been granted percentage depletion have sought similar preferential tax treatment.⁴

III. SURVEY OF DEPLETION AND RELATED ALLOWANCES

Information on percentage depletion and other special allowances for mineral producers has been recently developed through a special survey of 350 corporation income-tax returns. These returns accounted for about three-fourths of all corporation income-tax allowances for depletion for the year 1946. (Table 1.) Although the survey group does not necessarily represent a cross-

⁴ Within the past 3 years bills have been introduced in Congress to extend percentage depletion to ambligonite, oil shale, tripoli, marble, pumice, scoria, limestone, crushed stone, perlite, diatomaceous earth, granite, borax, calcium and magnesium carbonates, shell, sand, gravel, stone, and all other non-metallic clays and minerals.

section of the mineral industries, the high proportion of tax allowances for depletion provides reliable information on the mineral-depletion provisions. The statistical data obtained in the course of this survey are presented in tables 1 to 10.

While the survey covers corporations only, it is estimated that corporations account for more than 80 percent and individuals for less than 20 percent of all depletion deductions.

A. Excess depletion and resulting revenue loss

The allowable depletion deducted by the corporations included in this survey amounted to \$555,000,000 in 1946 and \$839,000,000 in 1947. Of these amounts only 10-15 percent represented adjusted-basis depletion which would have been required to recover original investment cost.⁵ The remaining 85-90 percent constituted the excess allowance attributable to the special depletion provisions for mineral industries. (Table 2.)

The indicated revenue loss for all corporations in the survey due to excess depletion was about \$180,000,000 in 1946 and \$290,000,000 in 1947. (Table 3.) On the basis of these findings it is estimated that the total revenue loss for all corporations due to excess depletion was nearly \$250,000,000 in 1946 and \$400,000,000 in 1947.

B. Distribution of excess depletion by industry groups

The excess of percentage depletion over cost or basis depletion was correspondingly high for most industry groups. Relatively low excess depletion for a few industries, such as coal and the stone, clay, and glass group, reflects either a low percentage depletion rate (5 percent for coal) or ineligibility of important components of the industry for percentage depletion.

A high proportion of the excess depletion shown in table 2 was received by corporations whose major activity was other than mining and quarrying. In 1946, for example, \$345,000,000 or more than 70 percent of the total excess was deducted by manufacturing enterprises (notably in the petroleum field) representing large integrated firms whose predominant industrial activity was not mineral extraction.

C. Distribution of special depletion and related allowances by mineral products

Survey data for 1946 and 1947 showing the distribution of depletion allowances (including deductions for development costs) classified by the principal mineral products, are presented in tables 4 and 5. As shown

in these tables, the bulk of the benefit of percentage depletion in excess of basis depletion was derived by the oil and gas group. They received almost 85 percent of the excess depletion compared with 55 percent of the gross income for corporations included in the survey.

Total deductions for development costs by the selected corporations were \$394,000,000 in 1946 and \$486,000,000 in 1947. Comparison of the development cost deductions with the excess of percentage over basis depletion for these 2 years indicates that for every \$3 allowed as percentage depletion another \$2 was deducted as development costs. In addition, substantial deductions were taken for exploration costs and losses on abandonment, amounting to \$204,000,000 in 1946 and \$255,000,000 in 1947.

Nearly all of the development cost deductions were taken by oil and gas producers, and these producers also claimed most of the allowances for exploration and losses on abandonment.

Substantial variations are also shown by tables 4 and 5 in the relative tax benefits derived from special depletion allowances among different types of mineral producers, due in large part to disparities in the rates of percentage depletion. In 1947, for example, allowable depletion was about equivalent to basis depletion for nonmetallics not entitled to percentage depletion, about 3 times basis depletion for coal, 5 times basis depletion for metals, and 16 times basis depletion for oil. Sulfur producers were entitled to virtually no basis depletion, yet more than one-third of their aggregate net income was excluded from taxation through excess percentage depletion.

The relative importance of special depletion allowances for different types of mineral producers is presented in table 6. As shown in this table, all the corporations included in the survey had depletion deductions equal to about 40 percent of their net income before depletion in the years 1946-47. By contrast, the amount of basis depletion required to recover remaining cost ratably over the useful economic life was only 6 percent of net income in 1946 and 3.6 percent in 1947. Significant variations are shown among mineral products. Thus, depletion allowances in 1946 amounted to 49 percent of net income in the case of oil and gas compared with 1½ percent for nonmetallic products not entitled to percentage depletion, and 18 percent for all nonmetals.

D. Depletion allowances in relation to size of firm

The distributions of various mineral depletion allowances in dollar amounts and

in relation to income, by size of firm, for 1946 and 1947, are shown in tables 7 and 8.

As shown in table 7, about three-fourths of the total depletion allowances and of the excess of percentage over basis depletion was received by very large corporations, with assets of at least \$100,000,000. By contrast these firms received slightly less than two-thirds of the total gross income from mining.

The percentage of income excluded from taxation through depletion allowances tends to be greater for larger corporations. (Table 8.) In 1947, for example, firms with assets of \$100,000,000 and over had depletion allowances of 20 percent of their gross and 38 percent of their net income, as against 9 percent of gross income and 34.5 percent of net income for corporations with assets between \$100,000 and \$1,000,000. The benefits of special depletion allowances, reflected in the ratio of allowable depletion to basis depletion, also tend to increase with the size of the firm. In 1947, for example, the allowable depletion of corporations with assets of \$100,000,000 and over was 13 times their basis depletion as compared with about 8 times for corporations with assets between \$1,000,000 and \$10,000,000.

IV. ILLUSTRATIVE CASES SHOWING TAX EFFECTS OF SPECIAL ALLOWANCES

In connection with the survey of special depletion and related allowances, the effect of these provisions on the tax liabilities of particular taxpayers was studied.

Substantial reductions in income taxes were obtained by a number of individual oil and gas operators for the 5 years, 1943 to 1947. In 10 illustrative cases, summarized in table 9, the effective rate of tax on net economic income (based on cost or basis depletion) varied from 63.5 percent to as low as six-tenths of 1 percent. This represents a striking difference between the effective rates of tax actually paid and the general statutory rates on such income, which ranged as high as 90 percent in these years.

During the 5-year period these 10 individual taxpayers received a total economic net income of \$52,600,000 from oil and gas properties. This net income was computed after all deductions for operating expenses, depreciation, basis depletion, exploration costs, and losses on unsuccessful ventures. These taxpayers also received a total of \$9,300,000 of net income from other sources. Of their aggregate net income from all sources, totaling \$61,900,000, 77 percent was eliminated for tax purposes through the special deductions.

Similar information for 20 corporations taken from income-tax returns for 1947 is shown in table 10.

TABLE 1.—Percentage of allowable mineral depletion included in survey of selected corporations, 1946

[Money figures in millions]

Industry group ¹	Allowable depletion for all corporations ²	Allowable depletion for selected corporations ²		Industry group ¹	Allowable depletion for all corporations ²	Allowable depletion for selected corporations ²	
		Amount	Percent of industry total			Amount	Percent of industry total
Mining and quarrying:				Manufacturing—Continued			
Metal mining.....	\$46.1	\$35.1	76.0	Petroleum and coal products.....	\$388.0	\$350.6	90.3
Coal.....	51.0	17.6	34.4	Iron, steel, and products.....	21.0	17.3	82.3
Crude oil and natural gas.....	124.1	72.7	58.6	Nonferrous metals and products.....	23.5	14.5	61.8
Nonmetallic mining.....	15.8	12.8	80.8	Stone, clay, and glass products.....	2.1	.1	7.1
Mining not allocable.....	.3	.1	32.0	Other manufacturing.....	3.3	0	0
Total mining and quarrying.....	237.3	138.1	58.2	Total manufacturing.....	452.4	392.2	86.7
Manufacturing:				Other groups.....	55.5	24.5	44.2
Chemicals and allied products.....	14.4	9.7	67.1	Total all groups.....	745.1	554.9	74.5

See footnotes on p. 12566.

Source: Statistics of Income for 1946, pt. 2, preliminary, for all corporations; Bureau of Internal Revenue, Statistical Division, special tabulation, for the selected corporations.

TABLE 2.—Mineral depletion allowances for selected corporations, by industry groups, 1946 and 1947

[Money figures in millions]

Industry groups ¹	1946				1947			
	Number	Allowable depletion ²	Excess over basis depletion ³		Number	What was allowable depletion ³	Excess over basis depletion ³	
			Amount	Percent of allowable depletion			Amount	Percent of allowable depletion
Mining and quarrying:								
Metal mining.....	68	\$35.1	\$28.7	82.0	66	\$64.0	\$54.9	85.9
Coal.....	53	17.6	10.5	59.9	52	21.6	14.9	69.2
Crude oil and natural gas.....	66	72.7	62.0	85.4	60	110.5	100.2	90.6
Nonmetallic mining.....	18	12.8	12.5	98.1	17	16.0	15.8	98.8
Mining not allocable.....	1	.1	(⁴)	5.0	1	.1	(⁴)	23.3
Total mining and quarrying.....	206	138.1	113.8	82.4	196	212.2	185.8	87.6
Manufacturing:								
Chemicals and allied products.....	14	9.7	7.3	75.5	14	11.7	9.4	80.3
Petroleum and coal products.....	45	350.6	321.9	91.8	44	538.7	509.0	94.5
Iron, steel, and products.....	14	17.3	11.0	63.4	16	25.9	17.2	66.3
Nonferrous metals and products.....	8	14.5	5.1	34.8	8	17.5	10.4	59.4
Stone, clay, and glass products.....	5	.2	(⁴)	32.5	5	.2	.1	56.3
Total manufacturing.....	86	392.2	345.3	88.0	87	594.0	546.1	91.9
Other groups.....	60	24.5	20.8	84.9	61	32.6	28.0	86.0
Total all groups.....	352	554.9	479.9	86.5	344	838.7	759.9	90.6

See footnotes on p. 12566.

Source: Bureau of Internal Revenue, Statistical Division, Special Tabulation.

TABLE 3.—Computed revenue loss resulting from excess mineral depletion deductions, selected corporations, by industry groups, 1946 and 1947 ⁵

[In millions]

Industry group ¹	1946 (352 returns)	1947 (344 returns)	Industry group ¹	1946 (352 returns)	1947 (344 returns)
Mining and quarrying:			Manufacturing—Continued		
Metal mining.....	\$10.9	\$20.9	Iron, steel, and products.....	\$4.2	\$6.5
Coal.....	4.0	5.7	Nonferrous metals and products.....	1.9	3.9
Crude oil and natural gas.....	23.6	38.1	Stone, clay, and glass products.....	(⁴)	(⁴)
Nonmetallic mining.....	4.8	6.0	Other manufacturing.....		
Mining not allocable.....	(⁴)	(⁴)	Total manufacturing.....	131.2	207.5
Total, mining and quarrying.....	43.3	70.6	Other groups.....	7.9	10.6
Manufacturing:			Total all groups.....	182.4	288.8
Chemicals and allied products.....	2.8	3.6			
Petroleum and coal products.....	122.3	193.4			

See footnotes on p. 12566.

Source: Treasury Department, tax advisory staff of the Secretary.

TABLE 4.—Mineral depletion and related allowances for selected corporations, by principal mineral products, 1946

[Money figures in millions]

Principal mineral products	Number of corporations	Income subject to depletion		Depletion		Other capital recovery deductions	
		Gross ⁶	Net ⁷	Allowable ²	Basis ³	Development costs ⁴	Exploration costs and losses on abandonment ⁵
Metals:							
Iron.....	20	\$335.0	\$56.2	\$18.9	\$5.6	\$6.1	\$0.1
Copper.....	12	240.4	91.2	23.3	12.0	.6	1.0
Lead and zinc.....	22	68.9	21.0	10.5	2.5	5.0	.3
Gold and silver.....	14	47.1	16.0	6.1	.3	.9	.1
Other metals.....	8	37.8	7.2	3.3	(⁴)	.1	(⁴)
Metals not allocable.....	9	32.1	8.5	3.0	.3	(⁴)	.2
Total metals.....	85	761.3	200.2	65.0	20.8	12.7	1.8
Coals:							
Anthracite.....	17	209.6	27.7	8.1	5.0	(⁴)	(⁴)
Bituminous, lignite, etc.....	52	432.8	44.5	16.2	5.0	(⁴)	(⁴)
Total coal.....	69	642.4	72.2	24.3	10.0	(⁴)	(⁴)
Oil and gas.....	163	1,837.6	904.2	447.1	41.9	381.2	161.3
Sulfur.....	8	66.2	34.5	12.3	(⁴)		20.7
Nonmetals:							
Entitled to percentage depletion ¹⁰	19	90.4	20.0	5.9	2.0		.1
Not entitled to percentage depletion.....	8	56.2	13.4	.2	.2	.3	20.0
Total nonmetals.....	27	146.6	33.3	6.2	2.2	.3	20.2
Grand total.....	352	8,454.1	1,244.4	554.9	74.9	394.2	204.0

See footnotes on p. 12566.

Source: Bureau of Internal Revenue, Statistical Division, Special Tabulation.

TABLE 5.—Mineral depletion and related allowances for selected corporations, by principal mineral products, 1947

[Money figures in millions]

Principal mineral products	Number of corporations	Income subject to depletion		Depletion		Other capital recovery deductions	
		Gross ⁶	Net ⁷	Allowable ²	Basis ³	Development costs ⁵	Exploration costs and losses on abandonment ⁹
Metals:							
Iron.....	21	\$310.8	\$90.3	\$26.7	\$7.5	\$7.2	\$0.3
Copper.....	11	432.1	224.3	45.3	12.1	.9	.9
Lead and zinc.....	23	99.4	35.3	14.6	3.1	4.8	.1
Gold and silver.....	12	66.8	24.3	9.1	.2	1.1	1.6
Other metals.....	7	45.5	7.5	3.0	(⁴)	.1	(⁴)
Metals not allocable.....	12	54.6	17.6	5.5	.4	.1	.3
Total metals.....	86	1,009.2	399.2	104.2	23.3	14.3	3.2
Coals:							
Anthracite.....	16	211.6	18.3	7.5	4.7	(⁴)	
Bituminous, lignite, etc.....	55	612.5	87.2	25.4	6.2	.1	.3
Total coal.....	71	824.1	105.4	33.0	10.9	.1	.3
Oil and gas.....	153	2,691.5	1,544.9	677.7	42.6	471.1	199.9
Sulfur.....	8	80.3	43.8	14.9	(⁴)		25.8
Nonmetals:							
Entitled to percentage depletion ¹⁰	17	68.7	20.2	8.7	1.8	(⁴)	.2
Not entitled to percentage depletion.....	9	102.2	53.4	.3	.3	.4	25.1
Total nonmetals.....	26	170.9	73.6	9.0	2.1	.4	25.4
Grand total.....	344	4,775.9	2,166.9	838.7	78.8	486.0	254.5

See footnotes on p. 12566.

Source: Bureau of Internal Revenue, Statistical Division, Special Tabulation.

(Table 6 omitted.)

TABLE 7.—Mineral depletion and related allowances for selected corporations, by size of total assets, 1946 and 1947

[Money figures in millions]

Total assets classes ¹¹ (in thousands)	Number of corporations ¹¹	Income subject to depletion		Depletion		Other capital recovery deductions	
		Gross ⁶	Net ⁷	Allowable ²	Basis ³	Development costs ⁵	Exploration costs and losses on abandonment ⁹
1946:							
\$100 under \$1,000.....	20	\$22.7	\$5.3	\$2.0	\$0.1	\$0.1	\$0.1
\$1,000 under \$5,000.....	105	207.3	47.3	18.9	3.8	9.2	2.0
\$5,000 under \$10,000.....	46	135.4	47.7	18.9	3.4	5.3	2.3
\$10,000 under \$50,000.....	96	670.0	190.7	81.8	13.4	49.4	19.3
\$50,000 under \$100,000.....	17	283.1	88.6	35.9	8.7	15.7	8.9
\$100,000 and over.....	64	2,129.3	861.3	395.7	45.4	313.2	171.2
Total.....	348	3,447.8	1,241.0	553.2	74.8	392.9	203.7
1947:							
\$100 under \$1,000.....	20	25.8	6.7	2.3	.1	.1	(⁴)
\$1,000 under \$5,000.....	101	268.3	72.5	26.8	3.4	11.0	1.8
\$5,000 under \$10,000.....	42	160.1	60.0	23.5	3.1	7.4	3.6
\$10,000 under \$50,000.....	97	870.2	301.7	118.4	14.4	59.0	25.8
\$50,000 under \$100,000.....	14	335.3	117.2	51.4	10.7	16.5	13.2
\$100,000 and over.....	68	3,108.7	1,604.8	614.3	47.1	390.8	209.6
Total.....	342	4,768.6	2,162.9	836.8	78.8	484.8	254.1

See footnotes on p. 12566.

Source: Bureau of Internal Revenue, Statistical Division, Special Tabulation.

TABLE 8.—Allowable and basis depletion related to income, selected corporations, by size of total assets, 1946 and 1947

Total assets classes ¹¹ (in thousands)	Percent of gross income		Percent of net income		Total assets classes ¹¹ (in thousands)	Percent of gross income		Percent of net income	
	Allowable depletion ²	Basis depletion ³	Allowable depletion ²	Basis depletion ³		Allowable depletion ²	Basis depletion ³	Allowable depletion ²	Basis depletion ³
1946					1947				
\$100 under \$1,000.....	8.9	0.4	38.2	1.7	\$100 under \$1,000.....	9.0	0.3	34.5	1.0
\$1,000 under \$5,000.....	9.1	1.8	39.4	8.0	\$1,000 under \$5,000.....	9.9	1.2	36.8	4.6
\$5,000 under \$10,000.....	13.9	2.5	39.7	7.1	\$5,000 under \$10,000.....	14.6	1.9	39.1	5.1
\$10,000 under \$50,000.....	12.2	2.0	42.5	6.9	\$10,000 under \$50,000.....	13.6	1.6	39.2	4.7
\$50,000 under \$100,000.....	12.6	3.0	40.4	9.7	\$50,000 under \$100,000.....	15.3	3.1	43.8	9.1
\$100,000 and over.....	18.5	2.1	45.8	5.2	\$100,000 and over.....	19.7	1.5	38.2	2.9
Total.....	16.0	2.1	44.4	6.0	Total.....	17.5	1.6	38.6	3.6

See footnotes on p. 12566.

Source: Bureau of Internal Revenue, Statistical Division, Special Tabulation.

TABLE 9.—Income, deductions, and tax liabilities of 10 selected individual oil and gas operators, for the 5-year period 1943-47

[Money figures in millions]

Individual operator	Net income			Special deductions		Taxable net income	Income tax liability		Individual operator	Net income			Special deductions		Taxable net income	Income tax liability	
	From oil and gas ¹²	From other sources	Total	Percentage depletion ¹³	Development costs ⁸		Amount	Percent of total net income		From oil and gas ¹²	From other sources	Total	Percentage depletion ¹³	Development costs ⁸		Amount	Percent of total net income
A-----	\$10.5	\$3.8	\$14.3	\$2.2	\$13.0	—14 \$0.9	\$0.08	0.6	G-----	\$7.7	—\$1.3	\$6.4	\$3.5	\$2.1	\$0.8	\$0.5	7.8
B-----	5.0	.8	5.8	3.1	2.1	.6	.5	8.6	H-----	2.1	3.6	5.7	1.0	.6	4.1	2.2	38.6
C-----	3.9	.5	4.4	3.2	4.4	—14 3.2	.15	3.4	I-----	1.7	.1	1.8	.5	1.0	.3	.2	11.1
D ¹⁶ -----	9.3	.3	9.6	2.7	0	6.9	6.1	63.5	J-----	8.0	—7	7.3	2.9	1.7	2.7	2.2	30.1
E-----	2.7	.8	3.5	1.0	.3	2.2	1.4	40.0	Total-----	52.6	9.3	61.9	20.9	26.7	14.3	13.93	22.5
F-----	1.7	1.4	3.1	.8	1.5	.8	.6	19.4									

Source: Bureau of Internal Revenue, Special Tabulation.

TABLE 10.—Income, deductions, and tax liabilities of 20 selected mineral corporations, 1947

[Money figures in millions]

Corporation	Total net income ¹⁶	Special deductions		Taxable net income	Income-tax liability		Corporation	Total net income ¹⁶	Special deductions		Taxable net income	Income-tax liability	
		Percentage depletion ¹³	Development costs ⁸		Amount	Percent of total net income			Percentage depletion ¹³	Development costs ⁸		Amount	Percent of total net income
1-----	\$27.6	\$11.3	\$9.9	\$6.4	\$2.4	8.7	12-----	\$11.6	\$4.7	\$3.9	\$3.0	\$1.1	9.5
2-----	75.3	19.7	5.7	49.9	19.0	25.2	13-----	6.5	2.1	2.8	1.6	.6	9.2
3-----	7.1	2.1	.9	4.1	1.5	21.1	14-----	4.6	1.9	.7	2.0	.8	17.4
4-----	108.9	19.7	0	89.2	33.9	31.1	15-----	10.5	2.0	6.4	2.1	.8	7.6
5-----	2.8	1.3	0	1.5	.6	21.4	16-----	3.9	1.8	.7	1.4	.5	12.8
6-----	19.3	4.7	4.3	10.3	3.9	20.2	17-----	112.2	36.3	22.0	53.9	21.4	19.1
7-----	9.3	4.5	2.2	2.6	1.0	10.8	18-----	151.5	30.5	36.0	85.0	30.7	20.3
8-----	3.9	2.2	0	1.7	.5	12.8	19-----	144.9	42.1	29.3	73.5	23.0	15.9
9-----	34.5	10.9	0	23.6	8.7	25.2	20-----	167.3	65.5	32.3	69.5	26.4	15.8
10-----	12.9	4.8	2.4	5.7	2.2	17.1	Total-----	926.6	276.3	164.9	485.4	173.0	19.3
11-----	12.0	8.2	5.4	—1.6									

Source: Bureau of Internal Revenue, special tabulation.

NOTE.—Figures are rounded and will not necessarily add to totals. Percentages were computed on the basis of unrounded figures.

¹ The industry classification is the business activity reported on the tax return. When multiple businesses are reported, the classification is the business activity which accounts for the largest percentage of total receipts.² Allowable depletion is the deduction permitted for income tax purposes, and is the larger of either adjusted-basis depletion or percentage depletion.³ Basis depletion is the deduction necessary to recover the unamortized portion of the taxpayer's depletable property over its estimated remaining useful life. The unamortized portion, or adjusted basis, is reduced each year by the amount of allowable depletion.⁴ Less than \$50,000.⁵ Computed at the standard corporation rate of 38 percent.⁶ Gross income subject to depletion represents the amount for which the taxpayer sells, or could sell, in the immediate vicinity of the mine or well, the crude mineral output thereof.⁷ Net income subject to depletion represents the gross income subject to depletion less the allowable tax deductions attributable to the particular mineral property.⁸ Development costs are expenditures for the preparation of mineral properties for production, which are deducted as expenses in the year incurred. Consequently, these expenditures are not included in the tax basis of the property and future cost or adjusted-basis depletion is correspondingly reduced. The treatment of development costs as a current expense, however, does not diminish percentage depletion in subsequent years, since the latter is determined on the basis of income in those years.⁹ Tax deductions for exploration costs represent expenditures which are made in the search for mineral deposits but which cannot be attributed to the capital costs of particular depletable properties. Abandonment losses represent tax deductions for recovery of capital invested in particular mineral properties which are abandoned before recovery of adjusted basis. Both exploration costs and abandonment losses represent tax deductions for capital recovery in addition to depletion deductions.¹⁰ The following nonmetallics are entitled to percentage depletion: fluorspar, ball and sagger clay, rock asphalt, potash, flake graphite, vermiculite, beryl, feldspar, mica, talc, lepidolite, spodumens, barite, bauxite, china clay, phosphate rock, bentonite, trona, gilsonite, and thenardite.¹¹ Total asset classes are based on the net amount of total assets after reserves for depreciation, depletion, amortization and bad debts, as of the close of the taxable year 1946. Only corporations with balance sheets are included. Consequently, the number of corporations differs slightly from that in the tabulations by industry groups and by principal mineral products.¹² Income after deductions for operating expenses, depreciation, adjusted-basis depletion, exploration costs, and losses on abandonment.¹³ Excess of percentage depletion over adjusted-basis depletion.¹⁴ While special deductions more than offset the total net income for the 5 years, some income tax was paid because there were deficits only in some years. A deficit caused by excess percentage depletion cannot be carried over against net taxable income of other years.¹⁵ Includes only 4 years, 1943-46.¹⁶ Net income for tax purposes plus depletion in excess of adjusted-basis depletion and development costs.

Mr. HUMPHREY. I read from the report—individual operator A—I shall not use his name, but it is available—had a net income from oil and gas of \$10,500,000; from other sources, \$3,800,000, a total net income of \$14,300,000. The same man received a percentage depletion of \$2,300,000. Development costs were charged off at \$13,000,000. He received \$13,200,000 tax relief on a net income of \$14,300,000. It so happened that in 1 year this individual had to pay some tax. I want the RECORD to be complete and factual. This man who received \$14,300,000 in net income paid from 1943 through 1947 the grand total of \$80,000 Federal income tax.

Let me give the Senate another case. This is the case of an operator—case G, which is on file with the Treasury De-

partment—who had a net income of \$6,400,000. He received depletion allowances of \$3,500,000 for exploration, and development-cost allowance that was deductible of \$2,100,000. He had a \$6,400,000 net income. He received deductions for tax purposes of \$5,600,000. During all this period of time this man paid a tax that ran to about 7.8 percent, or a tax that is one-third of the lowest tax rate in the income-tax bracket.

Of all the 10 companies which the Treasury Department has presented to the committees of the Congress—10 great companies with net incomes of \$7,300,000, \$1,800,000, \$5,700,000, \$6,400,000, \$3,100,000, \$3,100,000, \$9,600,000, \$9,400,000, \$5,800,000, \$14,300,000—the total amount of tax on percentage rates for all these companies was 22.5, which

is the first bracket rate for individuals under the House bill, and the lowest income-tax bracket.

Mr. President, I want it quite clear that I am not talking now about corporations. I am talking about individuals—individual oil and gas operators. Here are individuals, none of whom had an income of less than \$1,800,000, who were taxed at the earned income rate of the lowest income bracket in the law as proposed in the House bill, under the present language of the House bill, and practically the same language as is contained in the Senate committee bill.

In other words, some poor working man who is working at a job which pays him \$25 or \$35 a week, and whose wife perhaps is working to help out a little bit in order that they may feed their

family—that man pays the same rate of tax on his income as these 10 selected individuals, none of whom had a net income of less than \$1,800,000.

Mr. President, I said I wanted to mention a few things about tax incentives for mining industries. I have been speaking of gas and oil. I am not by any stretch of the imagination through with gas and oil, but I think there may be some debate on that subject, so I should like to hold back some of the single wingback plays and T-formation spinner plays we have available, until we get into the argument.

Let us now for a moment talk about percentage depletion on minerals. As the Senate knows, my amendment includes both percentage depletion on gas, oil and sulfur and upon other minerals. Over and over again both President Roosevelt and President Truman have directed attention to percentage depletion as the most costly and the most unjustifiable tax subsidy in the revenue code. The amendment which is before the Senate includes, under provision (b), reduction in percentage depletion for sulfur and nonmetallic minerals.

Mr. President, in the present law a number of minerals are given percentage depletion at the rate of 15 percent. Sulfur is given percentage depletion at the rate of 23 percent. My amendment suggests that sulfur be put back to 15 percent, where gas and oil should be, and that the 15 percent depletion allowances for all metal mines be made 5 percent.

I am also going to suggest that the extension of new minerals included in the Senate tax bill be eliminated, and I shall leave the suggestion for the Senate's own good judgment. Is there anyone who can really tell me why oyster shells should be given a depletion allowance? I think the burden of proof in that case rests on the committee. Can someone please tell me how common clam shells became strategic? Are we going to win the war in Korea with clam shells? Is stone a strategic metal or mineral? Will somebody tell me how common sodium chloride, commonly known as table salt, became so strategic all at once that it should enjoy a 5 percent depletion allowance? Or can anyone tell me why shale should have a 5 percent depletion allowance? Can someone tell me why sand should have a 5 percent depletion allowance? Then there is another item, which is called gravel. We are going to give gravel a 5 percent depletion allowance, too. And, of course, marble and stone are given a depletion allowance, as are pumice, slate, brick, and tile clay. But I think the payoff is oystershells and clamshells.

Mr. President, if oystershells and clamshells can be included in the bill, then anything can be included. Why not include duck feathers? Or canary birdseed, or dried-up beetles—anything. Once these depletion allowances are made there is no end to the number of things that can be included.

Other changes have been made in the bill. One is with respect to coal. Coal is going to receive a 10 percent depletion allowance instead of 5 percent. I do not want to be too unkind to my

friends who feel so strongly about coal, but I checked with the Department of the Interior on this subject. I thought Senators might want to know about our coal reserves, because really if we need depletion allowances as an incentive for the discovery of coal, then we need a depletion allowance as an incentive for discovering air, or for the discovery of more clouds in the skies, or more water in the seas.

Very well, let us take a look at coal. If the coal industry is a depressed industry, let us deal with it as a depressed industry. If the coal industry needs a subsidy, let us give it a subsidy. Let us not fool around with the tax laws, however, in the process of giving them something. That is the argument we heard on this very floor about Senators' salaries and expense accounts. I should like to have the same kind of a vote on this subject as we had on the subject relating to ourselves. Then we said, "Let us not fool the people. Let us not give ourselves any hidden tricks or hidden plays. Let us not work in secret about anything. Let us be out in the open." In the name of common sense, equity, and justice, I say, if there is an industry which is depressed, let us give it help, let us give it subsidy payments, let us give it some kind of an incentive, let us give it a fair price, let us put a floor under it. I am not going to object to that. I want to see our America prosper. I want to see our economy prosper. But I do not like to see a group come before the Senate Finance Committee or the House Committee on Ways and Means and jack up these rates for depletion allowances on commodity after commodity until finally there is no end to it. We are not going to have any tax law if that is what is to be done.

Let us see about coal reserves. We are not running short. We have only enough coal at the present rate of consumption to last us 2,000 years.

I ask unanimous consent to have a table on the subject printed at this point in the RECORD.

There being no objection, the table was ordered to be printed in the RECORD, as follows:

United States coal reserves data as of Jan. 1, 1950	
Type of coal:	Billions of tons (bituminous equivalent)
Bituminous.....	617
Subbituminous.....	234
Lignite.....	356
Anthracite and semianthracite.....	7
Total ¹	1,214

¹ This estimate is based on a 50-percent recovery rate on total reserves. At annual consumption of between 500,000,000 and 600,000,000 tons this represents a potential supply of about 2,000 years.

Source: U. S. Geological Survey, Coal Resources of the United States, Circular 94, December 1950.

Mr. HUMPHREY. The estimated known United States coal reserves are a total of 1,214,000,000 tons of known discovered reserves. We may need two trillion, so if we must give someone a 5-percent depletion allowance to go forth and

discover another trillion tons of coal, I say that the burden of proof rests upon those who want to do that. I believe I am reasonably safe in saying that it does not look as though we were going to run out of coal. I believe it is reasonably safe to say that if a depletion allowance is what some people say it is, an incentive, it ought to be treated as an incentive. If a depletion allowance is needed as an incentive for the discovery of more coal, someone must have a fantastic scheme as to what we are going to do with the present 1,214,000,000,000 tons of known discovered reserves.

Coal receives a 5-percent depletion allowance. I am not suggesting that it should not have any. I ask, Why does it need 10 percent? If the argument is that it needs a 10-percent depletion allowance because the industry is a depressed industry, that is an argument. If that is the case, let us treat it as we treat farm commodities, by establishing a floor, and price supports. Let us take it out in the open. Let us set up some kind of Commodity Credit Corporation for that industry. But let us not jack up the industry by the tax laws. We do not do that for the farmer, or for the fellow who operates a drugstore or a filling station. They have their troubles. Did we do any such thing for the livery stable operators when the automobile came in? They were depressed. Did we give them a depletion allowance on their old horses? We did not. Are we going to give a depletion allowance on black-and-white television sets when colored television comes in? I hope not. Perhaps I should not have suggested it. We may do it.

I recognize that there are some minerals included in the tax bill with respect to which the Defense Minerals Administration has a program. There are shortages. For example, there is a shortage of asbestos. I am not going to argue about that. I think it can be demonstrated that there is a real need to do something about asbestos. Whether or not a depletion allowance is the best thing to do is another question. I am not sure that it is. In fact, I think it is not. But at least there is a shortage.

However, there is no shortage of granite. There is no shortage of sand. There is no shortage of oystershells and clamshells. I am coming back to oystershells and clamshells time and again, until someone explains why it is necessary that they be given a 5-percent depletion allowance.

I understand that there is a shortage of borax and fullers earth, to mention two more commodities. Perhaps we need to do something in terms of incentives to keep up production.

I am going to be most reasonable. I am willing to go along with a percentage depletion allowance in instances in which there are serious situations. But I am not going to go along with a 25 percent or a 27½ percent. I say that the burden of proof of the need for a 27½-percent depletion allowance for oil and gas rests on the oil and gas people. The burden of proof for justifying a 5-percent depletion allowance

for oystershells rests on the Finance Committee and on the oystershell people. I say that the burden of proof with respect to a depletion allowance of 5 percent on sand and gravel rests on the sand and gravel people and the members of the Finance Committee.

Let us talk about incentives. I should like to have someone give me as much incentive as some people are getting. Let us talk about the present treatment of mineral producers.

I read from a report issued by the Treasury Department entitled, "Additional Tax Incentives for Mining Industry":

Existing tax laws accords the mining industry the benefit of general tax rules for full recovery of costs in determining taxable net income. In addition the mining industry is the beneficiary of a number of special provisions under both income and excess profits tax designed in part to foster and encourage exploration, development, and production of minerals. As a result, the mining industry in general pays substantially lower effective rates of tax on its economic income as compared with other branches of industry.

My heavily burdened taxpaying friends, listen to this:

As a result, the mining industry in general pays substantially lower effective rates of tax on its economic income as compared with other branches of industry.

A. EXPLORATION AND DEVELOPMENT EXPENDITURES

In mining, as in other types of business enterprises, taxable income is computed after allowance for costs of producing the income, in accordance with generally accepted accounting principles. Costs of prospecting and exploration are now deductible as current expense where these costs are not related to a specific mineral property. Where they are attributable to a particular mine or property, these outlays are capitalized and fully recoverable from income through subsequent deductions for cost depletion or as losses on abandonment.

Costs of developing a mine are now currently deductible to the extent that there are receipts from the sale of ore during the development stage. The excess of development costs over current receipts is charged to a capital asset account and may be recouped from later income through cost depletion. Thus on a successful mining property, the amounts of all exploration and development costs not deducted when incurred, may be recovered tax-free from the proceeds of production. If the mine proves unsuccessful and is abandoned, any of these costs yet unrecovered are deductible as losses.

Let me say to those who are interested in mining that we shall have before us an amendment on the subject of deduction of expenses for mining exploration and development. The oil and gas people have been able to deduct all the costs, including all the intangible drilling and development costs. Therefore, the coal people and the mining people in general say, "If the oil and gas producers get it, why cannot we?" At long last they have an amendment which would give it to them.

What are some of the special depletion allowances? I have cited some. On oil and gas the allowance is 27½ percent, sulfur, 23 percent, metals, 15 percent, coal, 5 percent. It is proposed to increase the allowance on coal to 10 percent.

The Ways and Means Committee, in its tentative formulation of the 1951 revenue bill, voted to increase the rate on gross income from coal from 5 to 10 percent; to extend the 15-percent rate to borax, fuller's earth, refractory and fire clay, quartzite, perlite, diatomaceous earth, metallurgical and chemical grade limestone, and tripoli; and to extend a 5-percent rate to sand, gravel, granite, marble, stone, brick and tile clay, shale, and shell.

Let us see what happens in terms of special incentives. First of all, speaking of the defense of our country, I wish particularly to address my remarks to those who say that we must have this money available for purposes of development of new facilities. The Government of the United States has an amortization program. The Government of the United States has given already, up to May of this year, \$817,000,000 in amortization certificates of necessity for purposes of exploration related to mining, gas, and oil. That amortization program averages at about 75 percent. In other words, in 5 years the cost is charged off.

The advantages of this tax treatment have been availed of in connection with many mining projects for expansion and new developments. As of May 22, 1951, the Defense Minerals Administration had approved 134 certificates of necessity for mining ventures, covering emergency facilities with planned total costs of \$871,954,237.

This is for mining, not gas and oil. Gas and oil are extra.

Regulations governing administrative agencies in granting certificates of necessity require that guidance to the maximum extent will be obtained from considerations which assure a fair opportunity for participation by small business and promote competitive enterprises. The Defense Minerals Administration has apparently given sympathetic consideration to the needs of small business in granting of certificates to mining enterprises.

These data are from the chief economist's office in the Defense Minerals Administration.

Mr. KERR. Mr. President, will the Senator yield for a question?

Mr. HUMPHREY. The Senator is making notes. I shall be through in about 10 minutes, and then I shall be glad to yield.

Mr. KERR. I simply wondered if the Senator wanted to know how wrong he was.

Mr. HUMPHREY. Let us talk about excess-profits-tax relief.

D. EXCESS-PROFITS-TAX RELIEF

The Excess Profits Tax Act of 1950 contains several special provisions designed to relieve mineral producers from excess-profits-tax liability. Under these provisions income from certain types of mining activities are exempt, in whole or in part, from the excess-profits tax.

With respect to strategic minerals exemption, I shall read further from the report. These are the minerals which we need—not oystershells but the kind of minerals we need.

I read further from the Treasury Department's memorandum:

1. Strategic minerals exemption

In order to encourage domestic production of strategic minerals the portion of net income of a domestic corporation attributable to mining of a specified list of strategics in the United States is entirely exempt from

excess-profits tax. In addition to the 26 types of minerals specifically exempted, other minerals may also be entitled to the exemption if certified by defense agencies as essential to the defense effort and as not having been normally produced in the United States in appreciable quantities.

Mr. President, 26 minerals are listed at the present time on which no excess-profits tax whatever is charged. One of them is long fiber asbestos. Asbestos is included in the bill and is given an additional 10-percent depletion. No excess-profits tax is paid, but it gets another 10-percent depletion allowance.

Then we have the excess-output provisions. I read further from the Treasury Department's memorandum:

A portion of the net income derived from expanded production of certain mining, timber, and natural-gas properties is exempt from excess-profits tax. Excess output is the excess of units of production in the current year over the normal output during the period 1946 to June 30, 1950. For most metals and nonmetallics, the proportion of income from excess output which is exempt is determined by the rate at which estimated reserves are being exhausted, ranging from 20 to 100 percent. In the case of coal and iron mines, timber, and natural-gas properties the exemption is one-half of the net income from excess output.

In other words, it is another special incentive.

I read further:

3. *Exemption for mines or properties not operating in the normal period and for metal mines operating at a net loss in the normal period*

An additional exemption is granted to provide a greater incentive for the opening up of new properties and of closed mines. In the case of new or reopened metal and coal mines—

I repeat the words "coal mines"—

and natural-gas properties, one-third of the total net income is exempt from excess-profits tax. The same tax relief is given to metal-mining properties in operation in the normal period but having an aggregate net loss for this period.

There is a further provision for exemption of Government subsidy or bonus payments. They are exempt for all taxation purposes, and are not included as income.

Then I should like to point out that there is another important aspect in this special incentive program. There is the direct Government assistance for mineral exploration and development. I have been told that it does not amount to much. I am told that the direct amount for such purpose is at a minimum. There was a request made for \$40,000,000 in fiscal 1952. I have not found out what the Committee on Appropriations did about it, but I would venture to say that it most likely approved most of it.

If the Government of the United States and if the people of the United States want to do something about incentive for exploration and development, the right way to do it is to give those who want to go forth and explore the kind of exploration subsidy which this measure provides.

I read further:

An allotment of \$10,000,000 has been made available by the Defense Production Administration to finance this activity during the

remainder of the current fiscal year, and appropriations of \$40,000,000 have been requested for fiscal 1952. The costs of exploration projects for discovery of certain strategic and critical minerals are met in part by Government funds on a matching principle. The percentage of total direct costs to be supplied by the Government on an approved project range from 50 percent to 90 percent, depending upon the mineral sought.

In other words, Mr. President, you put in \$10 and the Government puts in \$90.

I wish to make one other point. I refer to the exemption of mineral products from renegotiation of contracts.

We passed a bill at this session of Congress for renegotiation of all defense contracts. The purpose of the act was to reclaim to the Government excess profits from high and excess profits. There is an understanding between the Government and the producer that at certain periods of time the books of the producer would be examined. A fair profit would be allowed to the producer of the goods, but that which is in excess of a fair profit would be renegotiated and the Government would claim a certain amount of it.

I read from the memorandum:

IV. EXEMPTION OF MINERAL PRODUCTS FROM RENEGOTIATION OF CONTRACTS

The Renegotiation Act of 1951, designed to eliminate excessive profits from Government contracts, specifically exempts mineral products. The exemption covers all contracts or subcontracts for the products of mine, oil and gas well, or other mineral or natural deposit.

They are free from any renegotiation.

I submitted this entire statement for the RECORD on Thursday of last week. I trust that some Senators have read it. The facts speak for themselves. The facts speak in clear unmistakable terms that the Government of the United States has been extremely generous in terms of bonus payments, subsidies, and tax relief. Frequently the Government underwrites the whole production; it promises to buy the full production in certain instances.

I shall conclude my part of the argument for the moment with these general observations. At a time when we are raising the tax rates to an almost record-breaking high, although I admit the rate is still not so high as it was during World War II; at a time when we are imposing an additional 5-percent tax on corporate income, and at a time when we are planning to impose, in the Senate bill, an 11-percent supertax on personal income, it appears to me that this is no time to extend additional tax relief to those areas I have mentioned today. I wish to say to the members of the Finance Committee that it is entirely possible—and I am sure the committee feels very definitely about it—that it has a strong case for the commodities which are listed as critical defense materials. I would not take too much exception to it. I would say that in the case of a material which is critically needed a fair depletion allowance may now be justifiable.

However, I come back to my point at issue: How can we include clamshells,

oystershells, salt, shale, sand, and stone? When did they become so short in supply and critical in nature? It would be a good thing to know about that. I believe that the burden of proof rests upon the committee.

I also want to know what justification the committee has for recommending a 100-percent increase in the depletion allowance for coal? It is 5 percent now, and the proposal is to increase it to 10 percent. The increase was included in the House bill, and was not changed by the Senate committee. How can that be justified, when it is a well-established fact that we have 1,214,000,000,000 tons of known reserves of coal? If we were to continue to consume coal at the present annual rate, between five and six hundred million tons a year, this known reserve potential of coal supply would last us 2,000 years.

Finally, Mr. President, I want to make my case crystal clear. We are not now asking for the abolition of depletion allowances. We are asking for their equitable adjustment. It is the feeling of those of us who sponsor the amendment that the proposal in the amendment is equitable.

Mr. President, I yield the floor.

Mr. LEHMAN. Mr. President, will the Senator from Minnesota yield me 5 minutes?

Mr. HUMPHREY. I yield 5 minutes to the Senator from New York.

Mr. LEHMAN. Mr. President, I do not believe that anyone can cite any other industries in this country or in other countries, save those that deal with monopolies, which are given such special privileges and allowances as are provided in the pending bill.

I wonder whether it is clearly understood what the privileges and allowances are to an industry which is prosperous and profitable beyond imagination, and which needs little incentive at this particular time.

In the first place, the oil companies are permitted full depreciation of their tangible assets and their development costs. In the second place, if by ill fortune the company drills and brings in nothing but a dry hole which is valueless, it may charge the entire cost of the development operations to its net profits. Finally, it is permitted a depletion allowance of 27½ percent of the gross profits of the operation of its oil wells. That means that the oil companies have a great advantage over any other business of which I have known or over any other business which exists, in my opinion.

A manufacturing concern or an owner of real property is permitted to take depreciation on his property only to the extent of the original cost. When the depreciation has equaled the original cost of the property, depreciation stops. However, in the case of the oil industry, the 27½-percent depletion allowance goes on and on and on, forever; there is no terminal point whatever. We know that many of the oil wells have had a life of 40, 50, or 60 years, or perhaps even more than that. Yet this ultra-liberal depreciation allowance goes on just as long as any production is obtained from the well.

Mr. DOUGLAS. Mr. President, I wonder whether the phrase "Men may come and men may go, but I go on forever," applies to depreciation allowances in these cases.

Mr. LEHMAN. It certainly does. There is no terminal point whatever in connection with the operation of the depletion allowance. It has no end. It goes on just as long as time or as long as any oil can be produced from the well.

Mr. President, the oil and gas companies of the United States are the new giants of our economy. I am, of course, no enemy of bigness, provided it is not monopolistic bigness. However, there is no reason for continuing this munificent concession to the oil and gas industry—this depletion allowance, amounting to hundreds of millions of dollars annually, to an industry which already is heavy with profits, whose profits are absolutely legendary.

A 15-percent depletion allowance, as is provided in the pending amendment, would in itself be extremely generous. It is quite generous enough to provide all the incentive necessary to stimulate the digging of new wells and the risking of capital for new oil and gas explorations.

Of course, Mr. President, it is in the national interest to develop more and more oil wells, just as it is also in the national interest to conserve our oil resources, and just as it is also in the national interest to have farmers grow wheat and flax and cotton. However, we do not grant a depletion allowance for the exhaustion of the soil. It is in the national interest to develop industry; but most industries, both those engaged in production and those engaged in manufacturing, particularly those of any size, are vastly more risky than the oil industry, and, Mr. President, of course, we do not grant percentage allowances to any of them.

The PRESIDING OFFICER (Mr. SMITH of North Carolina in the chair). The time of the Senator from New York has expired.

Mr. LEHMAN. Mr. President, will the Senator from Minnesota allow me to have one-half minute more.

Mr. HUMPHREY. Very well; I yield that much more time to the Senator from New York.

The PRESIDING OFFICER. The Senator from New York is recognized for one-half minute more.

Mr. LEHMAN. Mr. President, a 27½-percent depletion allowance for oil and gas is indefensibly excessive. It is unconscionable. It should be reduced, and the pending amendment should be adopted.

Let me repeat what my distinguished colleague, the Senator from Minnesota, has said: Today, in spite of the legend which has grown up in regard to the speculativeness of the oil industry, that industry is as stable as is any other industry in the United States, if not more so. It is a fact that the great investment companies which deal with the money of millions of persons have placed their investments in oil companies, both producing and manufacturing. Many of those companies are at

the very top of the investment lists, thus giving proof that in the opinion of the investment companies—and I am speaking now of financiers who are skilled, experienced, and trained experts—the oil industry is at least as stable, if not more stable, than any other industry in the United States, and does not need this special privilege, this generous treatment, this gift by a munificent Government.

The PRESIDING OFFICER. The time of the Senator from New York has expired.

Mr. GEORGE. Mr. President, I yield 25 minutes to the Senator from West Virginia [Mr. NEELY].

The PRESIDING OFFICER. The Senator from West Virginia is recognized for 25 minutes.

Mr. NEELY. Mr. President, the distinguished Senator from Minnesota [Mr. HUMPHREY] has during the past 10 days made a number of majestic and memorable contributions to the debate on the pending bill, which is the most sweeping revenue-raising measure ever formulated since the notable day on which Caesar Augustus decreed that all the world should be taxed. The Senator's 8-hour discussion of taxation—past, present, and prospective—was, as usual, interesting, vigorous, eloquent, and profound. Subject to exceptions that will be presently noted, I approve all that the Senator said a hundred percent, and all that he or any other Member of this body has left unsaid during the long debate that is still in progress I approve a thousand percent.

In speaking, the Senator is at least the peer of Amphion, of whom Tennyson said:

He had a tuneful tongue
Such happy intonation,
Wherever he sat down and sung
He left a small plantation;
Wherever in a lonely grove
He set up his forlorn pipes,
The gouty oak began to move
And flounder into hornpipes.

Had we not long since learned that eloquence is not always accompanied by logic and that purity of purpose is never a guaranty of infallibility, we should now be floundering after the Senator, regardless of his destination, as the oak trees floundered into hornpipes, and following him as the mice and rats followed the Pied Piper of Hamelin Town.

As I listened with fascination to my very dear friend from Minnesota, it was difficult for me to restrain myself from saying:

Twinkle, twinkle, little star,
How I wonder what you are,
Up above the world so high,
Like a diamond in the sky.

But the Senator brought both himself and me back to earth when he attacked the oil and gas depletion allowance provision, which the Senate, on my motion, adopted on the 25th day of February, 1926, and the Congress a few days later enacted into law. At the conclusion of the Senator's denunciation of this provision, my situation was identical with

that of the offended character in the following story.

A stupefied inebriate said to the bartender: "Give me a tall and slender glass filled with cracked ice and imported gin." A nearby drunkard said: "Sir, defend yourself. You are talking about the woman I love."

Of course, I do not love the law which the Senator seeks to amend, but it is very dear to my heart. My judgment and my conscience tell me that it deserves to be defended because for more than a quarter of a century it has been a priceless service to the American people in time of peace, and indispensable to their survival in times of war. In my opinion, to impair this law at this moment of unparalleled, world-wide crisis would be to enact a tragedy greater than any ever described by tongue or pen.

For a few brief moments, "backward, turn backward, O Time, in your flight," to the year 1926. At that time the Nation was overshadowed with a peril that subsequently became greater than any in our previous history. American labor, capital, and ingenuity had constructed the most productive industrial machine the world had ever seen. Our political economy surpassed any that Plato, Bacon, More, Campanella, or any other framer of an ideal republic ever saw in his most optimistic visions or envisaged in his most radiant dreams. That economy had provided the American people more wealth, prosperity, comfort, happiness, and peace than had ever been enjoyed by any other people since God first said, "Let there be light." But in 1926—8 years after peace had been restored to a war-torn, weary world by the hosts of democracy under the leadership of the immortal Woodrow Wilson—we were confronted with the grave danger of losing our capacity for self-defense. Our matchless economy had, to a great extent, been achieved by the use of oil. It had powered our diversified machinery and lubricated our countless wheels of progress.

In the latter part of 1925 and the early days of 1926 far-seeing Americans startled us with the information that our oil was rapidly diminishing and that it might soon be exhausted. At that time it was estimated that our total oil reserves amounted to only 8,500,000,000 barrels. Men of outstanding patriotism, wisdom, and experience recommended that in order to conserve our oil we should nationalize the industry that was producing it. One of those who made this revolutionary recommendation was the illustrious former Secretary of the Navy, Josephus Daniels, whose immortal spirit we trust is, at this hour, walking the streets of the celestial city that are paved with stars.

Oil was becoming more and more difficult to find. The cost, the hazards, the heartaches, and the suicides incident to this most perilous of all legitimate enterprises increased with every passing hour. Oil discoveries in 1922, 1923, and 1924 averaged approximately half a bil-

lion barrels a year. In my home State of West Virginia and every other oil-producing State, graveyards were crowded with the remains of venturesome wildcatters who had spent their fortunes and their lives in a feverish search for oil which they never found. Vast multitudes of these patriotic, heroic men—penniless and hopeless, with broken hearts—died in despair. The time at last came when the prudent refused to risk their capital in the hazardous undertaking to find oil.

A praiseworthy Congress promptly recognized the Nation's peril in this vital matter and immediately proceeded to provide the necessary protection against it by enacting a percentage depletion allowance law, under which oil operators who were fortunate enough to succeed could eventually regain their capital investment. On this floor on the twenty-fifth day of February, 1926, I offered an amendment to a House bill which provided an oil depletion allowance of 30 percent. That amendment was adopted. Later the conference committee of the Senate and House reduced the 30 percent provided in my amendment to 27½ percent. The Congress adopted the conference committee's report and the 27½ percent provision became and has ever since continued to be a part of the law of the land.

As a result of this law, a foundation was laid for accomplishments by virtue of which the United States is today the last and only effectual barrier to the onward march to the brutal conquest and enslavement of the world by Joseph Stalin and his godless, ruthless, cut-throat communistic minions. The immediate effect of the passage of this law was amazing beyond the power of exaggeration.

From 1926 to 1931 the new discoveries of oil averaged over 2,000,000,000 barrels a year as compared with a half a billion barrels a year in 1922, 1923, and 1924.

As a result of the provision of the law that the Senator from Minnesota would impair, America supplied the oil that enabled the forces of democracy to win the Second World War. That war increased the demand upon our oil resources and production more than 300 percent. Nevertheless because of the encouragement and incentive afforded by the depletion-allowance provision, we have today not the eight and a half billion barrels of reserve oil, of which we knew in 1926, but more than three times that amount.

In January of this year we had known oil reserves of almost 30,000,000,000 barrels. Without the unimpaired provision under attack, this Nation would, in my opinion, soon become absolutely dependent not only for its progress but for its economic existence upon foreign oil which, in case of an atomic war, could overnight be rendered as useless to us as painted ships on painted oceans.

In 1926 there were 22,052,559 registered automobiles, buses, and trucks in the United States. Today the number

is 51,605,000—an increase of more than 29,000,000 in 25 years. Without the oil increase attributable to the depletion allowance, it is more than probable that we would have fewer automobiles in 1951 than we had in 1926.

In that year this Nation had, exclusive of city streets, 550,064 miles of paved highways. In 1950 the total length of the Nation's paved highways, exclusive of city streets, exceeded 1,570,000 miles. In other words, during the last 25 years we paved over 1,000,000 miles more highways in this country than were paved in all the preceding history of the United States. But for the oil produced as a result of the depletion allowance and the necessity for highways over which to operate the automobiles that were powered and lubricated by that oil, the last 1,000,000 miles of our paved roads would still be ankle deep with dust in summer, knee deep with mud in winter, and instrumentalities of stagnation, poverty and distress instead of sources of prosperity, comfort and peace.

Of course, the depletion allowance has the effect of limiting the taxes of certain producers of oil and gas. But please remember when voting on the Humphrey amendment that no matter how great the losses of taxes due to the depletion law have been, they have not only been fully extinguished but their aggregate amount has been fully repaid more than a hundredfold by the additional taxes on gasoline and taxes on the fabulously increased incomes of the proprietors of our expanded iron, steel, automobile, and airplane industries and others related to them, and by the new taxes paid by the millions who have been lucratively employed in our great industrial enterprises as the direct or indirect result of the oil which but for the depletion provision in question would never have been produced.

Mr. President, let me briefly supplement the observations made by the Senator from Minnesota relative to stripper oil wells. In the eastern part of the United States there is produced from each of these stripper wells an average of half a barrel a day. Of these wells 22,541 are in New York; 81,188 in Pennsylvania; 16,251 in West Virginia; 21,970 in Ohio; and 14,300 in Kentucky. Farther west there are stripper wells from which less than five barrels a day is produced as follows: in Indiana, 1,675; Illinois, 14,886; Texas, 32,528; Wyoming, 2,512; and California, 13,296.

All told, there are stripper wells in 22 States of the Union. Competent authorities have informed me that if the Humphrey amendment should be adopted, all the half-a-barrel-a-day wells and many of other strippers would have to be abandoned because those who own them could not, without the benefit of the present depletion, afford to operate them.

Such a consequence would irreparably injure the owner of every farm in the United States on which one of the least productive stripper wells is situated.

In justification of the present 27½ percent depletion allowance provision and in the hope of even converting my distinguished friend from Minnesota to support it, let me remind him that the average cost of drilling an oil or gas well in the year 1951 is \$90,000 and, on the average, it is necessary to drill nine wells in order to obtain one producer. When a well is drilled in search of a gas field, there is but 1 chance in 40 that it will be found; there are 39 chances to 1 that the entire cost of the experiment will have been expended in vain.

When a well is drilled in search of a small oil field, the chances are 52 to 1 that it will not be found. And if the well is drilled for the purpose of finding a medium-sized oil field, there are 229 chances to 1 that it will not be found.

The PRESIDING OFFICER. The time of the Senator from West Virginia has expired.

Mr. NEELY. Mr. President, will the Senator from Georgia yield me 3 minutes more?

Mr. GEORGE. The time is pretty limited, but I shall be glad to yield the Senator 2 minutes more.

Mr. NEELY. Mr. President, in the two remaining fleeting moments let me emphasize the fact that an oil famine in the United States, at this perilous time, would be a disaster to us and a calamity to every free nation in the world to which we are now lending aid. Today it is more necessary than ever before that our coal production be fully protected and that our oil and gas production be increased to the limit of possibility. The adoption of the Humphrey amendment would make impossibilities of these indispensable consummations. The defeat of the amendment would be an irresistible incentive to greater and greater production of both oil and gas.

Mr. President, by overwhelmingly defeating the Humphrey amendment, in this hour of encircling, world-wide gloom, let us say to Stalin and his Communist hordes—wherever they may be—that we purpose to preserve, protect and defend with intensified determination and increased vigor against all aggressors the transcendent, matchless and inimitable wealth, prosperity, comfort and happiness, to the achievement of which oil has contributed far more than its share, to the end that the American people may forever continue proudly to proclaim:

My county, 'tis of thee,
Sweet land of liberty,
Of thee I sing.

And in behalf of this priceless realization let us humbly pray:

Long may our land be bright,
With freedom's hold light
Protect us by thy might,
Great God, our king.

The PRESIDING OFFICER. The time of the Senator from West Virginia has expired.

Mr. GEORGE. Mr. President, I yield 5 minutes at this time to the Senator from Kansas.

Mr. HUMPHREY. Mr. President, how much time do I have left?

The PRESIDING OFFICER. The Senator from Minnesota has 7 minutes remaining.

Mr. CARLSON. Mr. President, I shall not be able to speak with the eloquence of the distinguished Senator from West Virginia, but I can assure the Senate that I speak with the same sincerity on this amendment.

Coming as I do from a State in which oil and gas production and mining operations are important activities, I feel that I have some knowledge of the importance of percentage depletion. When the Treasury made the proposal in 1942 to eliminate or modify the depletion allowance provision, I made my position clear on the subject in my statement before the Ways and Means Committee, of which I was a member.

Those who question the deduction evidently do so on the assumption that it represents the grant of a special tax privilege, or that it represents an unwarranted subsidy to a favored group at the expense of all other taxpayers.

To make such a claim is tantamount, in my opinion, to contending that Congress for a period of nearly 30 years acted either in such ignorance of the subject as to amount to gross negligence, or that Congress deliberately and intentionally legislated against the best interests of the country.

Since I am unwilling to attribute such a motive or such ignorance to Congress, my studies of the history of the legislation have been made with the object of ascertaining: First, just why Congress adopted and continued the provision, and, second, whether circumstances now existing warrant a change in congressional policy with respect to the subject. Depletion is an allowable deduction from gross income which the Congress has authorized in order to arrive at taxable net income and to avoid the taxation of the return of capital values. In this respect, it is related to depreciation allowance provision for the recovery of a taxpayer's investment in plant facilities and other physical equipment or properties used in the production of income.

Depreciation is allowed because the taxpayer's plant wears out or becomes obsolete in the course of producing income.

Depletion is allowed because the taxpayer's minerals or other natural resources are being exhausted.

It is therefore obvious that, in its simplest sense, depreciation is the impairment of the quality of replaceable property, while depletion is the reduction of the quantity of an irreplaceable commodity.

Depreciation is necessary to replace machines and plant facilities when they wear out. Depletion is similarly necessary to replace mineral deposits when they are extracted from the earth and consumed.

In order to remain in business and to meet the continued and increasing de-

mands for supplies of minerals, the producers must continually explore new areas. They must find and develop deposits which experience indicates will be deeper, more remote, harder to find, and harder to develop.

This unending search and development becomes more and more costly. Thus, while the capital recovered through depreciation provides a substantial part of the funds required to replace machinery even in high-cost periods, this is decidedly not true in the case of mineral deposits.

The cost of finding and developing new sources of mineral supply tends to be many times as great as the cost of those recently exhausted. The producer must have available for these hazardous ventures a fund far exceeding the mere recovery of his former investment.

In 1926, when percentage depletion was adopted by the Congress, a special Senate investigating committee, after an exhaustive study of the problem, reported to the Joint Committee on Internal Revenue Taxation that the new percentage system "distributed the depletion more uniformly among the industry without regard to price of oil on discovery" and that it "reduced valuation work in the Bureau." The report also concluded that the new percentage system did not materially affect the revenue. It is my own opinion that the application of percentage depletion has materially increased the national tax revenue.

The conclusion of World War II did not terminate the very real and serious national concern over the maintenance of adequate reserves of petroleum and other minerals. This is evidenced by the fact that within the past year the Special Senate Committee To Investigate Petroleum Resources made an extended investigation of the petroleum situation, hearing many witnesses and examining evidence over a period of several months.

In 30 years the depletion provision has become a vital factor in the economy of our extractive industries. Although its contribution toward the widespread and highly competitive search for minerals cannot be precisely measured, we do know that these extremely hazardous ventures have continued.

The resulting discoveries of mineral reserves have contributed substantially to national welfare and to the successful conclusion of the recent world war. These discoveries likewise have benefited our peacetime economy through wide expansion of employment and increased products.

With demand for minerals at an all-time peak, and with prospects of unforeseen world-wide demand, we shall need the full and continued effort of all present and prospective producers of minerals. The hazards and costs of exploration are increasing. Petroleum industry exploration has had to follow new, expensive scientific methods, and drilling has reached greater depths.

Search for all minerals has expanded into relatively inaccessible areas. Such conditions have substantially reduced the intended effect of the depletion allowance, namely, partially to offset the

cost of replacing currently produced minerals.

Reversal or modification by Congress of the policy it has consistently followed for so many years would dangerously interfere with the peacetime economy. This is certainly no time to penalize the prospector and the wildcatter.

It is the constitutional obligation of the Congress to levy taxes for the national defense and the general welfare. Our income tax laws have been framed to the end that these objectives may be accomplished with the least possible burden upon the enterprise of our citizens.

The strength of our Nation in peace and in war is the result of a sound economic system of which the petroleum industry is an integral part. The wisdom of the national legislative program with relation to petroleum has been well justified.

Percentage depletion has been a revenue-raising measure, because it has been an important factor in developing a strong and healthy petroleum industry which has resulted in increased oil and gas production which in turn has produced greater taxable income. Increased production of oil and gas has been in the public interest because it has reduced the price of petroleum products to the consumer.

Our system has given the American public an abundance of petroleum products at costs far below the level of any other country. Under our system, the domestic industry was prepared to supply the wartime petroleum needs of our own military forces and those of our allies in two world wars.

The American oil industry has in turn produced almost scores of other industries which contribute to the national tax revenue, for example, the automobile industry, the trucking industry, the aviation industry, and the tire industry. Both Federal and State gasoline tax receipts have increased with the overexpanded consumption of this petroleum product.

It is thus evident that percentage depletion was adopted to implement a policy on the part of Congress to promote the national welfare through encouraging private industry to risk its capital in the hazardous search for new sources of supply, and that the policy was continued in force in the realization that it was accomplishing its purpose.

Mr. GEORGE. Mr. President, I yield to the Senator from Nevada [Mr. McCARRAN] whatever time he may need.

Mr. McCARRAN. Mr. President, during the course of the attack on the tax bill last week there were a few doubts expressed as to the validity of certain depletion allowances for mines. It is my firm conviction that these allowances are more necessary now than ever. It is apparently the conviction of the able members of the Senate Finance Committee, and both the majority and minority reports of the House Ways and Means Committee expressed the belief that this was a well-considered action. On the subject, the majority report states:

Most of these changes would have been made under the House version of the bill

which became the Revenue Act of 1950 but were eliminated from the final legislation largely because of the revenue loss involved. It is apparent, however, that the need for equalization is substantially greater now because of the additional taxes imposed under the legislation of 1950 and under this bill. Therefore, the committee believes that the proposed extension of the percentage depletion system is necessary in spite of the revenue loss involved.

The minority report states:

H. R. 4473 contains several commendable structural improvements and adjustments both in the excise and the income-tax field. These include * * * the addition to the depletion items which are now at a competitive disadvantage.

In order that the mining industry of this Nation may maintain an economy sufficiently healthy to permit expansion to meet essential defense needs, the tax structure must permit adequate reserves for the opening of new mines. In order for capital to be available to an industry, either the rate of return must be reasonable or some return must be certain. In the mining industry there obviously is no certainty of a profit. Therefore, to allow this industry to remain in a position to meet the wartime needs of the Nation, the tax structure must be such as to permit a reasonable compensation for the increased use of its wasting mineral assets. It is true that all of our assets are wasting assets in some ways. Machinery wears out, but it can be replaced. Farm land loses its fertility, but that is why we have fertilizer. The farmer replaces the fertility in his land and charges it off as an operating expense. The mineral wealth that is withdrawn from mines can never be replaced by any such measure.

We are spending, and have spent, millions upon millions of dollars, partly collected from our domestic mine operators, to foster and support mine development projects in every conceivable out-of-the-way place in the world. We may, or we may not, some day receive a return on this tremendous mining speculation. I have no argument with this expenditure for development of strategic minerals. There is no doubt in my mind that we need them. The opponents of depletion allowances carefully avoid any reference to the allowances given to strategic minerals needed for our armaments program. These minerals make their own case. However, there have been several slighting references to new inclusions without any apparent knowledge of the facts upon which the Finance Committee based its findings and recommendations. The facetious references to depletion allowances for "oystershells and clamshells" sound humorous to the layman who thinks of oystershells as being merely the piles of discarded shells found behind sea-food cafes. It sounded rather humorous to me, Mr. President, but I knew that the Finance Committee had not been indulging in mere pleasantries during the recent harrowing weeks of searching for new sources of revenue. Consequently, before questioning these additional inclusions under the Internal Revenue Act of 1951, I took the pains of looking into the justifications. I knew that I could not look into the justifi-

cations for each of these minerals in a few days, since the committee had spent several months in its arduous tasks. I picked the one or two that seemed to be most suited to be targets for the engendered revelry aroused by opponents of this equitable measure. First, as would be suggested by my previous reference, I picked oystershells. Any of the opponents of depletion allowances for mines that desire to be additionally acid in their comments on this measure can hardly accuse a Nevada spokesman of being personally interested in oystershells. We have no oysters within several hundred miles of our boundaries. It develops that the shell deposits utilized by the mineral shell producers are almost pure calcium carbonate, averaging about 99-percent pure. These deposits are not gathered from the rear of cafes, but are from one-half million to a million years old. The deposits stand little chance of being replenished within our lifetimes. To produce this shell in the quantities that are being dredged up by the more productive companies from about 4 feet below the floor of the Gulf of Mexico off the shores of Texas and Louisiana requires an investment of at least \$2,000,000. Due to immense additional requirements for products derived from this shell, the estimates of available reserves have had to be revised downward to a present estimate of from 7 to 10 years with the equipment used for today's operations. During the most recent unpleasantness the production and consumption of shell was more than doubled. Another such endeavor will necessitate considerable additional equipment of a more costly nature and, if deposits become still more scarce, the equipment will be comparatively less productive.

Anticipating some inquiry as to the uses of this shell, I found out, and was surprised, mineral shell is used to a great extent for making lime. This lime, in turn, is used to make caustic soda and soda ash. Caustic soda is used in making soap, rayon, lye, in vegetable oil refining, in paper making, in oil refining and wool scouring, and in the manufacture of glass. A number of plants have been constructed in certain areas because of the availability of this caustic soda. One of these plants uses mineral shell to make caustic soda to make chemicals necessary in the manufacture of fabrics, plastics, textiles, drugs, varnishes, lacquer, dyes, paper, fungicide, antifreeze, soap, antirust materials, and many other products including the making of film for moving pictures. Mineral shell lime is also used to precipitate magnesium from sea water.

Enough on oystershell. It, and the other new inclusions under the depletion-allowance provision of this tax bill, have proved the validity of their claims insofar as I am concerned. If we were to discuss each of the minerals which have a valid claim to depletion allowances, we would be here until snow flies, as we well might be anyway.

The miner is not the only one interested in this matter. The American people and the Government of the United

States have a very heavy stake in the success of this enterprise. The metals produced go into the fashioning of the machines and appliances which are so essential in this age, and there are no materials which are so essential to our American economy as the products of our mines.

In this critical and dangerous period of American history, and in fact of the history of the world, our concern today is greater than ever before. Our experience in two world wars bears undisputed testimony to the dependency of our Government upon mineral supplies for national defense. Not only must we have mineral deposits for our future economy and defense, but those deposits must be available at all times through a going industry, organized and operated with trained personnel, which is constantly developing and making available the metals which we need. The constant threat of reduction or complete elimination of depletion allowances is a deterrent to investment of risk capital and in consequence to the discovery and development of new ore bodies.

Mr. President, in order to emphasize the fact which I have just stated I desire to have the clerk read a letter which was written by the Defense Materials Procurement Agency to the chairman of the Committee on Finance. I ask unanimous consent that the clerk may read the letter.

The PRESIDING OFFICER. Without objection, it is so ordered.

The Chief Clerk read as follows:

DEFENSE MATERIALS
PROCUREMENT AGENCY,
Washington, September 25, 1951.
HON. WALTER F. GEORGE,
Chairman, Committee on Finance,
United States Senate,
Washington, D. C.

DEAR SENATOR GEORGE: I have just read with much concern the debate in the Senate on the tax bill as reported out by your committee.

As Defense Materials Procurement Administrator I am, as you know, responsible to the President and to the Congress for the expansion of the production and supply of critical materials needed for our national security and for the maintenance of our essential domestic economy. Certainly, no job confronting us is more serious. Our very existence requires that we assure a continued flow of those vital metals upon which our whole economy and security rest.

Therefore, I urge favorable consideration for the depletion, depreciation, and development allowances provided in the pending tax bill for the mining industry. If this sane and logical approach is not taken, then we will likely be driven to the alternative of direct subsidies with all their shortcomings. In the long run, subsidies will prove more expensive to the American taxpayer and less productive than tax incentives. As a matter of fact, this mining problem has been so long neglected that some form of direct bonus payment may be required in any event to get production of minerals started in the shortest possible time. Tax incentives, as provided in the pending bill, will still be necessary to keep that production going. The tax incentives for the mining industry may result in some temporary loss of revenue. I predict, however, that, almost at once, the tax incentives will create new taxable wealth which in turn will provide revenue far offsetting the temporary loss.

This is not written in my official capacity because time will not permit the customary clearance procedure. But I would be remiss in my official responsibilities if I did not speak up on this urgent need for stimulating the production of essential metals and minerals. As to other phases of the pending tax bill, I am not sufficiently informed to express my views.

Sincerely yours,

JESS LARSON,
Defense Materials Procurement
Administrator.

Mr. McCARRAN. Mr. President, I ask unanimous consent that the clerk read another letter.

The PRESIDING OFFICER. Without objection, it is so ordered.

The Chief Clerk read as follows:

DEFENSE MATERIALS,
PROCUREMENT AGENCY,
Washington, D. C., September 26, 1951.
HON. WALTER F. GEORGE,
Chairman, Committee on Finance,
United States Senate,
Washington, D. C.

DEAR SENATOR GEORGE: In my letter to you of September 25 covering comments on the pending tax bill before you, I urged favorable consideration for the depletion, depreciation, and development allowances provided in such legislation for the mining industry.

Since rereading the bill it became apparent to me that I had failed to mention exploration which, of course, is just as necessary as any other step in the mining process. In fact, it is the first step and I believe that the modest allowance for exploration set forth in your bill is the very minimum necessary for this whole program. I likewise urge favorable consideration thereon for the same reasons stated in my previous letter.

Sincerely yours,

JESS LARSON,
Defense Materials Pro-
curement Administrator.

Mr. McCARRAN. Mr. President, the President of the United States and the Secretary of the Treasury have recently resumed their attack on percentage depletion. The basis for this attack was summarized in the President's tax message to Congress on January 23, 1950, wherein he stated:

I know of no loophole in the laws so inequitable as the excessive depletion exemptions now enjoyed by oil and mining interests.

The Secretary of the Treasury, in appearing before the Ways and Means Committee on February 5, 1951, referred to percentage depletion as a "major structural defect" in the income-tax law, which he said "is costing the Government, and, therefore, taxpayers in general, hundreds of millions of dollars each year."

The mining industry challenges these statements on two principal grounds:

First, The allowance for depletion is not a tax exemption or loophole, nor a "structural defect" in the tax law. It is simply a recognition of a well-established principle that capital should not be taxed as income. The depletion provision recognizes the fact that in carrying on the business of mining, a portion of the owner's capital is consumed each year, and that the value of the capital consumed should be returned tax-free

and not be considered as taxable income. This fact has been recognized by the Congress in all revenue laws enacted since the adoption of the income-tax amendment of the Constitution.

Second. The allowance for depletion is not excessive. The general depletion provisions of the tax laws apparently are not challenged, the criticism being directed principally against certain percentage-depletion rates. The present rates of percentage depletion for metal mines, sulfur and coal were fixed by the Congress in 1932, following a comprehensive study by the staff of the Joint Committee on Internal Revenue Taxation, and after full hearings before committees of the Congress. Although the Treasury has at various times since 1932 criticized these rates and the conditions of these allowances, the Congress, after full consideration, has repeatedly sustained them as just and equitable, and has extended percentage depletion to a number of additional minerals.

Following further extended hearings last year, in which the administration presented its position at length, with replies from the mineral industry, the Congress again fully sustained the propriety of the percentage-depletion principle and the established allowances.

THE NATURE OF MINING AS DISTINGUISHED FROM OTHER INDUSTRIES

Mining is basically different from other industries, hence, an understanding of its distinctive characteristics is essential to an understanding of the problems of depletion.

The search for and discovery of mineral deposits involve a long process of exploration, requiring the expenditure of large sums of risk capital and the plowing back of a substantial part of the returns from successful enterprises in the search for new deposits, in order to continue in the mining business. Of the total number of properties on which prospecting and exploration are conducted, only a very small proportion ever disclose mineral deposits of commercial value.

After a mineral deposit has been discovered, further large expenditures are required to determine its size and quality, to open it up for mining, and to provide plants and equipment, and so forth. Often roads must be built to almost inaccessible areas and whole new communities established. In the main, these expenditures are of value only in connection with the particular deposit for which they are provided, with little or no salvage when the mine is exhausted.

A mineral deposit, finally ready to be mined, represents all the capital that has gone into all the efforts to find it, together with the exploration, development, and other preparatory work on the particular deposit.

The producer, as he mines and disposes of his product, in reality is engaged in liquidating his capital, in the compulsory realization of his over-all investment. When the deposit is exhausted, he is out of business, insofar as that enterprise is concerned. Thus one of his major concerns, if he hopes to keep on mining, is the expensive and fi-

nancially hazardous task of discovering and developing new deposits to replace those he is depleting.

By contrast, the ordinary business, such as manufacturing or merchandising, is able to replace the raw materials or goods it processes and sells, by continuous purchases in the open market. Its plants, equipment and facilities, once established, represent capital subject to depreciation; but none of its capital is subject to liquidation, day by day, in the normal conduct of the business, as is true in mining.

The capital of a mining enterprise should be treated as capital and not as income, Mr. President. The mineral in place in the ground is the principal capital of any mineral producer. Each ton extracted represents a portion of his capital. Of the total proceeds from each unit of product sold, a portion represents return of capital value and only a portion is income.

Since the inception of the income tax, the obvious intent of Congress has been to tax income only and to avoid taxing capital. The right to the return of capital, tax-free, has always been recognized and never seriously questioned.

Clearly, the mining industry is entitled to be treated as fairly, in the liquidation of its assets, as any other taxpayer. Under existing law, gain from the liquidation of a business enterprise is properly considered capital gain, subject to tax at rates lower than the tax on income. The annual extraction of a mineral deposit is necessarily but a step toward the complete liquidation of the enterprise. When the ore is exhausted, plant and equipment are largely worthless. Our revenue laws have recognized this situation as a reason for the special depletion allowances granted to mines.

The depletion allowance is merely a means for returning to the owner or producer of minerals the capital consumed in the enterprise. A fair depletion allowance should return to the producer over the life of the mining enterprise the full capital investment which the mineral deposit represents. It should be emphasized that the cost or value of a particular mineral deposit seldom, if ever, represents the total expenditure incurred in the search for and ultimate discovery of the deposit and in proving and developing it for production. Vast sums are expended annually in the unsuccessful search for deposits, and these sums must be included in the over-all cost of those deposits that are found and do become productive. Likewise, only a small proportion of the deposits found ever prove to be commercially mineable, and many that are actually opened for production return only a fraction of the money invested in them. A true basis for depletion would be a method which would return to the industry as a whole the entire sums expended over the years in the successful and unsuccessful search for, discovery, and development of mineral properties for production. Adequate depletion for this purpose would far exceed the total of allowances made under the present law.

The percentage depletion allowance resulted from a careful study by Congress.

It affords the simplest and best method for determining the annual consumption of capital in the mineral-extracting industries.

After years of difficult experience with the other methods of computing depletion allowances for mines Congress in 1932 adopted the percentage method for metal mines, coal and sulfur deposits. Previously, in 1926, the percentage basis for depletion had been adopted for oil and gas, and reports by the staff of the Joint Committee on Internal Revenue Taxation and by the Treasury Department showed that it had "functioned satisfactorily both from the economical and administrative viewpoints and without loss to the Government."

The joint committee held extensive hearings, and its technical staff made extensive studies on the subject of mine-depletion allowances. Printed reports of the hearings and of the staff studies and recommendations were fully considered by Congress in adopting the percentage method and the rates. The percentages of gross income then fixed as depletion allowances were lower than the averages which had actually been allowed to the various classes of mines under the methods of computing depletion which were in existence during the 5-year test period, 1922 to 1926, inclusive. For example, a study by the joint committee staff showed that the average depletion allowed to metal mines on the basis of cost, March 1, 1913, value, or discovery value, whichever had been used, was 17.1 percent of gross income. As a result of this study, the recommendation by the staff for a depletion allowance of 15 percent of the gross income, limited to 50 percent of net income, was adopted by Congress.

Mr. L. H. Parker, chief of staff of the joint committee, in transmitting to the committee his report and recommendations, dated December 17, 1929, stated:

The methods of percentage depletion proposed for consideration are not such a departure from the present system as would appear from a preliminary inspection. The analytic method of valuation now used in most important cases arrives at the value through the estimation of future expected profits. Depletion based on a percentage of net income from the property merely uses actual figures instead of estimated figures.

This report of the joint committee staff called special attention to the uncertainty and lack of uniformity under the existing methods of computing depletion. Tables were included showing the wide differences in allowances for depletion as between different branches of the industry and between individual taxpayers within a given branch. The inclusion of the percentage method has helped to remedy that inequitable situation.

The report also pointed out that under the methods theretofore used in determining depletion, there was a lack of stability of revenue to the Government, the tax during the lean years being practically eliminated. The allowance of a percentage deduction based on the value of actual annual production unquestionably has promoted greater stability of revenue.

One of the objects sought to be attained by the percentage method was the elimination of the inequality which had existed between competing producers in the mining industry. Under the methods in use prior to 1932, certain companies had been able to establish adequate unit depletion allowances, which because of differences in the geological nature of the deposits were not available under the statute to others. The present law tends to remove this inequality and to give all mining taxpayers some measure of protection against taxation of their capital.

The small-mine operator usually cannot afford the expenditure necessary to establish the value of his mineral deposit by the analytical appraisal method and the corresponding depletion value of his unit of production. Percentage depletion removes the necessity for such expenditures. It provides a simple, understandable method by which, from the inception of his enterprise, the operator may receive the reasonable allowance for depletion contemplated by the statute; it assures him fair and equal treatment as compared with other operators; and it protects him against taxation of the capital consumed in his operation.

Mr. President, public policy recognizes the importance to our country of a continuous flow of minerals from the mines to the consumers. Minerals are the backbone raw materials for our industrial civilization, indispensable to our welfare and progress in time of peace, vital to our security in time of emergency. The recent war caused vast drains upon our best mineral reserves, and current demands cannot be measured by prewar levels.

Clearly, it is imperative that the search for new and greater mineral reserves be accelerated; that every serious deterrent to this objective be eliminated; that every reasonable incentive toward it be created.

The search for new mines is no longer the simple task of the lone prospector; the easily discovered deposits, for the most part, have already been found. Applied science and engineering of high order are required in modern prospecting and exploration. The cost of finding and bringing new mines into production has expanded enormously in the last decade. The successful search for, exploration, and development of new mines today depends mainly upon the established mining companies, with trained personnel and ample financial resources and equipment.

Adequate depletion allowances are absolutely essential if funds are to be available for the continued discovery and development of mineral supplies to replace the reserves being depleted and to increase our mineral supplies to support our expanding population and maintain our rising standard of living.

The percentage depletion allowances available to producers of many important minerals are wholly insufficient to supply the large volume of funds now required for this purpose. Not only should the principles of percentage depletion be preserved intact, but the allowances should be liberalized to more nearly per-

mit capital recovery and to encourage and stimulate exploration and development activities commensurate with our national mineral requirements.

Mr. President, it is clear that the depletion provisions of the present tax law do not discriminate against other taxpayers in favor of mining and do not constitute a loophole which is costing the Government vast sums in taxes. The principle of percentage depletion has proved, by experience, to be fair and equitable. The existing rates, far from being excessive, in the main are inadequate to return the capital investment of the industry as a whole and to stimulate the exploration and development essential to our national requirements.

Percentage depletion, by its simplicity and obvious fairness, permits substantial savings in administration to both Government and taxpayer; it avoids discrimination against smaller taxpayers; it is a protection against the excessive taxation of capital; it is the simplest and best procedure, yet, devised for sustaining capital investment in an industry that is vital to our national welfare and security.

The Government derives large revenues from mines and from those who are connected, directly and indirectly, with mining. A reduction in depletion allowances would soon result in reduced tax revenue from a weakened and declining mining industry, while taxes from the many other industries and individuals who derive their income from mining would shrivel in proportion. A more vigorous and expansive mining industry, encouraged and stimulated by a wiser tax policy, would be far more productive of total tax revenue in the long run than an industry continually harassed by Government and forced to divert its energies from production to the defense of its very existence.

Mr. President, mining is of paramount importance to our economy and our national security. Its peculiar nature, its natural hazards, and the odds against success in mining ventures should be more fully recognized in our tax laws. The need is imperative to restore normal incentives in mining—opportunities for profits, after taxes, commensurate with the risks involved. Given these incentives, there need be little concern about our future supply of minerals, the vitality of the mining industry, or its fair contribution to Government revenues.

Mr. KERR. Mr. President, I yield 5 minutes to the distinguished junior Senator from Oklahoma [Mr. MONRONEY].

The PRESIDING OFFICER (Mr. HENDRICKSON in the chair). The junior Senator from Oklahoma is recognized for 5 minutes.

Mr. MONRONEY. Mr. President, I should like to clear up two or three points which were raised by my distinguished colleague, the junior Senator from Minnesota [Mr. HUMPHREY].

First, I should like to discuss his claim in regard to the great safety of the oil business as a field for the investment of trust funds and other funds. The Senator from Minnesota cited, as an example, the investments which have been made in the Standard Oil Co., the Gulf Oil Corp., and many of the other great,

integrated oil operations in the United States. Throughout the debate I believe there has been a great misconception on the part of those who favor the amendment of the Senator from Minnesota, in that they seem to believe that the 27½ percent depletion allowance applies to all oil operations. Of course, that is not the case. That allowance applies only to the part of the business which actually involves the production of oil from beneath the ground. No depletion allowance whatsoever is permitted in the case of the activities of the oil companies which are related to the refining of oil, the production of chemicals, and so forth.

A study of these great corporations will show that they are engaged only to a small degree in the production of oil, and that most of the oil which has been found has been discovered by the small, independent oil operators who wildcat for oil; and once they discover the oil and develop oil production, they sell it to the larger oil corporations, who thus provide for their regular supplies of oil.

So, Mr. President, to claim that because various investment companies are finding attractive investments in the integrated oil companies, is to put the matter on an entirely fallacious basis. The profits of those companies come from the production, transportation, and marketing of gasoline and from many other phases of the industry which are not even remotely connected with the depletion allowance.

Mr. KERR. Mr. President, will my colleague yield?

Mr. MONRONEY. I yield.

Mr. KERR. The Senator from New York [Mr. LEHMAN] said that the depletion allowance is 27½ percent of the gross profits of these great corporations. I ask the Senator if anything could be in greater error than that statement by the Senator from New York.

Mr. MONRONEY. That statement by the Senator from New York is completely in error. It is utterly fallacious to argue as did the Senator from New York, because the percentage depletion allowance applies only to the production of oil.

The second point which I should like to make is that although the distinguished junior Senator from Minnesota has made a great drive on this floor, and although I have voted with him in regard to many of his amendments in an effort to increase the revenue which will be produced by this tax bill, yet I do not believe the pending amendment of the Senator from Minnesota will increase the amount of revenue produced for the Government.

It is claimed that the modification of the depletion allowance will bring in increased revenue in the amount of \$200,000,000 a year. That might be true in the first year or two after such a change; but Uncle Sam will be the final victim of this move, in that the taxable assets of the oil industry are certain to be depleted as this move curtails drastically the discoveries of new wealth. Each year the present producing wells will produce less oil and consequently the tax income from oil will decline to less than half its present rate in a short 5 years.

It is the discovery of new wealth and new taxable income that will bring the most money to the Treasury. Any policy that will abruptly curtail the exploration for oil will have an adverse effect upon the tax income from the oil business.

To use a few examples of how men in high personal income-tax brackets in other fields of activity escape taxes by diversifying their investments into oil, as a reason for upsetting a fundamental part of an entire industry's tax structure would be fallacious reasoning indeed. Yet reference was made to six or seven cases, among all the income-tax statements filed by persons investing in oil securities, and it was claimed that those six or seven cases show that these oil companies are the beneficiaries of favoritism.

Certainly the great mass of the oil industry is not in this favored position. Those who are actually engaged in this industry, including the farmer, the small land owner, the royalty owner, the wild-catter, and the thousands of small independent oil men, are not in the class described by the President in the example he gave of tax avoidance. To those who day after day seek new oil fields as their principal business—and they are the men who find the new oil fields—the 27½-percent depletion is an essential part of their operation.

Mr. President, without looking at the income-tax returns, I cannot see how the President could claim that that condition is brought about by the depletion allowance, inasmuch as in no event can the depletion allowance deducted from the gross production of oil amount to more than one-half of the net income. Yet, in the case of the examples the President cited, the percentage amounts to far more than that. I am inclined to believe that the President must have considered, in connection with the reports on those cases, the amounts of money spent for the drilling of oil wells and for the acquisition of leases and new acreage, which as an investment are already written off for that year, so far as the taxpayer is concerned; and the income will not be subject to further deductions, except for depletion, in subsequent years.

It is not the very rich or the big integrated companies who are most dependent upon this structure, but the great body of the oil industry, little business, and individuals who cannot continue their search for new oil sources if this 26-year-old historic principle of allowance for exhaustion of capital wealth is now removed or reduced in half.

Mr. President, we hear much said about monopoly. It is certain that the large, integrated companies will continue in the oil business. However, without the 27½-percent depletion allowance which the small operators must have if they are to continue to search for oil, they will have to go out of business; and then it will be impossible to have competition, which is so necessary in the oil business.

It is equally fallacious to point out that the petroleum industry enjoys special tax advantages not available to other

segments of our economy. Far safer fields, such as stock-market profits, business property development, and even industrials enjoy long-range tax advantages for superior to the uncertain investments in oil development.

Only one out of every nine wells drilled is a producer. The others are dry holes without value and represent tremendous loss to the individual or company drilling them. To argue that these dry holes are deductible is all right—but if for the year the operator has drilled one, two, or three wells that are dry—his deductions for dry holes produce no revenue or income for him. There is no way to salvage money sunk in a dry hole.

Investments, even if they go sour, in industry or business have some liquidated value—but a dry hole has absolutely none.

Investments in business property are allowed depreciation, yet the distinguished Senator from Minnesota recently pointed out that with the acceleration of property values, many of these depreciated business properties, written down on depreciation allowances as much as one-half of their original cost, are now worth two to ten times their original cost.

In the oil business, the new well is at its top value the day it is discovered. With each barrel of oil produced, there is one less barrel remaining in the ground. Within 5 years or so, most of the oil properties are in a sadly depleted class, and within a few more years are reduced to stripper operation. The decline in capital value is rapid and complete in oil producers, and only by an adequate percentage depletion can you avoid the income tax from becoming a capital levy on this type of property.

The PRESIDING OFFICER. The time of the Senator from Oklahoma has expired.

Mr. MONRONEY. May I have one more minute?

Mr. KERR. I yield the Senator one more minute.

The PRESIDING OFFICER. The Senator from Oklahoma is recognized for one more minute.

Mr. MONRONEY. Mr. President, the entire salvage operation of the stripper wells depends on the 27½ percent depletion allowance. Without it there will be lost, it is estimated, more than 4,000,000 barrels of oil yet remaining underground. If we do not adhere to the historic tax policy which has been in effect for many years, but undertake to change it now, at a time when we have lost 30,000,000 barrels of oil production from Iran, we are going to find our own domestic sources, upon which we are so dependent for our defense efforts, far below the amount needed for military and defense purposes. I think it would be very unwise at this time to change this allowance.

Mr. KERR. Mr. President, I yield 10 minutes to the distinguished senior Senator from Texas.

The PRESIDING OFFICER. The Senator from Texas is recognized for 10 minutes.

Mr. CONNALLY. Mr. President, I shall neither encumber the Record nor

abuse the patience of Senators by quoting a great many statistics on this subject. From the very beginning I have advocated and supported the principle of depletion. In my State it has been applied particularly to oil and gas, but there are other items in the bill affecting production in my State. I remember very distinctly many experiences along this line, which have proved an absolute success under the doctrine of depletion. For example, let us assume there is an oil deposit which is limited, which is not perennially productive, but which is exhaustible.

Mr. KERR. Mr. President, will the Senator yield for a correction on that point?

Mr. CONNALLY. I yield to the Senator from Oklahoma.

Mr. KERR. The Senator from New York has said it was no more necessary that the oil producer have the depletion allowance than that the apple grower should have it for the apples from his tree. The apple tree grows a new crop every year, does it not?

Mr. CONNALLY. Certainly; but there are no "oil trees" to grow a new supply every year. When a natural resource such as oil or gas is taken out of the soil it is not replaceable. It is gone forever, it is consumed, and it is necessary from our viewpoint to have the depletion allowance in order to stimulate exploration and development of resources presently unknown.

Mr. President, I understand that the Senator from Minnesota claimed that 80 percent of the depletion allowance funds go to companies which do not engage in exploration or development. The Senator is greatly in error. He is not in the Chamber at this moment. I do not know where he is. He has fired his barrage and fallen back. [Laughter.]

As a matter of fact, the expenditures by 30 large companies from 1946 to 1948 were between 46.7 and 60.3 percent of the price of crude oil, as compared with the maximum depletion allowance of only 27½ percent. That means that the theory and policy of depletion allowance is of great benefit to the industry and, being of benefit to the industry, it is of benefit to all the people in the United States. The consumers are interested. If the price of oil declines temporarily, the consumer is supposed to be benefited; if it rises, the producer is supposed to be benefited.

THE DEPLETION ALLOWANCE

Mr. MALONE. Mr. President, will the Senator yield for a question at that point?

Mr. CONNALLY. I yield.

Mr. MALONE. I should like to ask the distinguished Senator from Texas, who has had long experience in an oil-producing State, whether it is not a fact that, because of the regulations governing the investment of private venture capital, which include free trade, income taxes and other restrictions by the administration which have been promulgated over the past few years, in most cases the money invested in the exploration for new deposits of oil and minerals becomes available as a result of the depletion allowance.

Mr. CONNALLY. I may say to the Senator I am unable to answer him categorically, except to say that I think it has stimulated vastly the exploration and development of oil and gas resources.

Mr. MALONE. Mr. President, will the Senator yield further?

Mr. CONNALLY. I yield for a question.

Mr. MALONE. I am informed those who are engaged in the mining industry, and also from the oil producers, that that is a fact. Without the depletion allowance private venture capital would not be available and that it would then be necessary to turn to appropriations of taxpayers money to obtain sufficient money for exploration.

Mr. CONNALLY. I am sure the Senator is accurate in that statement. The depletion allowance of course gives stimulation to the production and development of oil and gas, and when that occurs there is of course an inducement for people to invest in a growing, prospering and developing industry such as the oil or gas industry.

Mr. President, I am sure that others who are familiar with this subject have addressed the Senate and will address the Senate. I happen to be a member of the Senate Finance Committee, and have been a member of that committee ever since I have been in the Senate. I have seen all these efforts to repeal the depletion allowance fail because they could not stand the investigation of the facts. Our committee has developed those facts. It has developed them in prior years, and it is essential to these industries that depletion allowances continue.

Mr. MALONE. Mr. President, will the Senator yield for a question at that point?

Mr. CONNALLY. Yes; though I cannot yield very much time, since I have but 10 minutes.

Mr. MALONE. Mr. President, I should like to ask the Senator whether, if it were possible to repeal the depletion allowances on the exploration for oil and minerals, thus making it unattractive to private investors, it would not become necessary then to appropriate more of the taxpayers' money, as we are doing in many other fields in furtherance of exploration?

Mr. CONNALLY. That would either be true, or a monopoly would be granted to the companies which are already in the business. There would be no inducement to new enterprises to enter that field, and that would, of course, place a tremendous burden on the consumers of oil and gas.

Mr. President, in a great many of the States of the Union oil and gas are produced. The amendment is not a sectional or a local measure; it applies to the people of the United States very generally over the whole area of our territory. There is some prejudice against the oil industry. It is said that all an oilman has to do is to dig down in the ground and get the oil, and he is very prosperous and very happy. I have often heard it said—I do not know

whether it is absolutely true—that more money is frequently expended in developing or exploring for oil than is returned out of the earth for the benefit of those who are seeking the oil. The Senator from West Virginia [Mr. NEELY] has in mind what I am trying to say.

Mr. NEELY. Mr. President, will the Senator yield?

Mr. CONNALLY. I yield.

Mr. NEELY. I am aware of the truth of the Senator's statement. As I pointed out awhile ago, when the Senator from Texas was absent, in order to find oil it is necessary to drill nine wells to get one producing well. One digs eight holes with nothing in them, at \$90,000 apiece, in order to get one producing well.

Mr. CONNALLY. I thank the Senator very much for that contribution.

There is no question, Mr. President, of the wisdom of offering inducements for the discovery, exploration, and development of our natural resources. The depletion allowance, to my mind, is one of the most practical and one of the wisest measures along that line that has so far been developed. Instead of paying a straight-out bounty, instead of paying a subsidy, we allow the producer to make a deduction from his income-tax return. There is no money taken out of the Treasury in connection with it. There is involved an inducement to risk his money, his time, and his effort in the production and development of great natural resources.

The PRESIDING OFFICER. The time of the Senator from Texas has expired.

Mr. CONNALLY. I thank the Senator from Oklahoma [Mr. KERR] for granting me the time.

Mr. KERR. Mr. President, I think the Senator from Minnesota [Mr. HUMPHREY] is ready to address the Senate again.

The PRESIDING OFFICER. The Senator from Minnesota is recognized for 7 minutes.

Mr. HUMPHREY. Mr. President, I doubt that in 7 minutes I can hope to answer the arguments which have been made. After the array of talent which has been brought to bear against my amendment, I feel almost flattered that I aroused such a tempest—I would not call it a tempest, in a teapot, for we are talking, apparently, about a tempest in an oil well.

The amendment has been misinterpreted by those who are opposing it. First of all, I may say there is not a word in the amendment that suggests eliminating the depletion allowance.

Mr. KERR. Mr. President, will the Senator yield for one question?

Mr. HUMPHREY. I yield.

Mr. KERR. Is the Senator saying he believes in the principle that we should cut the dog's tail off an inch at a time so as not to hurt him so badly?

Mr. HUMPHREY. If the dog's tail messes up the landscape it should be removed. The Senator from Oklahoma is undoubtedly a better veterinarian than I am. If he is an expert on dogs' tails

I am willing to accept the Senator's judgment.

The purpose of my amendment is to limit the allowances and to cut back the proposal in the committee bill—

Mr. CONNALLY. Mr. President, will the Senator yield for one question?

Mr. HUMPHREY. I yield.

Mr. CONNALLY. The Senator advocates a cut from 27½ to 15 percent in the gas and oil depletion allowance, does he not?

Mr. HUMPHREY. That is correct.

Mr. CONNALLY. Then he believes in the principle of a depletion allowance, does he not?

Mr. HUMPHREY. I am saying that it can well have its justification, and I accept it, but I do not believe that the principle of depletion allowance should run on forever in terms of assets to a particular well or a particular property.

Mr. President, I wish to return for a moment to the speech of my distinguished and close personal friend, the Senator from West Virginia [Mr. NEELY]. First of all, I was very pleased to hear the Senator point out that he was the author of the provision for a depletion allowance in the Senate. I know that the Senator in doing that was rendering a great service to his country. I listened to the persuasive eloquence of his argument, but I would remind him and those associated with him that in 1926 there was one situation, and that in 1951 there is an entirely different one. In 1926 the tax structure of the country was entirely different from what it is now. The reserves of our Nation are different from what they were at that time.

Mr. NEELY. Mr. President, will the Senator from Minnesota yield?

Mr. HUMPHREY. I yield.

Mr. NEELY. Is not the difference in the situation, so far as oil is concerned, directly attributable to the fact that the 8,500,000,000-barrel reserves in 1926 have increased to 30,000,000,000 barrels in 1951 because of the operation of the particular provision of the law which the Senator seeks to amend?

Mr. HUMPHREY. I agree with everything the Senator has said except his last proviso, "because of the operation of the depletion allowance provision." In 1926 we did not have a list of incentive payments, a list of tax incentives, a list of all sorts of privileges which we now have.

I put into the RECORD last Thursday a list of preferential treatments given to mining, oil, and gas production on the part of the Government, and I am surprised that the Senator from West Virginia did not read it. I have also pointed out that with reference to depletion allowances today the overwhelming bulk of them goes to a few companies. I pointed out that a survey made by the Government in 1947 revealed that the big corporations, whose basic industry is not oil exploration or oil development, actually received 75 percent of the depletion allowance funds, 75 percent of the benefits.

I submit, Mr. President, that these arguments have not been knocked down

or disproved. All that has been said is that the depletion allowance has increased production, that it has made greater production possible. No one denies that it may be very beneficial for production, but how much depletion allowance should be paid? That is the issue.

Mr. President, I have in my possession net-income figures of some of the large oil companies from which we can ascertain what has happened to some of the profits in terms of those companies. Let us take a look at the returns on invested capital of 30 large oil companies from 1944 to 1950.

In 1944, after taxes, the return was \$678,000,000. In 1950 the same 30 oil companies had profits after taxes of \$1,815,000,000.

What was the rate of return upon the capital investment after taxes? In 1950, for those 30 major oil companies, the rate was 15.2 percent. In 1948 it was 20.9 percent. In 1946 it was 10.8 percent. I repeat, most of the depletion fund has gone to the very companies to which I am referring.

Let us take a look at the profit rate for the first quarter of 1950 as compared with the first quarter of 1951. For the Standard Oil Co. of New Jersey the rate was 82 percent; for the Texas Oil Co. it was 71 percent; for the Standard Oil Co. of California it was 52 percent; for Cities Service it was 25 percent; for the Gulf Oil Co. it was 23 percent; for the Standard Oil Co. of Ohio it was 68 percent; for the Pacific Western Oil Co. it was 300 percent; for the Sunray Oil Co. it was 100 percent; for the Union Oil Co. of California it was 250 percent. Those figures represent profit increases from the first quarter of 1950 to the first quarter of 1951.

Mr. President, I ask unanimous consent that these respective tables on profits and percentage of return on invested capital, and percentage increase in profits, 1950 to 1951, be inserted at this point in the RECORD as a part of my remarks.

There being no objection, the tables were ordered to be printed in the RECORD, as follows:

Profits and percent return on average invested capital before and after taxes for 30 oil companies, 1944-50

Year	Profits		Percent return on average invested capital ²	
	Before income taxes	After income taxes ¹	Before income taxes	After income taxes
	Millions	Millions		
1944.....	\$1,013	\$678	15.2	10.2
1945.....	764	640	10.9	9.1
1946.....	1,039	800	14.0	10.8
1947.....	1,705	1,276	20.8	15.6
1948.....	2,760	2,022	28.4	20.9
1949.....	1,883	1,475	17.3	13.5
1950.....	2,567	1,815	21.6	15.2

¹ Includes income applicable to minority interests. Excess-profits taxes and adjustments and tax credits are included in income taxes.

² Average invested capital is the average of preferred stock, common stock and surplus for the year.

Source: Frederick G. Coqueron and Joseph E. Pogue, Financial Analysis of Thirty Oil Companies, for years 1945-1950, petroleum department, the Chase National Bank.

Net income after taxes of six large oil companies

[In thousands of dollars]

Year	Standard New Jersey	Standard (Indiana)	Standard (California)	Socony	Texas	Gulf
1942.....	83,362	44,184	30,559	30,808	35,060	22,982
1943.....	121,328	50,591	36,116	36,221	42,890	29,301
1944.....	155,396	59,226	43,468	62,193	54,517	42,076
1945.....	154,156	50,340	55,555	41,494	51,857	45,214
1946.....	177,610	67,650	66,957	58,311	71,089	58,285
1947.....	268,627	94,881	107,269	97,708	106,313	95,540
1948.....	365,605	140,079	161,492	132,800	165,981	153,539
1949.....	268,870	102,668	137,856	98,329	132,743	100,877
1950.....	408,223	123,581	150,804	128,217	149,072	111,140
1951 (first half).....	249,000	71,068	84,918	76,000	86,507	63,319

Source: Moody's Industrials.

Percentage increases in profits, first quarter, 1950, to first quarter, 1951

Standard Oil (New Jersey).....	82
Texas Co.....	71
Standard Oil (California).....	52
Gulf Oil.....	23
Cities Service.....	25
Phillips Petroleum.....	60
Houston Oil.....	33
Socony-Vacuum Oil.....	68
Skelly Oil.....	28
Sinclair Oil.....	28
Standard Oil (Ohio).....	68
Continental Oil.....	38
Standard Oil (Indiana).....	36
Tide Water Oil.....	50
Union Oil of California.....	250
Sun Ray Oil.....	100
Pacific Western Oil.....	300
Mid-Continent Petroleum.....	72
Ohio Oil.....	14
Richfield Oil.....	95

Mr. HUMPHREY. Mr. President, up to this time no Senator has presented any justification whatsoever for the increase in the depletion allowance from 5 percent to 10 percent so far as coal is concerned.

Mr. KERR. I suggest the absence of a quorum.

The PRESIDING OFFICER (Mr. MARTIN in the chair). The clerk will call the roll.

The legislative clerk proceeded to call the roll.

Mr. KERR. Mr. President, I ask unanimous consent that the order for a quorum call be rescinded, and that further proceedings under the call be suspended.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. KERR. Mr. President, I now yield 1 minute to the Senator from Colorado [Mr. MILLIKIN].

Mr. MILLIKIN. Mr. President, I simply wish to say that the junior Senator from Colorado has a financial interest in the oil industry which might be affected by this amendment. He has a \$210 or \$225 a year interest in one of the minerals outside of oil that might be affected by this amendment.

The junior Senator from Colorado, out of long experience in the oil business and some experience in the mineral business, merely wishes to say that he believes that the version of the Senate Finance Committee is most desirable for the welfare of the country, if we wish to have

sufficient of these important minerals and oils for our defense efforts. The interests of the State of Colorado are clearly on the side of the committee's amendment. My own interests as they might be affected by the committee's amendment, running parallel in their small way with those of my State and of the Nation, I shall vote when the time comes, and I shall vote against the offered amendment to the committee's version.

Mr. ROBERTSON. Mr. President, will the Senator from Oklahoma yield to me for half a minute?

Mr. KERR. I yield to the Senator from Virginia.

The PRESIDING OFFICER. The Senator from Virginia is recognized for one-half minute.

Mr. ROBERTSON. Mr. President, I have been getting estimates of what the deficits for this year will be, based on the bill before the Senate, and they range from \$8,000,000,000 to \$20,000,000,000, depending on how fast the Military Establishment can actually spend the money Congress has appropriated.

When the junior Senator from Virginia was a member of the Ways and Means Committee of the other House quite a study was made of the question of oil depletion. The junior Senator from Virginia reached the conclusion at that time that possibly the rate was too high. The junior Senator from Virginia feels now that it is possibly too high, but he thinks that the pending amendment would put it too low.

In view of the fact that we will certainly have to have more tax revenue, and will have next year another tax bill of some kind—perhaps involving a transaction or sales tax—it would seem to the Senator from Virginia, who does not wish to take a categorical position at this time on the question whether the rate is either too high or too low, that we should let the bill go through, but with the understanding that our tax committees will give very serious consideration to the subject.

There is another matter which concerns us, and that is the prospect of a fuel-oil shortage unless we can open up some other source of supply.

The PRESIDING OFFICER. The time of the Senator from Virginia has expired.

DEPLETION ALLOWANCE ON PETROLEUM AND MINERALS

Mr. KERR. Mr. President, I yield 1 minute to the Senator from Nevada [Mr. MALONE].

Mr. MALONE. Mr. President, with the many restrictions and handicaps on private venture capital investments over the past 15 years including free trade, income taxes, and the many other restrictions which have been established by action of Congress during that period, the application of the depletion allowance on the production of oil and minerals is about the only incentive left for investors of private venture capital. Inasmuch as the production of oil has been so successful over the years, due

to a large extent to the 27½-percent depletion allowance, it seems most unwise to propose a change which would in fact impose a penalty on that production. There not only should not be a reduction in the depletion allowance on the production of petroleum, but that same 27½-percent should apply to the production of minerals instead of the presently effective 15 percent.

Mr. President, I ask unanimous consent to have printed in the RECORD at this point my statement made before the Ways and Means Committee of the House early this year and found in part 3 of such hearings.

There being no objection, the statement was ordered to be printed in the RECORD, as follows:

STATEMENT OF HON. GEORGE W. MALONE, A UNITED STATES SENATOR FROM THE STATE OF NEVADA

Senator MALONE. Mr. Chairman, I am the junior Senator from the State of Nevada. I have only made notes but I would like to make a statement on the subject of percentage-depletion allowances on minerals and petroleum.

PETROLEUM INDUSTRY THREATENED WITH REPRISALS

The petroleum industry is currently threatened with reprisal for its efficiency in discovering new productive fields.

In 1922 the Geological Survey of the Department of the Interior estimated the total amount of oil available in the United States at approximately 5,000,000,000 barrels.

Mr. Chairman, ample oil supplies, including the additional 1,000,000 barrels a day reserve capacity requested by the administration, will be obtained, in the opinion of many experts if you do not tamper with the 27½-percent depletion-allowance clause. In 1918, when the discovery value was recognized by Congress, oil had not become so vastly important to our economy. In 1926, when oil was more important to us, Congress wisely enacted the 27½-percent depletion allowance. Congress reviewed the whole question in 1942 and found that percentage-depletion deduction was a necessary incentive to produce the proper amount of petroleum.

Mr. MALONE. Mr. President, if the current attack on the principle as applied to petroleum is successful, the same type of attack will be transferred to minerals. As a matter of fact the same percentage of 27½ percent should not only be retained as applied to petroleum, but should apply to minerals in place of the 15 percent presently allowed.

GROWTH OF OIL PRODUCTION

Mr. Chairman, since 1922 when it was estimated the total oil reserves of the United States amounted to about 5,000,000,000 barrels, annual petroleum consumption has jumped to approximately 6,500,000 barrels per day, from 1,500,000 per day in 1922, and the known reserves have increased more than five times, to about 26,000,000,000 barrels.

The threat of reprisals against the oil industry, by reducing the percentage-depletion allowance, will seriously endanger the very security of this Nation.

TWO PRINCIPLES ENCOURAGE INVESTMENTS

The administration has launched a continuous and vicious attack upon the two principles that would encourage private venture capital investment in domestic petroleum and mining development, in the hazardous business of producing the necessary strategic and critical minerals, including petroleum.

The two important principles encouraging venture capital to engage in the hazardous

business of drilling oil wells in untried areas, and sinking shafts and driving tunnels where no commercial mineral has ever been known to exist, are the depletion allowance and the tariff or import-fee structure.

The percentage-depletion allowance provides a reasonable method for the return of the capital investment, provided oil or mineral is discovered—if none is discovered the capital is lost—that is the gamble miners and oil drillers take.

The tariff or import fee, providing a principle for fair and reasonable competition in the importation of products from the sweatshop countries of Europe and Asia, assures investors that their capital will not be destroyed as soon as the emergency is ended.

EMERGENCY SAVES OIL AND MINERAL INDUSTRIES

While the administration is fostering the imports of petroleum and minerals from foreign, generally strategically indefensible sources, the domestic industry has only been saved from a severe depression by the rapidly increasing domestic demand through the present emergency.

Another factor which has kept the domestic oil and mineral industries searching for new sources of supply was the existence of the percentage depletion allowance. When the domestic oil industry has been called upon for increasing efforts, it is proposed that it be penalized for its foresight and efficiency by removing the very incentive which made it possible.

THREAT OF REMOVAL DISASTROUS

Mr. Chairman, the continual threat of the removal or manipulation of either one of these factors—that is to say, the depletion allowance, which makes possible the return of capital investment or the tariff or import fee structure, which provides for fair and reasonable competition between imported and domestically produced goods—the very threat of the removal keeps venture capital out of the business since there can be no confidence in a congressional principle which is continually under fire.

DEPARTMENT OF THE INTERIOR IS NOT IN THE PRODUCING BUSINESS

If the Department of the Interior had been in charge of oil production and exploration from 1922 when a branch of that Department estimated that 5,000,000,000 barrels of oil was all we had, with their so-called conservation policy we would have long since run out of this indispensable commodity. Secretary Ickes said during the early part of his regime that we must save our known reserves for use of the Navy in time of emergency, that we were running out of oil. We of course have more reserves now than when he made that famous comment.

He also said that we must save our minerals, that we must import minerals for our own use, that we were running out of minerals. We of course have more of such minerals today than when he made that famous remark.

WE CANNOT FIGHT WARS ON UNDISCOVERED OIL AND MINERALS

You cannot fight a war or use petroleum and minerals yet undiscovered, and there is undoubtedly more yet to be discovered than is either known at this time or has been utilized from the beginning of time to date.

We must have the simple gumption to adopt the necessary principles that will encourage the investment of venture capital in the extremely hazardous business of petroleum and mineral exploration.

CHANGE IN PRESENT DEPLETION ALLOWANCE WILL SPELL CHAOS

Quite aside from the question whether the present percentage depletion allowance of 27½ percent is a fair one or not, any plan to change the present arrangement can result in financial chaos in the petroleum in-

dustry, or in the mineral industry if it were attacked on the same basis. The suggestion by the Treasury to reduce the depletion allowance while other Government agencies are trying to foster about 1,000,000 barrels a day additional productive capacity, is a typical example of an administration in which the right hand does not know what the left hand is doing.

PROCEDURE DEFEATS OBJECTIVES

To change the present allowance would defeat the very purpose, announced by the Department of the Interior, to foster this added production.

The present financial organization of the petroleum industry is geared to the 27½-percent depletion allowance, and if it were to be changed today, not only would many small producers go into default, but the necessary investment for expansion would not be forthcoming.

MINERALS SHOULD HAVE HIGHER DEPLETION ALLOWANCE

The present depletion allowance of metallic minerals of 15 percent should be raised to the 27½ percent presently allowed the petroleum industry. Then with the proper tariff or import fee adjusted on the basis of fair and reasonable competition for both oil and minerals, there would be no scarcity of the so-called strategic minerals and materials for the stockpiles of the Nation for any purpose. Tariffs and import fees are in fact a floor under wages and investments.

HAND-RAISED ECONOMISTS LACK EXPERIENCE

Inexperienced, hand-raised economists, with little or no practical experience, seem to believe that the way you secure metals and minerals, including petroleum, is to wait until you need them. Then you take a buckboard or a truck, Mr. Chairman, and you go up into the mountains with a hay knife and you cut off the amount of the minerals that you need for the day and bring it down with you. The same type of hand-raised economists seem to believe that you can pick up an oil well almost any morning when you find that you really need it.

Engineers and experienced mining and oilmen know, however, that exploration must be a continuous process, that if you lose the know-how by losing experienced men, whether in the field actually running the drilling rigs or in the geophysical explorations, you are out of business. It is impossible to train men in a short time.

MINING AND OIL DRILLING IS A GAMBLE

The announced objectives of the administration have frequently been laudable, but the methods adopted in reaching them have defeated such objectives.

The administration and its inexperienced officeholders only see the successful miners and oilmen. They do not see the thousands upon thousands of such men who die broke.

Beyond Virginia City, Nev., which produced nearly a billion dollars worth in gold and silver and is given credit for the preservation of the Union at one time, we hear of comparatively few men such as the Mackeys' the Floods, and the Fairs, who made millions of dollars. The thousands who died broke, many of them buried unsung in a "boot-hill" cemetery at Virginia City, are never heard of. As a matter of fact, one look around at the honeycombed Virginia City hills will convince the most skeptical that probably more money was sunk in the ground there than ever came out.

Mining and oil wildcatting and prospecting is a kind of fever. No man has ever known to fully recover, once it really hits him.

It may not be generally known, but a large percentage of eastern Nevada, my own State, is now under lease by people representing organizations all the way from the major oil companies down to the wildest of the wildcaters. Millions of dollars are being ex-

pended, and all of this in the face of geologists' reports for 50 years back that it is a volcanic area and that no oil will ever be found.

Drilling is underway, and if a wildcatter strikes oil, Nevada could well furnish the necessary additional oil for war purposes. But a decrease in the depletion allowance could very well stop such drilling operations.

Now, Mr. Chairman, to save the committee's time, I ask that an outline that I have made of the way the depletion allowance applies to oil and minerals be inserted in the record at this point.

The CHAIRMAN. Without objection.

(The information referred to follows:)

"DEPLETION ALLOWANCES ON MINERALS

"The producers of minerals are permitted, under the internal-revenue laws, to deduct depletion allowances from their income derived from such enterprise. In any of these cases the producers are allowed to deduct from their gross income the standard percentages given below, or the actual cost depletion, whichever is higher. In no case, however, is the producer allowed to deduct a depletion allowance of more than 50 percent of his net income.

"Here is an example of the difference between depletion allowance and cost-depletion allowance. A man purchases rights for an oil property and pays \$50,000 for it. He can, under present law, take a depletion allowance each year of 27.5 percent of his gross income from that property. However, this producer can elect to avail himself of the cost-depletion allowance. In this case the producer estimates the available oil in the property. Let us assume that the property has an estimated yield of 100,000 barrels of oil. He can then deduct from his gross income 50 cents per barrel. However, after he has deducted the amount of the original investment (\$50,000) he is no longer allowed to deduct cost depletion. If the production of oil from this property would amount to 50,000 barrels a year, in 2 years he would have returned his capital investment by deduction, and from then on the producer can avail himself of the depletion allowance of 27.5 percent for the rest of any additional productive period.

"Thus we see that the standard depletion allowance can be deducted every year during the productive period of a mining or oil property, whereas the cost-depletion allowance is only available for deduction until the original capital invested in the property has been returned.

"There follows a list of depletion allowances permitted under present law:

	Percent
Petroleum	27.5
Bauxite	15
Beryl	15
Lepidolite	15
Rock asphalt	15
Thenardite	15
Coal	5
Fluorspar	15
Feldspar	15
Spodumene	15
Trona	15
Potash	15
Sulfur	23
Flake graphite	15
Barite	15
Bentonite	15
Ball, sagger and china clay	15
Metals (all)	15
Vermiculite	15
Mica	15
Phosphate rock	15
Gilsonite	15
Talc (including pyrophyllite)	15

"REASONS FOR KEEPING THE DEPLETION ALLOWANCE AT PRESENT LEVELS

"1. Depletion allowance can be compared with the depreciation permitted on capital investments such as buildings, tools, machinery. It is only fair to let the investor

recover the investment made in mineral enterprises by taking into account the fact that mineral resources, whether metallic or nonmetallic, or whether petroleum, are exhausted as each property is mined.

"2. Depletion allowance is an incentive to invest in mineral enterprises. Of all industries, the extractive mineral industry has probably the highest amount of capital invested and lost. Properties have to be explored and developed, and there is never any certainty that the investment will pay off. Research and development of new mines, wells, and other property, as well as the work of preparing for the utilization of lower-grade deposits in the case of metal mines, is costly.

"3. Particularly in the case of some of the strategic and critical metals and minerals, the domestic production has decreased rapidly after the war. Most of those decreases are due to the reduction of tariffs. If the depletion allowance is allowed to be lowered, the last remaining incentive to keep many of the domestic operators in business is gone. To a certain extent the depletion allowance has been a slight margin of safety for American producers injured by the reduction of tariffs.

"4. The administration is trying to foster the production of many critical raw materials, and has asked the petroleum industry to prepare a million-barrel-per-day stand-by capacity. It is allowing many industries accelerated depreciation to foster investments and the increase in production, yet the Treasury is in favor of reducing the depletion allowances now in force.

"5. Any change in the depletion allowance at a time when the productive capacity of the Nation is strained to the utmost, would bring serious changes in the investment picture about. Not only is the availability of investment capital curtailed through the administration's policy of establishing free trade, but the private investor would be further scared away from investing in domestic enterprises and the very expansion of industrial capacity would be counteracted if the percentage depletion allowance were to be reduced."

Senator MALONE. Then, Mr. Chairman, for the information of the committee and others, I ask that a list, which is comparatively short, be inserted at this point naming the metals that have such a depletion allowance. We have also marked at this point the nonmetals that by special act have been allowed the 15-percent depletion allowance.

The CHAIRMAN. Without objection, that may be inserted in the record.

(The list referred to follows:)

Percentage depletion allowance for mineral industries

NONMETALS	Percent
Petroleum	27.5
Coal	5
Sulfur	23
Bauxite ¹	15
Beryl ¹	15
Lepidolite	15
Rock asphalt	15
Thenardite	15
Fluorspar	15
Feldspar	15
Spodumene	15
Trona	15
Potash	15
Sulfur	15
Flake graphite	15
Barite	15
Bentonite	15
Clay, ball, sagger, china	15
Vermiculite	15
Phosphate rock	15
Mica	15
Gilsonite	15
Talc (including pyrophyllite)	15

METALS²

	Percent
Aluminum	15
Antimony	15
Bauxite ¹	15
Beryllium	15
Cadmium	15
Chromite	15
Cobalt	15
Copper	15
Ferro alloys	15
Gold	15
Indium	15
Iron	15
Lead	15
Magnesium	15
Manganese	15
Mercury	15
Molybdenum	15
Nickel	15
Platinum metals	15
Radium	15
Selenium	15
Silver	15
Tantalum	15
Tellurium	15
Tin	15
Titanium	15
Tungsten	15
Vanadium	15
Zinc	15
Bismuth	15
Columbium	15
Germanium	15
Thallium	15
Zircon	15

¹ Metallic and nonmetallic uses.

² The Internal Revenue Code does not spell out the metals by name but merely says "metal mines."

CONCLUSION

Senator MALONE. To conclude my statement, I will merely say again, Mr. Chairman, that there are only two reasons why men are in the oil business and in the mining business today to the extent that they are; that is, on account of the depletion allowance and on account of whatever tariff or import fee structure we have been able to maintain. It is a fact that since the passage of the Trade Agreements Act, in 1934, the tariff reductions have driven a large measure of venture capital out of the mining business.

Fortunately, capital was better preserved in the petroleum business, in which a 27½-percent depletion allowance instead of only a 15-percent allowance was in operation. However, I call to the attention of the distinguished chairman of the committee the fact that in peacetime the importation of low-cost oil from the low-wage areas of the Middle East was rapidly closing down certain oil- and coal-producing areas in the United States.

In order to preserve our national security and our national economic structure it is necessary for Congress, in my opinion, to reestablish the principle of tariffs and import fees on the basis of fair and reasonable competition, to establish a market, for other Nations' goods, including minerals and oils, on that basis. It is necessary to have a liberal depletion allowance, and the 27½-percent rate has proved successful. This is, Mr. Chairman, a very poor time for Congress to tamper with this principle.

The CHAIRMAN. Any questions?

Mr. JENKINS. I would like to ask a question of the Senator. You have testified here before, and I know that you are an engineer with a great record in this line of work. Have you ever set out in your statements what your accomplishments have been? My reason for asking that is that the testimony of a man who knows the mining business as from the practical standpoint weighs more with me than somebody about whom I do not know. I know you are a western engineer, and that you know this subject. I just wonder whether you have put in a statement of your qualifications.

Senator MALONE. I never have, Mr. Chairman. My record is pretty well known. It has appeared in Who's Who and in mineral publications. I am a member of the American Institute of Mining Engineers and of the American Society of Civil Engineers, and the qualifications for membership are about as good as any, I guess. I do not claim to know all about this subject, Mr. Chairman. What I do claim is that for 30 years I have been in the engineering business and have watched the development and exploration for minerals, oil, and the other materials. My firm of engineers is the Malone Engineers, and of course it is inactive as far as I am concerned at this moment. It was on account of this very problem that you might say I insisted on trying to come to the United States Senate. The people saw it my way, and I am here. I am working continually on that subject.

I might say to you, Mr. Chairman, that the mining and the oil business is not an enterprise such as house construction, building construction, or the many hundreds of thousands of enterprises that we have in this Nation. Mining and oil drilling are a gamble. It is really a gambling business. A man is a gambler when he becomes a prospector or goes out and gets money from other people to invest in a mining venture. Their minds get frozen on their business. I have never seen anyone thoroughly diverted from the mining business or oil business once he is in it. He always has a "winner." That spirit is what finally discovers minerals and oil. When Congress acts so that the prospector and the man with native ability for either engineering or exploration cannot get the money to carry on his operations, then you have defeated him. We have run practically all the prospectors out of the hills with Congress' policy of tampering with the tariffs because, naturally, no man in this country who gets \$10 or \$12 a day can compete with a \$2- or a 40-cent-a-day man in Europe or Asia. It is impossible to make them compete on an even basis, which the administration is aiming at.

When you reduce the tariffs or import fees, and do away with depletion allowance and other encouragements to domestic industries, you are simply destroying the business. I did not intend to elaborate, but I am glad that Mr. Jenkins asked the question.

Mr. JENKINS. In the mining business I dare say it can't be disputed, and I know from my own experience there is no property that depreciates when it is idle like a mine. Is that right?

Senator MALONE. I have a letter here from Mr. Wingfield, a very famous mining man from Nevada, and I will read the letter into the record. I hope I can submit it for the record with the letterhead and all. He has made two or three fortunes in the mining business, lost the first two or three, and has since made another one. Mining is a gambling business. He says:

GETCHELL MINE, INC.,

Reno, Nev., March 7, 1951.

HON. GEORGE W. MALONE,
Senate Office Building,

Washington, D. C.

DEAR "MOLLY": (They call me by my nickname out there.) The administration, particularly the Secretary of the Treasury, Snyder, keeps trying to delete this item in tax bills.

It seems strange that official Washington does not realize there is not an annual crop of minerals grown nor that mining is a business of wasting assets.

Depletion is about the only way a capital investment can be recovered in mining, so why kill mining altogether?

Will appreciate everything you do, not only toward maintaining this item in the

books, but to increase the percentage to that of the oil industry.

With best wishes, I am,
Sincerely yours,

GEO. WINGFIELD.

It is really a very simple letter and very much to the point. Mr. George Wingfield is not a mining engineer. He is a hard-rock miner, he is an organizer, and his record is well known over the last 50 years in the West. Hundreds of other men in the West rise or fall as their fortunes are made or lost on the good guesses or the bad guesses on where to put their money in the ground. Those four short paragraphs in that letter give the simple story of mining. It simply cannot be carried on under the conditions that exist at this time.

GOVERNMENT HAS BECOME BUSINESS PARTNER

Mr. Chairman, you know that the hotels here in Washington are full of people trying to get taxpayers' money to invest in their mining business and in other enterprises. They will not risk their money simply because of the removal of the floor under wages and investments. Men are coming here to let the Government be their partner.

I just talked to Jim Boyd this morning on the phone. The Government is trying to arrange to fix a price so that businessmen can make money with Government contracts, in other words, giving them Government money to operate. If we were a little more careful in preserving the safeguards of the American economy by maintaining a floor under wages and investments in peacetime and in wartime, we would save billions of dollars because then private investors would invest capital, removing the need for Government money. Mr. Chairman, it is just that simple.

Mr. MARTIN. Senator MALONE, you know I have been trying to help the domestic mining industry for the last 12 years because of its importance to national defense. I consider our own self-sufficiency in the mining field as the starting point of national defense. What is your statement regarding the general condition of the mining industry in America right now?

Senator MALONE. The mining industry in America has been practically destroyed, largely because of the State Department's tinkering with the tariffs and import fees, and an inadequate allowance for depletion. Seventy-five percent of the mines in operation prior to World War II are closed down. That is why all these men are in Washington—the hotels are full of them. They want to get money to open their mines. They will not put their private money into mining enterprises because they have learned their lesson. They got their fingers burned, they lost their original capital. They are going to lose the taxpayers' money this time, Mr. Chairman, and it would be very well if the committee would investigate that statement.

Mr. MARTIN. We are facing in this committee right now the possible impact of a reduction in depletion allowance on the mining industry. In our search for revenues, unless we are very careful, such action can even bring a further serious crippling impact on the mining industry.

Senator MALONE. If you seriously consider decreasing to any material degree the depletion allowance for the oil industry, you are going to prevent much of the additional prospecting and exploration for new fields needed for the 1,000,000 additional barrels per day productive capacity. This was the estimate by the Chiefs of Staff on the needs for the immediate emergency. Furthermore, if you do that in peacetime, then you will from now on have Government money in the oil business. In other words, people will only speculate with Government money, which can ultimately result only in Govern-

ment ownership. In the opinion of most of us, the Department of the Interior, good as it is at keeping records, has no men and no experienced personnel that could carry on adequate exploration and oil development. Instead of increasing our known oil reserves every year as we have been doing for 25 or 27 years, search for new oil would immediately begin to fall away because the incentive for private investment capital would be gone.

Mr. MARTIN. I share with you very strongly your point of view regarding the ineffective approach to our national defense self-sufficiency through Government ownership and operation of the mining and oil industry, and if that is the possible outcome of completely crippling those industries, then it is time this committee give that factor tremendous consideration as we are reaching out for new revenue.

Senator MALONE. Mr. Chairman, I want to say this in closing: Even if you do not lower the depletion allowance, even the threat of lowering it endangers the security of the United States of America by the effect on the petroleum industry and the mining industry. In the State Department's continual lowering of tariffs and import fees lies a serious threat to the security of this Nation. Many of the administration's programs threaten destruction of the national economy. Destroying the health of the domestic economy means losing the war without fighting it.

Mr. MARTIN. I am glad we have men of your experience and understanding available to advise us on this matter.

Senator MALONE. Thank you, Mr. Chairman.

Mr. KERR. Mr. President, I allot the remaining time to the junior Senator from Texas [Mr. JOHNSON].

Mr. JOHNSON of Texas. Mr. President, I rise in opposition to the pending amendment. I believe that if it were adopted it would strike a direct blow at the Nation's preparedness program.

There is no one in the Senate who would dispute the statement that this is one of the most critical periods in our Nation's history. We have recognized that fact time and again in the dark days since the beginning of the Korean crisis.

We have proclaimed it in laws to draft the young men of this Nation.

We have admitted it by imposing price and wage controls upon our economy.

We have shouted it from the house-tops by appropriating billions upon staggering billions for armaments.

Mr. President, this is a Congress which has devoted practically all the time it has spent in major legislation to one end—to build up the mightiest defense machine this Nation has ever had in what is technically known as peacetime. The very bill now under consideration has been necessitated by the exigencies of the explosive international situation.

To my mind, there is no proposition more clearly established than that we are not living in a time where we can afford to endanger our defense production by economic experimentation and social tinkering.

That axiom has been heavily underlined during the past few weeks by the Iranian oil crisis. In a matter of days, the free world has lost one of its major sources of petroleum. Right at this moment, messages are passing back and

forth between the heads of the mightiest democratic nations to determine whether that loss is irreparable.

The pending amendment, which would chisel away at the incentive for the production of oil, is being offered during the darkest hour of the Iranian crisis. I cannot believe that wise and prudent men can justify such dangerous legislation under the circumstances that prevail in the world today.

The need for incentives to production has been recognized by the Congress and is being recognized in almost every industry. Tax amortization certificates are being issued to increase and to hurry up the manufacture of just about anything that is needed to build up our defense machine.

The increased necessity for greater oil production in the event of all-out war cannot be emphasized too strongly. More than 3 years ago, the late Secretary of Defense, James Forrestal—and no one can charge him with being one of the oil barons—testified before a House Armed Services Subcommittee, of which I was a member, and said:

The maximum military requirements of Petroleum in the event of a war emergency are now estimated nearly double the requirements of World War II.

Mr. President, that was 3 years ago. Since that time jet engines have been developed, which require six or seven times as much fuel as the conventional engines. Even with the increased speed resulting, the fuel requirement of jets is double that of conventional engines. Even the conventional engines, because of the increased horsepower, are using substantially more fuel than those which were in operation during World War II.

Mr. Forrestal continued:

In other words, instead of the 1,375,000 barrels a day it would be about 2,750,000 which would be roughly 70 percent of our daily production before we entered World War II.

In the same hearings, the man who headed our wartime petroleum program, Harold L. Ickes, told the committee:

The prudent man, instead of regarding the figures of our military leaders as excessive, must conclude that the only safe policy would be to regard them as an underestimate.

I am told on high authority that the 2,750,000-barrel-per-day figure used by Secretary Forrestal in his estimates 3 years ago has been increased by more than 1,000,000, as of today.

Mr. Ickes further stated:

And I will say further than, in the event of another war, we cannot rely on imports, with the possible exception of Mexico. In other words, you will not be able to bring it in by tanker. The airplanes will be so efficient that they will blow every tanker off the surface of the ocean. You cannot depend on that.

Mr. Forrestal and Mr. Ickes were speaking on the basis of bitter experience. We are accustomed to thinking of this country as an oil-rich Nation. Actually, we have had shortage crises even in the most peaceful times that followed World War II.

For example, in March 1946, the U. S. S. *Missouri* was assigned to take the body of the former Turkish Ambassador to Istanbul. But despite the high

diplomatic importance of this mission, the battleship was unable to sail out of New York Harbor for lack of fuel.

The dilemma was finally solved by bringing a tanker into the harbor and fueling the *Missouri* directly. Only then was this ship—belonging to the wealthiest and most powerful nation in the world—able to carry out its assigned task.

By the end of March 1946 the daily oil shortage for Navy requirements alone was 127,000 barrels. The War Shipping Administration, which had additional requirements, was forced to lay up ships and OPA raised the price of crude by 10 cents a barrel and of residual by 21 cents a barrel.

Our inability to fuel the *Missouri* was only one of a series of similar incidents. Three times in that same week, the New York Harbor area reported that it had absolutely no Navy fuel.

If such conditions can prevail in times of peace, what could be the situation in an all-out war? To ask the question is to answer it. The consequences would be disastrous.

Mr. President, this is not the time to let the tinkers and tamperers take over. To take away the tidelands from the States to whom they rightfully belong—to cut down the depletion allowances—would not contribute to the security of the Nation or the stability of the country. It would only throw a monkey-wrench into our economic machinery.

The need for the 27½-percent depletion allowance has been recognized by every responsible man who has ever been connected with the oil industry or made a thorough study of its workings. It is the very cornerstone upon which exploration is built and without exploration the whole industry will gradually wither away.

This principle has been recognized by every tax committee of both Houses; by every study that has been made by the House Armed Services Committee; by every man who has ever produced oil, financed its production, or had anything to do with its production.

The facts of this matter are simple. Exploration is closely bound to our national security. Only through exploration will we find more oil and without more oil we will be woefully lacking if we are called upon to fight a major war.

Exploration is primarily the function of the small operator—the independent wildcatter who operates on the basis of a shoestring and a prayer. These are the men who do not gain national attention as members of the spectacular rich because exploration has made more paupers than millionaires.

For these men, the depletion allowance is necessary to make a gamble into a business—to convert an improbability into a possibility.

There is another fact which should be given serious consideration by this Senate. It is that one-half of the Nation's reserves upon which we now rely and must continue to rely are contained in stripper wells.

For the information of those unfamiliar with the industry, these are the small wells which produce only one or two barrels a day. These are the wells

operated by small—very small—independents at an extremely low margin of profit.

This operation is made possible only by the depletion allowance. If we reduce that allowance, the small margin of profit will evaporate and those wells will go out of production. We could then have here the equivalent disaster of the Iranian oil crisis.

Mr. President, I urge the Senate to reject this unwise amendment. It would cut down the flow of oil from now existing wells. It would increase the risks of exploration to a point where they would become prohibitive. It would bite into an industry that is vital to our economy.

But above all, it would cut into the very vitals of our Nation's defense.

I hope that the Senate will turn down this proposal to tamper with the depletion allowance.

The VICE PRESIDENT. The time of the Senator from Texas has expired. All time for debate has expired.

Mr. McFARLAND subsequently said: This afternoon I asked the distinguished junior Senator from Texas [Mr. JOHNSON] to yield to me when he was speaking on the so-called depletion allowance amendment. I wish to state briefly now what I had intended to say at the time, but which I was not permitted to say, because the time of the Senator from Texas had expired.

Mr. President, I ask unanimous consent that these remarks appear in the RECORD following the remarks of the distinguished junior Senator from Texas [Mr. JOHNSON].

The VICE PRESIDENT. Is there objection? The Chair hears none, and it is so ordered.

Mr. McFARLAND. Mr. President, I wish to compliment the Senator from Texas on his instructive and convincing speech on depletion allowance. I have no personal interest in either oil wells or mines, but I desire to call attention to the fact, however, that the metal production from the mines of my State played a vital role in helping win both World War I and World War II, by furnishing important strategic metals and minerals which were needed to win those wars. The mines in Arizona and the oil wells in the State of the distinguished junior Senator from Texas have been developed by venture capital. If an incentive to continue to risk capital is not afforded, that capital will not be available for future development of the natural resources of our great western country.

Mr. SCHOEPEL subsequently said: Mr. President, I ask unanimous consent to have inserted, immediately before the vote on the depletion-allowance amendment, offered by the Senator from Minnesota [Mr. HUMPHREY] on behalf of himself and other Senators, a statement prepared by me dealing with the amendment.

There being no objection, the statement was ordered to be printed in the RECORD, as follows:

STATEMENT BY SENATOR SCHOEPEL

The question of oil and gas depletion allowances is not new. If my memory serves me correctly a demand for reduction in these

allowances was made by the President from the Eighty-first Congress.

If the proposed amendment to reduce these allowances is adopted it will in my opinion have the effect of increasing the cost of every gallon of oil or gas that goes into a car, truck, or tractor or fuel to heat a home.

We can tax a product to a point of saturation—to a point of diminishing returns and I believe that danger to be inherent in this proposed amendment to reduce the oil and gas depletion allowances.

The depletion allowances for oil and gas is economically sound and factually justifiable. It has contributed tremendously to the reserves of oil and gas, a factor that is important to the safety of our country. I believe the law was passed by Congress about 25 years ago after a thorough study of the matter and according to my information with the approval of the Treasury Department.

In addition to increasing the cost of oil and gas to the consumer it is my humble opinion that if this amendment should be adopted it will reduce the supply of oil and gas in this country.

It is my information that Congress studied the depletion-allowance provisions in the 1934 session and decided to retain the depletion allowances. I also understand the question was again studied in the 1942 session and the provision retained.

After 25 years, experience has demonstrated that the depletion allowance is a very effective method of assuring a constantly increasing oil supply for the national economy, for industrial expansion, and for national defense.

We must not overlook the fact that the depletion allowances are almost controlling factors as incentive for further exploration and for more production. In the search for new discoveries and new fields, which I feel Congress should encourage and not discourage, the explorations are frequently fruitless and no financial returns whatever are secured. I would venture the observation that each year more money is expended in drilling dry holes than the value of the depletion allowances.

The oil industry is an important part of our national economy. It is not a subsidized industry—it pays its own way, and certainly it pays its just share of taxes. In fact it pays about 7 percent of the tax.

Reduction of the depletion allowance would vitally affect the economy and well-being of some 20 oil-producing States. Thousands of people in those States derive their living from some phase of the oil business. The economic dislocations from reducing the depletion allowances in those States would in my opinion be greater than the proposed tax increase to the Federal Treasury.

I am wondering if this amendment be adopted what would happen to the multiplied thousands of stripper wells that are being operated at very small profit margins. Many of these in my opinion would have to be shut down under this amendment with the result that the Treasury might in time lose more revenue than would be gained under the proposed amendment.

The House has already passed its revenue bill without change in the present depletion-allowance provisions with respect to oil and gas. The Finance Committee of the Senate did not favor any change in the existing law. The proposed amendment should be rejected.

THE VICE PRESIDENT. The question is on agreeing to the amendment offered by the Senator from Minnesota [Mr. HUMPHREY].

Mr. HUMPHREY and other Senators asked for the yeas and nays.

The yeas and nays were ordered, and the legislative clerk proceeded to call the roll.

Mr. MORSE (when his name was called). On this vote I have a pair with the junior Senator from Wisconsin [Mr. McCARTHY]. If he were present and voting, he would vote "nay." If I were permitted to vote, I would vote "yea." I withhold my vote.

The roll call was concluded.

Mr. JOHNSON of Texas. I announce that the Senator from New Mexico [Mr. ANDERSON] is absent by leave of the Senate.

The Senator from Virginia [Mr. BYRD] is absent because of illness in his family.

The Senator from New Mexico [Mr. CHAVEZ] and the Senator from West Virginia [Mr. KILGORE] are absent on official business.

The Senator from Connecticut [Mr. McMAHON] is unavoidably detained on official business at one of the Government departments.

I announce further that if present and voting the Senator from Virginia [Mr. BYRD], the Senator from New Mexico [Mr. CHAVEZ], and the Senator from West Virginia [Mr. KILGORE] would vote "nay."

Mr. SALTONSTALL. I announce that the Senator from Utah [Mr. BENNETT], the Senator from New Hampshire [Mr. BRIDGES], the Senator from Vermont [Mr. FLANDERS], the Senator from Missouri [Mr. KEM], the Senator from North Dakota [Mr. LANGER], and the Senator from Ohio [Mr. TAFT] are absent on official business.

The Senator from Wisconsin [Mr. McCARTHY] is absent by leave of the Senate, and his pair with the Senator from Oregon [Mr. MORSE] has been announced previously.

The Senator from New Hampshire [Mr. TOBEY] is absent because of illness.

The Senator from Nebraska [Mr. WHERRY] is necessarily absent.

The Senator from Michigan [Mr. FERGUSON] is detained on official business.

If present and voting, the Senator from Utah [Mr. BENNETT], the Senator from Vermont [Mr. FLANDERS], and the Senator from Ohio [Mr. TAFT] would each vote "nay."

The result was announced—yeas 9, nays 71, as follows:

YEAS—9

Benton
Douglas
Green

Humphrey
Kefauver
Lehman

Moody
Pastore
Williams

NAYS—71

Aiken
Brewster
Bricker
Butler, Md.
Butler, Nebr.
Cain
Capehart
Carlson
Case
Clements
Connally
Cordon
Dirksen
Duff
Dworshak
Eastland
Eaton
Ellender
Frear

Fulbright
George
Gillette
Hayden
Hendrickson
Hennings
Hickenlooper
Hill
Hoey
Holland
Hunt
Ives
Jenner
Duff
Johnson, Colo.
Johnson, Tex.
Johnston, S. C.
Kerr
Knowland
Lodge

Long
Magnuson
Malone
Martin
Maybank
McCarran
McClellan
McFarland
McKellar
Millikin
Monroney
Mundt
Murray
Neely
Nixon
O'Connor
O'Mahoney
Robertson
Russell

Saltonstall
Schoeppel
Smathers
Smith, Maine
Smith, N. J.

Smith, N. C.
Sparkman
Stennis
Thye
Underwood

Watkins
Welker
Wiley
Young

NOT VOTING—16

Anderson
Bennett
Bridges
Byrd
Chavez
Ferguson

Flanders
Kem
Kilgore
Langer
McCarthy
McMahon

Morse
Taft
Tobey
Wherry

So the amendment offered by Mr. HUMPHREY, for himself and other Senators, was rejected.

THE VICE PRESIDENT. The Chair would suggest, if there are no more amendments to be offered to the depletion-allowance section, that the Senate dispose of the section by agreeing to it.

Mr. HUMPHREY. There are other amendments to be offered to it.

Mr. DIRKSEN. I offer an amendment which I send to the desk and I ask to have stated.

THE VICE PRESIDENT. The amendment will be stated.

THE CHIEF CLERK. On page 270, at the end of line 4, it is proposed to insert a new subsection to read as follows:

(b) The provisions of section 3406 (a) (3) of the Internal Revenue Code as amended shall not apply to electric, gas, or oil appliances of the industrial type.

Mr. DIRKSEN. Mr. President, I have no desire to labor the argument for the amendment.

Mr. GEORGE. I wish to say to the distinguished Senator from Illinois that the committee would have no objection to the amendment, because it is limited to industrial electrical facilities.

THE VICE PRESIDENT. The question is on agreeing to the amendment offered by the Senator from Illinois [Mr. DIRKSEN].

The amendment was agreed to.

Mr. ROBERTSON. I send an amendment to the desk and ask that it be stated.

THE VICE PRESIDENT. The clerk will state the amendment.

THE LEGISLATIVE CLERK. On page 234, line 15, after the word "person", it is propose to insert "and the sale of miniature samples of any such articles for demonstration use only to a house-to-house salesman by the manufacturer or distributor, or the resale of such sample at retail by such house-to-house salesman."

Mr. ROBERTSON. Mr. President, the amendment which has been read by the clerk adds miniature samples bought and exhibited by house-to-house salesmen. They are perfumes, face powders, and items of that kind. They are taxed under section 2402 of the Internal Revenue Code, which imposes a tax of 10 percent.

Mr. GEORGE. Mr. President, the committee would have no objection to taking the amendment to conference.

THE VICE PRESIDENT. The question is on agreeing to the amendment offered by the Senator from Virginia [Mr. ROBERTSON].

The amendment was agreed to.

Mr. HILL. Mr. President, to the committee amendment on page 226, I offer

the amendment, which I send to the desk and ask to have stated.

The VICE PRESIDENT. The amendment to the amendment will be stated.

The LEGISLATIVE CLERK. In the committee amendment on page 226, in line 14, before the comma, it is proposed to insert "or unless in the case of an athletic game between two elementary or secondary schools, the entire gross proceeds from such game inure to the benefit of a hospital for crippled children."

Mr. GEORGE. Mr. President—

The VICE PRESIDENT. Does the Senator from Alabama yield to the Senator from Georgia?

Mr. HILL. I yield.

Mr. GEORGE. Mr. President, the committee has looked into this matter. The amendment applies only to admission taxes. There are two elementary schools in Alabama that have an annual contest and devote the entire gross proceeds to a hospital for crippled children, at Birmingham.

The committee has no objection to the amendment.

The VICE PRESIDENT. The question is on agreeing to the amendment of the Senator from Alabama [Mr. HILL] to the committee amendment.

The amendment to the amendment was agreed to.

The VICE PRESIDENT. The Senate will now revert to the depletion section.

Mr. HUMPHREY. Mr. President—

The VICE PRESIDENT. The Senator from Minnesota is recognized to submit an amendment.

Mr. HUMPHREY. Mr. President, I offer the amendment which I send to the desk and ask to have stated.

The VICE PRESIDENT. The amendment will be stated.

The LEGISLATIVE CLERK. On page 160, in line 15, it is proposed to insert the following:

(a) Reduction in percentage depletion for oil and gas.

Section 114 (b) (3) (relating to percentage depletion for oil and gas wells) is hereby amended by striking out "27½" and inserting in lieu thereof "22½."

Mr. HUMPHREY. Mr. President, I shall be very brief.

Some Senators have told me that they believe the 15-percent figure is too low. The junior Senator from Virginia said he felt the 27½-percent figure is too high. I have arrived at a center point of 22½ percent.

In view of the record which has been established here on the basis of the profits and the income of those who share in the depletion allowances, I believe the 22½ percent which I have suggested now is fair and equitable. It provides for some recognition in connection with the tax burden which the American people are being compelled to share.

Mr. President, I ask that this amendment be considered favorably. I have no further comment to make on it.

The VICE PRESIDENT. The question is on agreeing to the amendment of the Senator from Minnesota.

Mr. HUMPHREY. Mr. President, I ask for the yeas and nays.

The yeas and nays were not ordered.

The PRESIDING OFFICER. The question is on agreeing to the amendment of the Senator from Minnesota [Mr. HUMPHREY].

The amendment was rejected.

The VICE PRESIDENT. Let the Chair ask whether there are other amendments to be submitted to this section.

Mr. HUMPHREY. There is one more, Mr. President, and I wish to submit it.

The VICE PRESIDENT. The Senator from Minnesota is recognized.

Mr. HUMPHREY. Mr. President, on behalf of myself, the Senator from Oregon [Mr. MORSE], the Senator from New York [Mr. LEHMAN], the Senator from Connecticut [Mr. BENTON], the Senator from North Dakota [Mr. LANGER], and the Senator from Rhode Island [Mr. GREEN], I offer the amendment which I send to the desk and ask to have stated.

The VICE PRESIDENT. The amendment will be stated.

The LEGISLATIVE CLERK. Beginning on page 160, in line 14, it is proposed to strike out through line 2 on page 163, being section 319, relating to percentage depletion.

The VICE PRESIDENT. The Senator from Minnesota is recognized for 15 minutes.

Mr. HUMPHREY. Mr. President, I do not think I shall take that much time. This is my amendment which is identified as 9-22-51-6.

The amendment refers to the section of the bill in which additional items have been added to the depletion allowance section, and also to the section in which rate increases have been made—in other words, by means of which the allowance on coal has increased from 5 percent to 10 percent, and by means of which the allowance on other items has been increased.

The Defense Minerals Administration has told the Congress what minerals are critical, and has told us that in some areas it is important that we add additional incentive for production.

This amendment relates to the addition by the committee of such items as sand, gravel, marble, brick, tile clay, shale, oystershells, clamshells—Mr. President, I shall stop right there. If any Member of the Senate can vote to give a 5 percent depletion allowance for clamshells and oystershells, thus denying to the United States Government revenue which it justly deserves, then I suggest that we should add good old Mother Earth that is used by the American farmer on which to grow crops, and we should also add duck feathers, turkey bills, and rooster combs. That is my argument.

Mr. President, I think this is a sound argument for leaving the depletion allowance where it is. We have left the depletion allowance where it is in the case of gas. Let us leave the depletion allowance where it is in all other cases, and let us not extend tax benefits to others at a time when we are putting a tax knock and a tax rap on the majority of the American people.

The VICE PRESIDENT. The question is on agreeing to the amendment sub-

mitted by the Senator from Minnesota, for himself and other Senators.

The amendment was rejected.

Mr. MOODY. Mr. President—

Mr. DOUGLAS. Mr. President, I have an amendment to this section.

Mr. MOODY. Mr. President, I call up my amendment 9-24-51-G, and offer it and ask that it be stated. The amendment is offered to the committee amendment on pages 268 and 269.

The VICE PRESIDENT. The amendment to the committee amendment will be stated.

The LEGISLATIVE CLERK. In the committee amendment on page 268, in line 21, after the word "sleds", it is proposed to insert the following: "(measuring more than 60 inches over all in length)."

On page 269, line 4, before "10 percent", it is proposed to insert the following: "snow toboggans and sleds (measuring 60 inches or less over all in length)."

Mr. DOUGLAS. Mr. President, a parliamentary inquiry.

The VICE PRESIDENT. The Senator from Michigan is recognized for 15 minutes.

Mr. DOUGLAS. Mr. President, a parliamentary inquiry.

The VICE PRESIDENT. The Senator from Illinois cannot propound a parliamentary inquiry unless the Senator from Michigan, who has the floor, yields for that purpose.

Mr. DOUGLAS. I merely wish to ask whether the amendment of the Senator from Michigan is directed to the section now before the Senate for consideration.

Mr. MOODY. Mr. President, I believe the presentation of my amendment to the committee amendment will not take very long.

I have discussed this amendment to the committee amendment with the distinguished chairman of the Finance Committee; and I am delighted to know that he, too, is a friend of the American children and is in favor of letting them enjoy coasting wherever they can find snow.

Mr. President, there are in the United States 24,602,000 boys and girls between the ages of 5 and 14. I think to those youngsters, snow means but one thing, namely, coasting.

I notice that the bill as reported by the committee classifies sleds as sporting equipment, and has imposed upon them a 15-percent excise tax. I submit that that was an oversight, and that the committee failed to recognize the distinction between big bobsleds and toboggans, which, of course, are sporting equipment which adults use, and the small hand sleds on which the children spend many happy, carefree hours.

Mr. GEORGE. Mr. President, will the Senator from Michigan yield?

Mr. MOODY. I yield.

Mr. GEORGE. The committee will be glad to accept the amendment to the committee amendment. It would have a negligible effect on revenue; perhaps its effect would not amount to \$1,000.

Mr. MOODY. I thank the Senator.

The VICE PRESIDENT. The question is on agreeing to the amendment of

the Senator from Michigan [Mr. MOODY] to the committee amendment on pages 268 and 269.

The amendment to the amendment was agreed to.

Mr. DOUGLAS. Mr. President, to the committee amendment on page 161, I offer the amendment which I send to the desk and ask to have stated.

The VICE PRESIDENT. The amendment to the committee amendment will be stated.

The LEGISLATIVE CLERK. On page 161, in line 19, it is proposed to strike out "oystershell, clamshell."

The VICE PRESIDENT. The Senator from Illinois is recognized for 15 minutes.

Mr. DOUGLAS. Mr. President, the amendment will not take me that long to present.

This is a very modest amendment. Not only have we continued the 27½-percent depletion allowance for oil and gas and the 23-percent allowance for sulfur, but we have increased the allowance for coal and the allowance for a number of other items, and we have also made a 5-percent depletion allowance for oystershells and clamshells. I do not regard them as necessary to the national defense; I do not believe their production relates to the emergency. I believe the allowance for oystershells and clamshells should be removed.

Mr. GEORGE. Mr. President, I yield the entire time available to me to the Senator from Texas [Mr. CONNALLY].

The VICE PRESIDENT. How much time does the Senator from Georgia yield?

Mr. GEORGE. I yield to the Senator from Texas the entire 15 minutes available to me.

Mr. CONNALLY. Mr. President, I hope the Senate will not deviate from the record it already has made in regard to the depletion allowances.

The Senator from Illinois is greatly concerned about clamshells. He does not have many in his district. [Laughter.] The Senator from Illinois also is worried about oystershells.

Mr. President, I wish to say to the Senate that clamshells and oyster shells in my State are largely used for road-building purposes, for lime, and for similar things. They are valuable, and they contribute to the industry and the welfare of the State. They are extinguishable; they can be reduced.

I hope the Senate will not deviate from the position it already has taken in regard to depletion allowances.

The VICE PRESIDENT. The question is on agreeing to the amendment of the Senator from Illinois [Mr. DOUGLAS] to the committee amendment on page 161.

The amendment to the amendment was rejected.

The VICE PRESIDENT. The Senator from Minnesota.

Mr. TYE. Mr. President, I desire to call up my amendment "I."

The VICE PRESIDENT. The clerk will state the amendment.

The LEGISLATIVE CLERK. On page 172, line 10, after the word "turkeys", it is proposed to insert "and chickens."

The VICE PRESIDENT. The Senator from Minnesota is recognized for 15 minutes.

Mr. THYE. Mr. President, I feel entirely justified in offering this amendment. If adopted, it will provide for chickens the same tax consideration as that given to livestock. One reason, Mr. President, for my belief that the chicken raiser or chicken producer is justified in having this consideration is that splendid progress has been made in flock improvement and in increased egg production. Mr. President, the credit for this splendid progress in increasing egg production is due entirely to the experiment stations in our colleges and universities, and to the poultry producer. The breeder has made it possible to have in the United States a national income from eggs of \$1,564,100,000, and, from the standpoint of revenue, that is advantageous to the Nation's Treasury, as well as to the national economy. Chickens have become exceedingly important in the State of Minnesota, where the income from chickens, as of the past year, was \$18,711,000, and the egg income in the State of Minnesota was \$115,570,000. This increased income from eggs and from poultry adds to the revenue and to national agricultural economy. For that reason, Mr. President, I feel entirely justified in offering an amendment which would include chickens with turkeys.

Mr. DOUGLAS. Mr. President, will my good friend from Minnesota yield for a question?

Mr. THYE. I am happy to yield.

Mr. DOUGLAS. Would the Senator from Minnesota consider the possibility of adding ducks, angora cats, and dogs to his amendment?

Mr. THYE. Mr. President, there would be some justification for adding the ducks, though ducks are not equal in importance to either turkeys or chickens with respect to the national income. The Senator has an argument there, but when one goes too far down the ladder, I may say to the distinguished Senator from Illinois, he may get into a category which would cause someone possibly to look upon the proposition as ridiculous. Mr. President, I urge the adoption of my amendment.

Mr. GEORGE. Mr. President, I do not care to argue the question. I am obliged to oppose this amendment. Section 117 (j) was not intended to cover the things which came in and go out, things which are purely transitory, as in the case of stocks of merchandise. I certainly cannot take the chicken amendment to conference. Turkeys were included somehow, I do not know how. I cannot accept the amendment, but I yield all my time to the Senator from Delaware.

Mr. THYE. Mr. President, if the Senator will yield, I should like to say that the distinguished chairman of the Finance Committee, I am sure, would agree with me that if a flock is to be improved—and the statement that there are many poultry operators who keep their flocks longer than from day to day, contrary to the Senator's sugges-

tion—the poultry producers must keep a cockerel or breeding flocks a number of years, because it is only through proven ability with respect to increased production that we improve the flocks. It is possible to determine that there will be an increase in the future egg-laying ability of the flock. It is determined by the proved factors in the breeding stock which one may have had on hand over a period of a number of years.

Mr. GEORGE. Mr. President, I simply am not—and I say it with great regret—able to agree with the Senator. I cannot conceive that Congress ever had in mind more than tangible capital assets which could be identified with a business, not assets which were purely transitory, changing specifically from day to day and from hour to hour, as it were. So, Mr. President, I yield the remainder of my time to the Senator from Delaware.

The VICE PRESIDENT. The Senator from Delaware is recognized.

Mr. WILLIAMS. Mr. President, if this amendment is passed it will mean that the poultry farmers in my State will be exempted from the regular normal tax rate almost entirely, and it will place the entire poultry industry under capital gains rates. Of course the large operators are the ones benefited most.

Mr. THYE. Mr. President, will the Senator yield for a question at that point?

Mr. WILLIAMS. I will yield in a moment.

Mr. THYE. Yes, but, Mr. President—

Mr. WILLIAMS. Mr. President, I will yield to the Senator from Minnesota in a moment, if the Senator will just wait.

Mr. President, it would place all the poultry-breeding industry within my State, in its entirety, under the capital-gains provision. From a personal standpoint the adoption of this amendment would mean as much or more to me personally than any amendment the Senate could adopt, yet I think it perfectly ridiculous to consider extending the capital-gains provision to the poultry industry. Yet at the same time I agree with the Senator from Minnesota that there is just as much justification in the case of poultry as there is in the case of turkeys, and on the other hand, there is just as much justification for that as there is for the cattle. Instead of including more commodities, I think the entire section relating to the livestock industry should be stricken from this bill. It was never intended in the beginning that the capital-gains provision should be extended to the livestock industry. I think I am about as familiar with this type of operation as some of the rest of the Senators. When a farmer buys a day-old chick for anywhere from 15 cents to a quarter, depending upon the type and breed, he raises that chick to a mature hen, which he sells for \$2 or \$3. As he raises that chicken, to sell it later at \$3, to treat the profit as capital gain would mean that anyone operating in this field would never be taxed at the normal rates. Since these animals, chickens or cattle

are eating every day there is no possible way by which he can determine what the exact cost is; so therefore the Treasury Department is just considering the original cost. The same thing is true in the case of young turkeys. The same thing is true in the case of a calf. It is fed through the years, and then sold at a mature age. If this amendment were adopted, it would put the livestock industry in a lower bracket than that in which the rest of the farmers are placed.

Immediately after this amendment is voted on, if it is defeated, as I hope, I shall offer an amendment to strike out the entire section, because I do not think the capital-gains provision was ever intended to be extended to the livestock industry. I think there are many other more equitable ways in which the Senate, if it desires, can give tax advantage to the farmer, whereby all the farmers would get the benefit. Mr. President, I hope this amendment will be defeated. Let us not give any group preferential treatment.

The VICE PRESIDENT. The question is on agreeing to the amendment of the Senator from Minnesota [Mr. THYE].

The amendment was rejected.

Mr. WILLIAMS. Mr. President, I have an amendment to the same section, which I desire to call up.

The VICE PRESIDENT. The clerk will state the amendment.

The LEGISLATIVE CLERK. On page 172, beginning with line 4, it is proposed to strike out all language down to and including line 21.

Mr. WILLIAMS. Mr. President, it will not take me very long to explain this amendment. We have already discussed the merits of this section. I propose merely to strike out all of that section which extends the capital-gains provision to the livestock industry, either cattle or turkeys. I do not think it is practical, and I voted against it in the committee. I think it should be stricken from the bill, and I do not think that the original capital-gains provision as it was put on the statute books was ever intended to be applicable to the livestock industry. Besides, its adoption is grossly unfair to other farmers.

There is no possible way by which this could be administered other than, as I see it, the manner in which the Treasury is administering it. Why should this group of farmers have the benefit of a lower tax rate than the rest of the farmers? They are no more justly entitled to it than the farmers who are producing wheat. It requires 6 or 8 months to produce wheat. What can be said of the farmer who produces wheat can with equal justice be said about the farmer who produces corn or who raises chickens. This section is clearly class legislation and benefits no one but the largest operators. The small operators are having enough trouble now competing and we should be careful not to make their lot any worse. The farmers in my State are not asking for special privileges.

If we are going to put farm products under the capital-gains provision, let us give all farmers the benefit of it. Let us not single out one particular group. I do not think that any of us should have preferential treatment.

Mr. DOUGLAS. Mr. President, will the Senator from Delaware yield?

Mr. WILLIAMS. I yield.

Mr. DOUGLAS. I think the whole Senate is indebted to the Senator from Delaware for the position he is taking. The Senator from Delaware has risen above political advantage and has made one of the great contributions of this session of the Congress. I commend him for his great public service in this respect and in many other respects. He commands my admiration, and I am going to vote for his amendment.

Mr. WILLIAMS. I thank the Senator from Illinois.

Mr. ROBERTSON. Mr. President, will the Senator from Delaware yield?

Mr. WILLIAMS. I yield.

Mr. ROBERTSON. The change previously made in the law, not this year, was to make the language in keeping with the decisions of the courts, that if a farmer bought dairy cattle for breeding purposes, they were capital assets, and he was entitled to capital-gains treatment.

Mr. WILLIAMS. The Senator from Virginia may well be correct, but my argument is that the provision should never have been placed in the law in the first instance, and that it should be stricken, because I do not think capital gains should have been made applicable to the livestock industry of this country. I hope the provision will be stricken from the bill. I say because there is no possible way that the cost can be ascertained. You are feeding the animal the day it is sold and that feed is a part of the cost. The situation is different on fixed assets. There are other ways to give James tax relief.

Mr. GEORGE. Mr. President, the question, without this amendment, has been before the courts. Some courts have held one way on it, and the Treasury Department has seen fit to disregard the holdings of the courts, and, sometimes in the same judicial circuit, has continued to administer the law according to its own interpretation.

Generally the view has been that livestock used for breeding purposes and held for a longer period than a year does become a capital asset, and may be treated as such. The Treasury has disregarded that opinion. The House inserted the provision purely for the purpose of clarifying the particular section of the code applicable to the subject. It would be a most dangerous thing indeed to say now that the whole section should be impaired by an amendment which would deny to one capital asset the treatment which has been accorded capital assets heretofore, since the passage of the act.

I sincerely hope that the amendment will not be adopted. The committee approved the committee amendment and the House included its provision solely because the Treasury has not followed the rulings of the circuit courts in this matter.

Mr. MILLIKIN. Mr. President, will the Senator yield?

Mr. GEORGE. I yield.

Mr. MILLIKIN. I merely wish to say that this question has been the subject of considerable discussion for the past

several years. As has been pointed out, a number of courts have held completely with the position of the livestock producers, that the raising of stock for breeding purposes does involve a capital transaction. It seems to me by its nature to be a capital transaction.

My admiration for the Senator from Delaware is boundless, greater perhaps than that of the distinguished senior Senator from Illinois, but the best of us can make a mistake once in a while, and I think the Senator from Delaware is making a mistake now. I suggest that the Senate reject his amendment.

Mr. THYE. Mr. President, I wonder if the Senator from Georgia will allow me some time.

Mr. GEORGE. I will yield whatever time I have left.

Mr. THYE. Mr. President, I thank the able and distinguished chairman [Mr. GEORGE] for his able explanation of this amendment and the justification for this particular section of the bill.

Section 117 (j) of the Internal Revenue Code was incorporated in the Revenue Act of 1942 as a tax relief measure to apply to individuals, partnerships, and corporations for the taxable year 1942. It has remained unchanged in the law.

This section provides in effect that the net gain from sales of property meeting certain conditions should be treated as a capital gain. To justify its being treated for tax purposes, the item sold must be property used in the taxpayer's trade or business. It must be of a character subject to the allowance for depreciation. It must be held for 6 months. It must not be stock in trade, or property held primarily for sale to customers in the ordinary course of the trade or business.

Under this provision no more than half of the gain from sale of such capital assets can be taxed as income. If the item does not conform to the requirements of this section, and is something primarily for sale to customers, then all the gain from the sale is taxable as ordinary income.

This provision was designed to favor all taxpayers, and was basically intended as a stimulant to production. It was intended to afford relief whether the taxpayer was producing airplanes, munitions, food, or any other item. It does not single out or segregate any type of taxpayer or any particular type of property or asset to be affected.

It certainly was not intended to be discriminatory against the farmer or the livestock breeder. As a matter of fact, it is only because of the changing interpretations placed on this section by the Bureau of Internal Revenue that the clarifying language proposed at this time is necessary.

Courts have uniformly held against those rulings of the Bureau which denied capital gain treatment for sales of livestock held for draft, breeding, or dairy purposes. A conference committee in the last Congress specifically asked the Bureau to conform to the circuit court decision in the Albright case in the tax treatment of the sales of such livestock.

Confusion continues to exist despite recent changes in rulings by the Commissioner of Internal Revenue. The

average farmer cannot afford to go to court to settle the question of tax liability.

It must be plain, even to those unfamiliar with the dairy industry, that a farmer does not milk a cow for a period of time primarily for the purpose of selling the carcass. The primary purpose is the production of milk.

It must be equally plain that the beef raiser does not retain a herd of beef cows over a period of years for the purpose of selling the meat. The primary purpose is the production of calves to be developed for beef.

When a farmer sells a draft horse which has been used for work on his farm, he sells part of his capital equipment. He is entitled to just as much tax relief on that sale as the manufacturer who disposes of a piece of machinery used in his factory for the production of goods.

A flock of chickens primarily kept for breeding purposes is as much a capital asset as a fleet of linotypes in a print shop.

Why should a farmer who sells four brood sows from his herd be subject to different tax treatment for the gain from such sales than a trucker who sells four of his trucks?

The law does not include any such discrimination when it refers to property used in a trade or business. I am confident it was never the intent of Congress to impose such a discrimination. It is only the Bureau of Internal Revenue that has created the idea that there are different kinds of capital assets under the definition in section 117 (j).

There are ample safeguards in the clarifying language proposed by the committee amendments to the pending bill. These amendments provide that the term "property" used in a trade or business under section 117 (j) (1) "also includes livestock, regardless of age, held by the taxpayer for draft, breeding, or dairy purposes, and held by him for 12 months or more from the date of that acquisition."

There is a great deal of difference, Mr. President, between breeding, and the selling of livestock in the livestock-slaughter centers. There is a tremendous amount of confusion on that point.

A second proviso defines livestock as including turkeys, and my amendment to include chickens was simply to reach one more segment in our whole agricultural economy.

The committee proposal would make the proposed amendments applicable with respect to taxable years beginning after December 31, 1941, in accordance with the original terms of the law, except that the extension of the holding period from 6 to 12 months and the amendment with respect to poultry and turkeys would both apply only to taxable years beginning after December 31, 1950.

Of course, the poultry amendment was defeated, but I did mention turkeys.

So, Mr. President, I definitely believe the amendment offered by the distinguished Senator from Delaware is completely out of reason and out of order, and that it should be defeated. In fact, the Eighth Circuit Court of Appeals has

held in the Albright case that this is an absolutely justifiable provision in the Revenue Act. But in spite of that, the Internal Revenue Bureau continues to impose the tax upon the producer, and the producer must go into court to establish a rightful and just tax provision. No producer can go into court on a \$200 or \$300 item. It is for that reason that we have placed this clarifying language in the pending bill.

Mr. President, I ask unanimous consent to have inserted in the body of the RECORD two letters. They explain the producer's side of the problem. One letter was addressed to me by Mr. Walter S. Fox, of Round Hill, Va., and the other by Mr. Allan E. Finseth, an attorney of Kenyon, Minn. He was the attorney who did the legal work on the so-called Albright case, which has always been referred to in connection with the revenue act.

There being no objection, the letters were ordered to be printed in the RECORD, as follows:

ROUND HILL, VA., August 2, 1951.

SENATOR E. J. THYE,
Senate Office Building,
Washington, D. C.

DEAR SENATOR THYE: I wish to urge your careful consideration of section 117 (j) of Revenue Code. I am asking no personal favoritism whatsoever. If this intention of the law is that purebred breeding cattle are ordinary income—so be it. If the intention of the law is that such cattle are to be regarded as capital gains after being held 1 year, I pray that you say so clearly.

I feel it is little enough to expect the Congress to express its intention in language so clear that the Treasury cannot make fools of the taxpayers who are willing and try to pay taxes in accordance with the act of Congress. All the commissioner seems interested in is to waste taxpayers' time, cause expense and clutter the courts.

First, he ruled cattle 2 years of age or over are capital assets. Later, he ruled none are capital assets. We took our case to the tax court and got the absurd decision that females 26 months of age and males 34 months of age are capital assets, Case 16 T. C. 103. One month later the same court, in the case of A. Harold Schmidt and Albert H. Schmidt held that all breeding cattle 24 months old are subject to capital gains. The two cases are analogous. One can only conclude that the decisions are absurd and that the court is confused on the whole question, since 117 (j) reads, 6 months of age or older.

The root of the confusion arises from the fact that section 117 (j) uses the word "used" in the breeding herd. The commissioner is so ignorant that he does not know we cannot use a female for breeding before she is 16 months of age, and males not before they are 13 months of age. These are laws of nature which must be observed unless we are to ruin cattle and produce runts. The young cattle are in and have to be held in the herd to these ages before they can be used in the breeding herd.

The House revenue bill of 1951 section 306 reads "such term includes livestock held by taxpayers for draft, breeding, or dairy purposes for 12 months or more." If this amendment is enacted and made retroactive to all years not barred by statute of limitations, it should end the confusion. It is possible even with this amendment that the commissioner might argue that the cattle were not held for breeding purposes until they reached a certain age. This would be clarified if the amendment was made to read "livestock 12 months of age and held by taxpayers for draft, breeding, etc."

The commissioner has gone to great lengths to avoid applying what appears to have been the intention of Congress in section 117 (j).

The Revenue Bureau's ruling of April 18, 1951, is helpful as far as it goes. However, it confines capital gains to worn out and defective animals and does not apply such treatment to the young animals (the new plant) from which the new and greater production is to come. Likewise it does not apply this treatment to breeding animals generally.

I am simply asking that you make the intention of Congress so clear, in such simple language, that a dumb commissioner and a confused court will have no choice but to follow that intention. We breeders are building the quality and quantity of cattle so badly needed and pay enormous taxes with no complaint. Are we not entitled to language clearly expressing the intentions of Congress so we do not have to waste our time fighting the commissioner in the courts and wasting money that otherwise would produce additional taxes?

Sincerely yours,

WALTER S. FOX.

KENYON, MINN., April 27, 1951.

HON. EDWARD J. THYE,
United States Senate,
Washington, D. C.

DEAR SIR: Thank you for your letter of April 24, 1951, wherein Income Tax Information Release No. 3 of the Bureau of Internal Revenue relating to gains and losses from sales of certain livestock was enclosed.

However, this release is no more founded upon the law than the Commissioner's previous rulings, I. T. 3666 and I. T. 3712. In this release the Commissioner sets up a test or standard which is now here set forth in section 117 (j) either specifically or by inference. Concerning dairy and draft animals, the Commissioner states that it must be the practice of the taxpayer to hold such animals for substantially their full period of usefulness. Section 117 (j) sets up no such requirement. Said section requires only that the property be (1) used in the taxpayer's trade or business, (2) be of a character subject to the allowance for depreciation, and (3) be held for more than 6 months, and it must not be (1) a stock in trade, and (2) property held primarily for sale to customers in the ordinary course of their trade or business.

Under no other circumstances has the Commissioner ever held that property to come within section 117 (j) must have been held substantially for its full period of its usefulness. The trucker who sold the truck, the farmer who sold a machine, or the industrialist who sold an instrumentality of production has never been required to prove that the item sold had been held for substantially its full period of usefulness. The only holding requirement under the statute is that the property be held for at least 6 months. In this release the Commissioner is requiring a holding period of the useful life of the item and, therefore, is reading into section 117 (j) something that does not exist and that Congress never intended.

Regarding hogs the Commissioner's ruling has in effect taken the hog industry out of section 117 (j). The courts have held that said section was intended as a relief measure applicable alike to all taxpayers within its provision (*R. W. Albright v. United States of America*). From a practical standpoint this ruling affords the farmer no more benefits than he had before it was issued. It is obvious to me that the Commissioner is merely shifting his position to obtain the same result he obtained in issuing I. T. 3666 and I. T. 3712. In those rulings he applied normal and abnormal sales theory, which was overthrown by the court. He now shifts his position and applies the theory

that the animals must be held for substantially their full periods of usefulness. I conclude that this ruling will in no way settle the difficulties that we have been having with the administrative officials of the Tax Department.

Yours very truly,

ALLAN E. FINSETH,
Attorney.

Mr. SCHOEPPPEL. Mr. President, will the Senator from Minnesota yield to me for a question?

Mr. THYE. I yield.

Mr. SCHOEPPPEL. Does not the Senator from Minnesota find that in his State many livestock breeders have built up herds on the basis of the kind of a consideration or approach presently contained in the bill now before the Senate?

Mr. THYE. The able Senator, coming from the great livestock State of Kansas, well knows that the only reason why we have high production in livestock and splendid production of beef, is because of the excellent work done by the breeder, because of the thousands of dollars he invests in a herd sire annually in order to improve the productivity and quality of the herd, and likewise the thousands of dollars he invests in the highest and best-producing female animals. Only in that manner are we able to obtain the great agricultural economy we now enjoy and only in that manner will we continue to improve the agricultural economy in the manner in which we have successfully builded it in the United States over the past years.

Mr. President, none of us fully realizes what we are producing in the United States. Only 16 percent of the population of the United States are farmers, yet that 16 percent are producing enough food and fiber to feed the 150,000,000 who live in the United States and we have surpluses from which we are able to furnish the food and fiber necessary in many of the countries where food production is so low and where the income is so low that the people do not have the means to provide for all their own food and clothing.

The Senator from Kansas does well in calling to our attention the fact that the only manner in which we can bring about improvements in our herds and increase production is by giving the breeders some incentive to invest, not only in good sires, but in excellent females that will improve his herd.

Mr. SCHOEPPPEL. Mr. President, I am glad to hear the Senator from Minnesota say that the raisers of livestock in his State and in our livestock-producing areas have been so encouraged. That is the situation now existing in the State of Kansas. I think it is a serious mistake, a handicapping mistake, to have the pending bill changed as it would be if the amendment of the Senator from Delaware [Mr. WILLIAMS] should prevail.

The PRESIDING OFFICER. The question is on agreeing to the amendment offered by the Senator from Delaware to the committee amendment.

Mr. WILLIAMS. Mr. President, how much time is left?

The PRESIDING OFFICER. The Senator has 10 minutes remaining.

Mr. WILLIAMS. I will not use that much time.

Mr. President, one of the arguments that has just been advanced for the defeat of my amendment is the importance of the provision toward assisting in building up that great livestock industry. I have as much respect for that fine industry as anyone on the floor. But I point out that the cattle industry, the one industry which has had the benefit of this capital-gains provision for the past several years, is the one meat industry of this country in which there is the greatest shortage. Poultry and turkeys, which have not been contained in the provision prior to this time, are the only meat animals of the farm which are in supply. So surely it cannot be said that this capital-gains treatment for the livestock industry is so essential to them; otherwise, why are we so short of meat? I say this is nothing more than a tax-saving device for the cattle industry. If we are going to extend it to that group, we should extend it to every other group of farmers, whether they are producing chickens, corn, wheat, or anything else. I do not think it was ever intended to be that way in the first place.

The argument has been made that the farmer buys his livestock, not for the purpose of selling it, but for the purpose of breeding. My experience with respect to livestock of any kind, cattle or poultry, is that it is bought with one purpose in mind, and that is to sell at a profit.

The difference between extending the right of the farmer to sell his livestock under the capital-gains provision the same as applied to his truck is that when he buys a truck, he buys a fixed asset. The cost can be ascertained. His gain or loss, when he sells it, can be determined. On livestock it cannot be determined, because between the time he buys it and the time he sells it, the livestock has to be fed, and his investment grows over the period of years, and it is mathematically impossible to compute it. Actually he is still investing money in feeding the animal the day it is sold.

Mr. President, I think the amendment should be agreed to.

The PRESIDING OFFICER (Mr. STENNIS in the chair). The question is on the adoption of the amendment offered by the Senator from Delaware [Mr. WILLIAMS] to the committee amendment on page 172, beginning with line 4 to strike out all down to and including line 21.

The amendment to the committee amendment was rejected.

The PRESIDING OFFICER. Are there further amendments to be offered to section 324?

Mr. LONG. Mr. President, I offer an amendment, which I ask to have stated.

The PRESIDING OFFICER. Is the Senator's amendment to section 324?

Mr. LONG. Yes; to the same section as the amendment of the Senator from Delaware.

Mr. CONNALLY. Mr. President, I thought I had the floor.

The PRESIDING OFFICER. Amendments to section 324 are in order. Does the Senator from Texas have an amendment to that section?

Mr. CONNALLY. No.

The PRESIDING OFFICER. Under the rule under which the Senate is now operating amendments to that section at this time take precedence.

The amendment offered by the Senator from Louisiana will be stated.

The LEGISLATIVE CLERK. On page 172, in lines 10 through 13, it is proposed to strike out "; except that such term includes turkeys, regardless of age, held by the taxpayer for breeding purposes, and held by him for 12 months or more from the date of acquisition", and insert in lieu thereof a period.

Mr. LONG. Mr. President, the Senate voted just a few moments ago not to include chickens, and if chickens are not to be included it seems to me we should be consistent, and that turkeys should not be given capital gains treatment. We should be consistent in that respect. Therefore I hope the amendment will be agreed to.

The PRESIDING OFFICER. The question is on agreeing to the amendment offered by the Senator from Louisiana [Mr. LONG] to the committee amendment.

The amendment to the committee amendment was rejected.

The PRESIDING OFFICER. Are there any further amendments to be offered to section 324? If not, the question is on agreeing to the committee amendment on page 172, section 324.

The amendment was agreed to.

Mr. CONNALLY. Mr. President, I offer the amendment which I send to the desk and ask to have stated.

The PRESIDING OFFICER. The amendment offered by the Senator from Texas will be stated.

The LEGISLATIVE CLERK. On page 319, in the committee amendment, it is proposed to strike out lines 23 and 24; also lines 1 to 11 on page 320, and insert in lieu thereof the following:

The taxpayer's average base period net income determined under this subsection shall be either (A) an amount computed under section 435 (d) by substituting for the excess profits net income for each month in the taxable year in which the catastrophe occurred an amount equal to (i) the aggregate of the excess profits net income for each month computed under section 435 (d) (1) in the base period preceding the taxable year in which the catastrophe occurred (ii) divided by the number of such preceding base period months, and such average base period net income determined under this alternative of this subsection shall, for the purpose of section 435 (a) (1) (B), be considered an average base period net income determined under section 435 (d); or (B) the amount computed under section 435 (e) (2) (G) (i) and (ii); whichever results in the lesser tax under this subchapter for the taxable year for which the tax under this subchapter is being computed.

Mr. GEORGE. Mr. President, the committee has no objection to taking this amendment to conference. It is the same amendment which has already been passed upon, but this is to clarify it and to make sure that there will be in conference for consideration the application of the growth formula in the circumstances stated.

The PRESIDING OFFICER. The question is on agreeing to the amendment offered by the Senator from Texas

[Mr. CONNALLY] to the committee amendment beginning on page 319, after line 22.

The amendment to the amendment was agreed to.

Mr. ROBERTSON. Mr. President, on behalf of my colleague [Mr. BYRD] and myself I offer the amendment which I send to the desk and ask to have stated.

The PRESIDING OFFICER. The amendment offered by the Senator from Virginia will be stated.

The LEGISLATIVE CLERK. At the proper place in the bill it is proposed to insert the following:

TITLE VII—COLLECTION OF INCOME TAX AT SOURCE ON CERTAIN PATRONAGE DIVIDENDS
SEC. 701. Income tax collected at source.

The Secretary of the Treasury shall provide for the deduction and withholding upon patronage dividends, rebates, or refunds of a tax equal to 20 percent of the amount thereof. For the purposes of this section, the term "patronage dividend" means a patronage dividend, rebate, or refund paid in any medium other than cash (whether in capital stock, revolving fund certificates, retain certificates, certificates of indebtedness, letters of advice as to net amount retained, or otherwise) by an association operated on a cooperative basis for the marketing of products of members or other producers, for the purchasing of supplies and equipment used in the trade or business of members or other persons, for the furnishing of services incident to the trade or business of members or other persons, or for any combination of such activities.

SEC. 702. Effective date.

The withholding tax established by the Secretary pursuant to the authority of section 701 shall be effective with respect to payments of patronage dividends, rebates, or refunds made after December 31, 1951.

Mr. ROBERTSON. Mr. President, the junior Senator from Virginia regrets very much that his esteemed colleague is prevented from being present today because of the serious illness of his wife.

The Virginia Senators voted against the Williams amendment because they felt that the cumulative effect of the Williams amendment would be gradually to strangle the cooperatives by denying to them adequate working capital. But the Senators from Virginia have consistently taken the position that those doing the same type of business should, in fairness, bear the same type of burden. Therefore, in voting for the committee amendment the Virginia Senators did so with the very definite understanding that they could supplement the committee amendment with the amendment which has just been stated.

The practical effect of the amendment which has just been stated is that a cooperative retaining surplus earnings shall pay to the Government a definite and specific tax, a withholding tax of 20 percent. The Senators from Virginia feel that the provision inserted in the committee bill which requires the member of the cooperatives to whom is obligated a dividend or rebate, or whatever it may be called, to pick it up and report it for taxation and pay a tax on it at the top rate of his own personal income tax, when he has not actually received the money, is quite unfair to the farmer.

We also feel that unless there is written into the bill this specific withholding tax of 20 percent on the retained surplus, it may be said, "You did not vote for any real tax when you said you favored a fair tax on those doing the same kind of business."

We realize that the committee bill provides that whenever all corporations are required to withhold at the source, cooperatives shall be required to do the same thing. The House bill provided for all cooperatives to withhold at the source, but the Senate committee did not see fit to adopt that provision. We had quite an argument and a vote on the question of making banks withhold on the little 1 or 2 percent dividends paid to widows who put their money in such banks. Often it would be more of an expense for the widow to obtain a credit or refund of the amount withheld than would be justified by the amount itself.

The junior Senator from Virginia voted against the amendment to withhold from bank dividends and savings-bank payments because he thought it would be a great injustice to a large number of poor people.

It may be, however, that in conference the House provision will prevail. Should it prevail, then the tax will be exactly as the Senators from Virginia are now proposing. On the other hand, if the withholding does not prevail and become the general law, the Senators from Virginia believe that now is the time definitely to establish the principle that there should be some specific tax on those institutions which have gone far beyond our original concept of cooperatives under section 101. Originally we conceived the cooperative to be a small organization formed to buy seed, fertilizer, and things of that kind, and for the mutual help and protection of farmers. Later they built up, through tax exemption, a tremendous expansion of funds, with which they constructed stores, warehouses, manufacturing plants, fertilizer plants, and other facilities.

Mr. CAPEHART. Mr. President, will the Senator yield?

Mr. ROBERTSON. I yield.

Mr. CAPEHART. As I understand, the amendment does not provide a 20 percent tax on the cooperatives. It is simply a withholding tax on those who are to receive the dividends, the interest, or the merchandise of the cooperatives.

Mr. ROBERTSON. That is correct. As the junior Senator from Virginia understands, the main complaint is that cooperatives have been permitted to retain these funds for expansion purposes. The Senator from Virginia believes that under the Senate bill we say that it is not the fund of the cooperatives, but the fund of the members. What is a cooperative? It does not consist merely of the president and a board of directors. It is a group of farmers who have pooled their resources for a common undertaking. The Senators from Virginia do not believe that such farmers are going to be treated fairly under the Senate version of the bill if, as soon as the bonus, dividend, or whatever it is, is allocated in

their names, they must pick it up on their income-tax return and pay a tax on it, when they do not get the money.

Mr. DOUGLAS. Mr. President, will the Senator yield for a question?

Mr. ROBERTSON. I yield.

Mr. DOUGLAS. Is the amendment of the Senator from Virginia designed to apply the withholding tax to cash patronage dividends, or merely to investments to capital allocated to individual members?

Mr. ROBERTSON. Patronage dividends, refunds, and rebates to patrons, whether paid in cash or allocated on the books of the cooperatives, are, under present law, taxable to the recipient. That is, the farmer receiving such paid dividend, refund, or rebate is required to include the amount thereof, whether paid in cash or merely allocated to him, in his income in the year in which received.

The proposed amendment adds a new title to H. R. 4473, which directs the Secretary of the Treasury to institute a system of withholding on patronage dividends which are allocated to the patrons, but not paid in cash. Like the present withholding tax on wages, the withholding tax on patronage dividends would be at the rate of 20 percent. The withholding tax on patronage dividends, refunds, and rebates would become effective on January 1, 1952.

Mr. DOUGLAS. That was a rather long statement. In other words, it is not intended to apply to patronage dividends which are distributed to members in cash.

Mr. ROBERTSON. That is correct.

Mr. DOUGLAS. It is not intended to apply?

Mr. ROBERTSON. Oh, no. The law requires the man who gets it to pay it. In this case it is allocated to him, but not paid to him. It is used to build up a fund.

Mr. CAPEHART. Mr. President, will the Senator yield?

Mr. ROBERTSON. Yes.

Mr. CAPEHART. In other words, the recipient would pay an individual tax upon it of 20 percent, just as the factory worker has 20 percent of his wages withheld by his employer. Only 20 percent of the tax would be withheld at the source, although the recipient would be entitled to 100 percent of the money involved.

Mr. ROBERTSON. Yes.

Mr. DOUGLAS. Mr. President, will the Senator yield?

Mr. ROBERTSON. Yes.

Mr. DOUGLAS. He is entitled to 100 percent of the total dividends.

Mr. ROBERTSON. Yes.

Mr. DOUGLAS. Is it the understanding of the Senator from Virginia that the 20 percent of the patronage dividends is distributed in cash?

Mr. CAPEHART. Mr. President, will the Senator yield?

Mr. ROBERTSON. Yes.

Mr. CAPEHART. If I understand the amendment, it means that the members of a co-op own the co-op, and they are therefore entitled to all its earnings.

Mr. ROBERTSON. Yes.

Mr. CAPEHART. And the amendment would provide for the withholding of 20 percent of the earnings, as is the case in the withholding of 20 percent of the tax on a man's salary.

Mr. ROBERTSON. Mr. President, the junior Senator from Virginia will reassure the Senator from Illinois that the experts who worked on the bill have confirmed my opinion, to the effect that the 20 percent does not apply to the cash the member receives.

If the co-op does not pay the man in cash, but sends him a chit and says that at some future time, perhaps 1, 5, 10, or 15 years later it will pay him, then and there they must report the 20 percent tax on it. We say it is fair to everybody concerned.

Mr. CASE. Mr. President, will the Senator yield?

Mr. ROBERTSON. Has the Senator from Illinois completed his questioning?

Mr. DOUGLAS. For the time being.

Mr. ROBERTSON. I yield to the Senator from South Dakota.

Mr. CASE. I suggest to the Senator from Virginia that I believe his interpretation is borne out by the exact language of his amendment, which reads:

For the purpose of this section, the term "patronage dividend" means a patronage dividend, rebate, or refund paid in any medium other than cash.

It is the "other than cash" which makes the distinction.

Mr. ROBERTSON. That is correct. The amendment was prepared by the senior Senator from Virginia. He had intended to offer it. The junior Senator from Virginia did not know until a short time ago that he would offer it, but he thinks he understands it.

Mr. CAPEHART. Mr. President, will the Senator yield?

Mr. ROBERTSON. Yes.

Mr. CAPEHART. I believe I understand the amendment. The recipient would have to pay 100 percent of the tax, whatever the tax was, at the rate that would be fixed. What the Senator from Virginia proposes to do is to withhold 20 percent of the tax, just as the employer in a factory now withholds 20 percent of the wages of his employees. Is that correct?

Mr. ROBERTSON. That is correct. Later on, when the recipient gets the remainder, he must account for what he has received, if there is anything due by him above the normal tax.

Mr. CAPEHART. The Senator from Virginia is not proposing to tax the co-ops at all.

Mr. ROBERTSON. No. The amendment proposes to put a tax on the privilege of building up an expansion fund in a tax-free manner. We are not actually taxing the co-op. The main thing is to be a little fairer to the member himself than the committee amendment is.

Mr. GEORGE. Mr. President, I wish to make only one statement before I yield to the Senator from Colorado [Mr. MILLIKIN] on this matter. The amendment was presented in committee. It was considered very carefully and it was rejected. There is now in the bill a provision that whenever withholdings on

dividends are imposed upon all corporations, they shall also be imposed upon farm co-ops. The committee felt it would be a highly inequitable procedure to single out the farmer.

Mr. MILLIKIN. Mr. President, as the distinguished chairman of the committee has said, the matter was considered at length. The committee decided that it would not go along that road, for the reasons mentioned by the distinguished Senator from Georgia. In the first place, it would be highly discriminatory, if we did not run the withholding system on dividends from other corporations, to run the withholding system on the farmer. Why discriminate? We decided that we would not have a withholding system.

Mr. ROBERTSON. Mr. President, will the Senator yield?

Mr. MILLIKIN. Yes.

Mr. ROBERTSON. Is it not a fact, under the present law, when a co-op allocates something to a farmer he is supposed to pick it up and pay on it, and that he has nothing with which to pay? Is that not a fact?

That is quite different from the man who works in a factory, because he need not report on anything that he does not get into his own pocket. What is coming to him in cash is diminished by the 20-percent withholding tax. Under the present law and under the bill the farmer must report and pay a tax on what he does not get.

Mr. MILLIKIN. I will answer the distinguished Senator.

Mr. CAPEHART. Mr. President, will the Senator yield?

Mr. MILLIKIN. First I shall answer the question of the Senator from Virginia. At the present time the farmer is liable for taxes according to the nature of the allocation, the nature of the patronage dividend, or the nature of what is done by the co-op and what is received by the members. Sometimes the farmer is liable, and sometimes he is not. Although many questions were asked on the subject, I was unable to follow the circumstances and deviations in the mind of the Treasury Department. I do not know. There is no general rule that applies.

Mr. ROBERTSON. Mr. President—

Mr. MILLIKIN. Please hold up for a moment. I come back to what I said before. If we are to have a withholding tax on something which is not then available for the farmer, we are doing him the very injustice to which the Senator from Virginia has referred. If we have a withholding tax on something that is unavailable to him, I say why put that system on the farmer and not put it on all the other dividend and interest receivers in the country?

Mr. ROBERTSON. Mr. President, will the Senator yield?

Mr. MILLIKIN. Yes.

Mr. ROBERTSON. It is not discrimination with respect to a dividend, because a dividend is something that is paid in cash. Under the amendment offered by the senior Senator from Virginia, if the rebate or dividend is paid in cash there is no withholding. From the standpoint of the farmer there is no

injustice to him. If the Treasury has ruled, as the Senator knows it has, and if the law means what it says, namely, that it must be picked up and reported by him, it is no injustice to him, when he does not get the dollars, to provide that 20 percent of the tax must be paid by the man holding his money.

Mr. MILLIKIN. Mr. President, in answer to the distinguished junior Senator from Virginia, I would say that if we are to have a withholding tax, and if we want to make the argument that a withholding tax is meritorious, the time to apply it is on the cash dividend. What is the point of applying a withholding tax on something that the patron is not going to get or on something that the patron is not sure of getting, or on something which he cannot reduce to his possession at the time of the withholding? That would be a very strange sort of withholding tax. It could not be justified under any type of argument.

Mr. CAPEHART. Mr. President, will the Senator yield?

Mr. MILLIKIN. Yes.

Mr. CAPEHART. I have two questions to ask. Do I understand that the House in its bill had a provision to withhold dividends from corporations?

Mr. MILLIKIN. Yes.

Mr. CAPEHART. My second question is: Did the committee write into the bill which we are considering a provision that if and when dividends are withheld from corporations, they will likewise be withheld from co-ops?

Mr. MILLIKIN. Yes.

Mr. CAPEHART. Then, regardless of what we do here, if the conferees agree to a withholding of dividends from corporations, that will automatically include the dividends of cooperatives, will it?

Mr. MILLIKIN. It will.

Mr. KERR. Mr. President, is it not a fact that the farmer himself agrees to accept the so-called scrip or evidence of indebtedness or agreement to pay, in lieu of the cash which would have been made available to him if he had decided otherwise?

Mr. MILLIKIN. I believe there are such contractual situations.

Mr. KERR. If such a provision is included in the bylaws and charter, it is included, is it not, because the farmers decided to have that basis of procedure adopted?

Mr. MILLIKIN. That is a considerable part of the argument going to what the committee did in reference to the cooperative problem.

Mr. KERR. Because it really is the farmer's right to contract as to the form in which he shall receive what is due to him, is it not?

Mr. MILLIKIN. That is correct, under the cooperative theory.

Mr. ROBERTSON. Mr. President, will the Senator from Colorado yield to me?

Mr. MILLIKIN. I yield to the Senator from Virginia.

Mr. ROBERTSON. My distinguished friend from Colorado is a great lawyer and an eminent statesman, but he must not make me a victim of the tyranny of words. He said, "If you are going to

have a withholding tax, withhold the cash." However, in truth, the Senator from Colorado is saying to the operators of the cooperatives, "Do not pay the farmers what they are entitled to have."

Mr. President, I say to the Senate that it should adopt my amendment, and should vote against such withholdings from the farmers.

Mr. MILLIKIN. Mr. President, under the theory of the bill, as the distinguished Senator from Oklahoma pointed out, the farmer already has contracted away that point; it is covered by his contract. So I say that if we are going to withhold, we should withhold cash. What else can we withhold? We cannot very well withhold goods and merchandise. What is the use of having a withholding, if the withholding is not a withholding of cash which is in the way of being distributed to the farmer?

We do not withhold from the worker until the money is ready to be handed to him. It has never been proposed that we withhold on dividends or interest in the case of other classes of persons until it is ready to be handed to them.

Now we have the amazing proposal that we should permit the withholding of something which is not being handed to the farmer. I repeat that that is discriminatory on its face.

If I am willing to trust those who receive interest payments and dividends to pay their lawful taxes—as I am—then I am willing to trust the farmer to make a proper report.

Mr. WATKINS. Mr. President, will the Senator from Colorado yield?

Mr. MILLIKIN. I yield.

Mr. WATKINS. Is it not true that after the allocation is made, the farmer in effect loans this amount of money to the cooperative, and he receives interest on it, if and when the interest is paid to him?

Mr. MILLIKIN. That is a theory which can be argued with great force; but whatever its force may be, I say to my distinguished friend I do not believe we are sound when we start imposing withholding taxes on something which, in fact, is not ready for distribution to the person from whom the withholding is proposed to be made.

Mr. WATKINS. It is not ready for payment, and the farmer has contracted with the cooperative that it can keep it for a long period of time.

Mr. MILLIKIN. That is what I am talking about.

Mr. WATKINS. Moreover, is it not true that the cooperative must report on any amount that is allocated?

Mr. MILLIKIN. This bill itself provides that. The problem of the Treasury in that case is the same as the problem of the Treasury in all other cases. If people do not make proper reports on tax payments, it is the duty of the Treasury to root them out and to collect what is due.

Mr. WATKINS. This amendment sounds as if it were directed to a farmer who runs a cooperative, but that is not the case. The farmer loans the money to the cooperative, and he does not want the Government to break his contract with the cooperative after he has entered into it.

Mr. ROBERTSON. Mr. President, will the Senator from Colorado yield to me?

Mr. MILLIKIN. I yield.

Mr. ROBERTSON. If it is unfair to withhold on what the farmer does not get, does the Senator from Colorado think it is fair to tax the farmer on what he does not get?

Mr. MILLIKIN. Mr. President, I am not at all prepared to say it is fair to tax him on what he does not get. I will not fall into that trap for one moment. I am not at all prepared to say it is fair to tax him on that which he does not get. I am not prepared to say that any man should be taxed on something over which he does not have either actual or realizable constructive possession.

Mr. CARLSON, Mr. WILLIAMS, Mr. CASE, and other Senators addressed the Chair.

The PRESIDING OFFICER. Does the Senator from Colorado yield; and if so, to whom?

Mr. MILLIKIN. First, Mr. President, let me inquire how much time remains to me.

The PRESIDING OFFICER. The Senator from Colorado has 5 minutes remaining.

Mr. ROBERTSON. Mr. President, let me inquire how much of my time remains.

The PRESIDING OFFICER. The Senator from Virginia has 1 minute remaining.

Mr. MILLIKIN. Mr. President, I yield at this time to the distinguished Senator from Kansas [Mr. CARLSON].

Mr. ROBERTSON. Mr. President, after the Senator from Kansas has spoken I shall yield to the Senator from Delaware [Mr. WILLIAMS] the 1 minute remaining to me.

Mr. CARLSON. Mr. President, I should like to ask the distinguished Senator from Colorado a question: If we adopt the amendment proposed by the Senator from Virginia, will we not be reenacting the old undistributed profits tax?

Mr. MILLIKIN. The amendment certainly includes that aspect.

Mr. CASE. Mr. President, will the Senator from Colorado yield to me?

Mr. MILLIKIN. I yield 1 minute to the Senator from South Dakota.

Mr. CASE. I should like to ask the distinguished Senator this question: Is not this proposal also discriminatory, in that it would apply a uniform 20-percent tax on the property of various taxpayers, regardless of the tax bracket in which their income would normally place them?

Mr. MILLIKIN. That is a very good point. The amendment has the same weaknesses which were apparent in the proposals made the other day. Certainly it is erroneous to assume that every farmer will owe a 20-percent tax to the Government. Tens of thousands of farmers who receive these distributions do not owe any taxes.

Mr. CARLSON. Some young farmers with large families have sufficient exemptions so that they would not have to pay a 20-percent tax, whereas some established farmers might have to pay a larger tax than that.

Mr. MILLIKIN. Yes. It would be very rare to find a farmer who owed exactly a 20-percent tax; and in all other cases the farmers would either have to be paid refunds or they would have to make additional payments at a later time, and in the meantime there would be terrific harassment of the members of the cooperatives and of the cooperatives themselves.

Mr. MAGNUSON. Mr. President, will the Senator from Colorado yield to me?

Mr. MILLIKIN. I yield.

Mr. MAGNUSON. I do not know whether the amendment of the Senator from Virginia would cure the situation, but it deals with it. In my State there are grower cooperatives. The Treasury has ruled recently that the value of the interest a farmer has in the cooperative is taxable. In that case, he is taxed on what it does not have, although it is true that his interest in the cooperative is an equity.

It seems to me that perhaps the amendment of the Senator from Virginia would not take care of the problem, but surely there should be some understanding with the Treasury Department in regard to this matter, because otherwise the question will constantly arise.

Mr. MILLIKIN. I say to the distinguished Senator that there is a vast field for clarification in that connection. However, if this amendment were adopted, the farmer might have to pay a tax on something which he does not receive from the cooperative, on something in connection with which he has a right of some kind, but it may never mature into actual distribution to him.

Mr. MAGNUSON. It will not mature unless the cooperative is dissolved.

Mr. MILLIKIN. Yes. So there is a vast field for clarification there.

Mr. MAGNUSON. I hope the Treasury will take notice of the debate on this subject.

Mr. ROBERTSON. Mr. President, I yield the remainder of my time to the Senator from Delaware [Mr. WILLIAMS].

The PRESIDING OFFICER. The Senator from Delaware is recognized for 1 minute.

Mr. WILLIAMS. Mr. President, the other evening when we voted on my amendment which related to cooperatives, I felt rather discouraged. However, after listening to all the speeches in favor of my proposal this afternoon, by Senators on both sides of the aisle, I feel encouraged because Members of the Senate are at last recognizing that it is unfair to tax the American farmer on something he does not get. That is exactly what the committee amendment, as it now stands, does. It taxes the farmer on something which he does not get and which in some instances he probably never will get. I considered this unfair and voted against the proposal. I still think the small farmers lost by the Senate's action.

So far as the argument of the Senator from Washington is concerned, in regard to his thought that the Treasury Department's understanding should be clarified, let me say that the action taken by the Senate last Monday does clarify the law. It will now require the Treasury Department to interpret as

cash payments fully taxable to the farmer all allocations, even if they have a maturity up to 100 years or 500 years in the future, or even no maturity at all. Regardless of how phony the allocations may be the farmers are hooked by the committee amendment. My argument then and my position now is that the farmer should not be taxed on that which he does not receive.

The PRESIDING OFFICER. All time on the amendment of the Senator from Virginia has expired.

The question is on agreeing to the amendment offered by the junior Senator from Virginia [Mr. ROBERTSON] on behalf of the senior Senator from Virginia [Mr. BYRD] and himself.

The amendment was rejected.

Mr. DOUGLAS. Mr. President, on behalf of myself, the Senator from Oregon [Mr. MORSE], the Senator from Louisiana [Mr. LONG], the Senator from Tennessee [Mr. KEFAUVER], the Senator from Montana [Mr. MURRAY], the Senator from Connecticut [Mr. BENTON], the Senator from New York [Mr. LEHMAN], the Senator from Minnesota [Mr. HUMPHREY], the Senator from North Dakota [Mr. LANGER], the Senator from Rhode Island [Mr. GREEN], the Senator from West Virginia [Mr. KILGORE], and the Senator from West Virginia [Mr. NEELY], I call up the amendment identified as 9-22-51-7, and ask that it be stated.

The PRESIDING OFFICER. The amendment will be stated.

The LEGISLATIVE CLERK. On page 167, in line 7, it is proposed to strike out "25 percent" and insert in lieu thereof "28 percent."

On page 169, after line 14, it is proposed to insert the following:

(d) Alternative Tax of corporations: Section 117 (c) (1) (relating to alternative tax in case of corporation) is hereby amended by striking "25 percent" and inserting in lieu thereof "28 percent."

(e) Regulated investment companies: Section 362 (b) (5) (relating to capital gain dividends) is hereby amended by striking "25 percent" and inserting in lieu thereof "28 percent."

On page 169, line 15, it is proposed to strike "(d)" and insert in lieu thereof "(f)."

The PRESIDING OFFICER. For the information of the Senate, the Chair will state that this is one of the amendments as to which the agreement provided that there should be 30 minutes to a side. The Senator from Illinois is recognized.

Mr. KERR. Mr. President, will the Senator yield for a question?

Mr. DOUGLAS. Mr. President, I would prefer—

Mr. KERR. It is a question about the Senator's procedure.

Mr. DOUGLAS. Is it a procedural question?

Mr. KERR. It is.

Mr. DOUGLAS. Certainly I yield.

Mr. KERR. Would the Senator, in the interest of saving time, want to reduce the time to 15 minutes to a side?

Mr. DOUGLAS. No. I regret that I am unable to do so, in view of the nature of the amendment.

Mr. President, this is an amendment to raise the maximum tax rate on capital gains.

The PRESIDING OFFICER. The Senator from Illinois will suspend for a moment. If anyone finds it necessary to confer and cannot leave the Chamber, it may be necessary for the Senate to suspend until he concludes the conference. If he can leave the Chamber, let him do so, that the Senate may continue with its business. The Chair does not want to become personal or to embarrass anyone, but this is an important debate, and the Chair may ask the Sergeant-at-Arms to request those who have been conversing to be quiet or leave the Chamber quietly. The Chair is talking about visitors on the Senate floor. The Senator from Illinois.

Mr. DOUGLAS. Mr. President, does my time begin now?

The PRESIDING OFFICER. The Senator is correct.

Mr. DOUGLAS. Mr. President, this is an amendment to increase the maximum tax rate on capital gains from the present rate of 25 percent, as contained in the bill reported by the Senate Finance Committee, to 28 percent. Twenty-eight percent is the figure included in the House bill, and it is an increase proportionate to the proposed increase in the personal income tax. It would raise approximately \$90,000,000 more per year in revenue.

Before I discuss the details of the proposal I should like to make a comment, if I may, upon what the group which is sponsoring this amendment and other amendments is really trying to do. Last night at the conclusion of a long and trying session, when I am sure Members of the Senate were tired and when tempers were perhaps somewhat frayed, this group was accused of offering its amendments with a political purpose. I am sure that there was no personal or malicious intent to slur our group behind that remark, but it has gone over the country, and certain elements of the press are saying that what we are trying to do is to increase the tax burdens upon the American people—that we are a high-tax bloc.

Mr. President, I may say that anyone who is interested primarily in his own political future does not advocate an increase in taxes. An increase in taxes is always unpopular with the groups upon whom the tax is to be levied and with their friends. It never is a vote getter, and therefore, I think reflection will indicate that the Members of this group certainly are not considering their own fortunes in making these proposals. Neither do we have any desire to inflict pain. We are not sadists. We do not wish to punish the American taxpayer. We ourselves are taxpayers. Our friends and relatives are taxpayers. We wish we could have a happy utopia in which there would be no taxes.

Why, then, are we making these proposals? We are making them for two reasons: First, that in order to prevent inflation it is necessary to collect a larger total amount in taxes than is contemplated in the Senate bill; and, secondly, we believe that in collecting

this larger total amount of taxes we should close, I do not say the loopholes, but rather the broad tunnels in the tax burden which have been opened up by the Senate draft.

Mr. President, let us review the situation if we may. The Defense Department and the administration stated recently that at a minimum, expenditures during the coming year would be around \$73,000,000,000. To my mind, that is a very appreciable underestimate, because we know that in the House Appropriations Committee we already have the first supplemental deficiency bill, which, I am informed, amounts to not far from \$2,000,000,000; and, if we can expect that the future will repeat the past, we can be pretty certain that there will be many deficiency appropriation bills during the year, particularly if the fighting in Korea is prolonged.

I have said before, and I think this is conservative, that during the coming year we shall spend not far from \$75,000,000,000 at a minimum. I say that is the minimum expenditure sum. I may say I think that figure is somewhat larger than it should have been. I think there is waste in the Federal budget, in both the nondefense budget and in the defense budget, and some of us worked on the floor of this body for months trying to reduce the items of appropriation. We were successful in some cases, but we were in the main unsuccessful on large items.

It is very hard in a democracy to reduce items in an appropriation bill, because the interests which desire the appropriations are concentrated and powerful and the taxpaying interests are diffused. If Senators want a recipe for political success, it would be the precise opposite of the recipe which the Senator from Illinois has followed. If they want a recipe for political success, it should be "Vote for every appropriation and vote against every tax bill." That is sure fire, if that is what one wants, because when he votes for the appropriation he will satisfy the special interest which desires the appropriation, and then when he votes against the tax bill he can go to the taxpayer and say, "See, I tried to protect you." But that policy when carried out, of course, leads to a tremendous governmental deficit. It leads to national bankruptcy. It leads to catastrophe, and I am sure that it is not a policy which any of us in our sober moments wish to follow. It is not the policy which the Senator from Illinois has followed. He has instead followed exactly the opposite course. In any event, the appropriations have been made, the expenditures will occur to the extent of at least \$75,000,000,000, and what do we have now on the revenue side?

The estimated yield of taxes existing as of this moment is not set above \$6,000,000,000. The pending bill, as reported by the Senate committee, will certainly not yield more than two and three-quarter billions of dollars in the current fiscal year. With the exemptions which have already been made on the floor, and with the probable overestimate of the yield from the gambling tax, the total amount may well not go above two and

one-half billion dollars. In any event, we will not raise a total of more than \$64,000,000,000 at the outside, and probably less. Therefore the governmental deficit will be, at a minimum, \$10,000,000,000.

As a matter of fact, I saw the Treasury statement up to the 24th of September, or for 2 months and 24 days of the current fiscal year, following the September 15 income-tax payments, and it showed a deficit of about \$2,600,000,000 for less than a quarter of the year. Expenditures are going to increase, undoubtedly, during the coming months more rapidly than income will increase, even with the present bill. So, therefore, I think I am most conservative in saying that the administrative budget will be out of balance by at least \$10,000,000,000, if not more. Against that we do have a surplus of receipts over benefits under social security. The receipts will be approximately \$4,000,000,000, and the expenditures will be around \$2,000,000,000. There will, therefore, be a cash surplus, so far as social security is concerned, of \$2,000,000,000, which can be offset against the \$10,000,000,000, \$11,000,000,000, or \$12,000,000,000 minimum deficit for the administrative budget. But even if we take social security into account, it will mean a total cash deficit of from \$8,000,000,000 to \$10,000,000,000.

When we have a deficit of this type, Mr. President, what happens? The Government has to borrow money. It is to be hoped that the Government can borrow money from individuals and corporations out of savings, and it is our personal duty to subscribe as liberally as we can out of our incomes, and to reduce our personal expenditures so that we may have a contraction of the private spending to match the expansion in the governmental spending. I am sure we will all try to do our duty.

But everyone who purchases a Government bond has hanging over his head the fear of inflation. Inflation has occurred since 1945, 1946, and it has occurred during the past year. Incidentally, in a speech from the floor in February, I laid the primary blame for the inflation since last June upon the policies of the Treasury in forcing the Federal Reserve Board to finance a credit inflation by the banks, so I am not indulging in any partisan talk. But we may expect inflation with the big increase in credit and prices, which I shall shortly explain. People facing inflation are reluctant to buy bonds, because the purchasing power of a bond and its interest will decrease, so I am afraid we are not going to be able to get out of current savings the eight to ten billion dollars which we need.

The Government instead will be compelled in large measure to go the banks to get the money. How will the banks make the loans? They will create checking accounts against which the Government will draw. The loans will be made in the form of created deposits, which is the essence of commercial banking. The total supply of bank credit will in-

crease. In the old days it was the Government which ran the printing press and financed a deficit. Nowadays, it is sanctified by the Government going to the banks, and the banks through the loan of credit creating the money and the purchasing power.

Monetary purchasing power will be created by the banking system. The total supply of bank credit, in relationship to goods, will increase. When we increase the total supply of checks and banks credits payable for goods in relationship to the quantity of goods, prices will rise and there will be inflation.

So, Mr. President, when we fail to balance the budget, when we fail to levy enough taxes, we are condemning the American people to inflation and to a rise in prices. Do not think, Mr. President, that the costs of military preparation are going to be painless. They will have to be paid. The question is whether they will be paid by taxes or be paid by inflation.

What the group of which I have the honor to be a member is trying to do is to have the budget balanced, so far as possible, by the equitable taxation of all elements of the community equally distributed according to their ability to pay. If we do not raise an adequate amount of money, if we are forced to go to the banks and borrow, the result will be a rise in prices. Upon whom will it fall, Mr. President? It will fall with concentrated weight upon the weakest, the poorest, the most defenseless sections of our community. It will fall upon old persons living on pensions and annuities receiving fixed money amounts which cannot be increased. It will fall upon the recipients of interest. Tears have been shed about widows and orphans. It is the widows and the orphans who suffer from inflation. It will fall upon the salaried folks whose salaries are not adjusted in accordance with the cost of living. They will also suffer. Industrial unrest will increase. If we do not balance the budget, the cost of this preparation, the cost of the deficit, will be borne in concentrated fashion by a very small section of the community, and they will suffer. Did I say, Mr. President, a small section of the community? No, not that—rather a large section of the community, but not the whole community. At the time they are suffering, the speculators, the "sharpies," the people who anticipate a rise in prices, will be making enormous amounts in capital gains which will be taxed at a maximum rate of only 25 percent.

Mr. President, our effort is not a political effort. We are possibly sacrificing our political future on this issue, because people do not like to have taxes increased but we are trying to preserve the financial integrity of this country and to maintain it in the midst of great difficulties.

Mr. President, I lament the fact that we were not able to reduce expenses more than we were able to do. Unfortunately, that is water over the dam, and now we have a chance, hard as it may

be, to try to preserve the long-time solidity of this Government by levying enough taxes to pay as we go. That is a principle to which people and Senators generally give adherence. Before a tax bill comes up, everyone is for a balanced budget. But the question is whether we will vote to yield the revenue or whether we shall consider only the particular groups which we think may be aggrieved by the increase in taxes, and vote against the tax. The test is what we do when the chips are down and they are most emphatically down now. These are the hours of testing.

I think there is more patriotism amongst the American public than a great many people believe. I think there is patriotism in the business groups, the oil and gas groups, and that they are willing to pay taxes if it is necessary, as it is, for the salvation of the country.

We are also trying to see that the burden of increased taxation is borne equitably, that the loopholes and tunnels are closed before we start a general increase in taxation. That is our purpose and the purpose of the present amendment.

It would increase the maximum rate of taxation on capital gains from 25 to 28 percent.

Mr. HUMPHREY. Mr. President, will the Senator yield?

Mr. DOUGLAS. I yield.

Mr. HUMPHREY. I should like to ask the Senator to state for us the historical relationship between capital gains and the general corporate tax structure and the income tax structure. As the Senator has pointed out, there are a number of new areas in which the capital gains preferential treatment has been applied.

Mr. DOUGLAS. In the past 2 years we have increased the personal income tax and corporation tax, but we have not increased the capital gains tax. The maximum taxation under the personal income tax has been increased from 16½ to 20 percent, and in this bill it is increased to 22.2 percent, a relative increase of nearly 40 percent. But the maximum capital gains tax rate has not been increased at all. It is still 25 percent. The top income tax bracket has been increased to approximately 92 percent. The disparity between the rates of taxation on personal incomes and the capital gains tax has been increased as we have raised the income tax, but we have not increased the capital gains tax. We have, therefore, increased the temptation to charge to capital gains what normally should be income, and we have thereby reduced the taxable income of the Government.

Mr. President, I ask unanimous consent to insert at this point in my remarks, a table showing the trends in the maximum long term capital gains tax rates, and the holding period necessary to qualify for these rates compared with the trends in the rates applied to the lowest and highest income tax brackets and corporate tax rates for the years 1922 to the present.

There being no objection, the table referred to was ordered to be printed in the RECORD, as follows:

Comparison of capital gains rate and holding period with changes in the individual and corporation income tax rates

	Maximum rate as long-term capital gains	Holding period	Individual income tax rates		General corporate rate
			Starting rate	Top rate	
	Per-cent	Months	Per-cent	Per-cent	Per-cent
1922.....	12.5	24	4.0	58.0	12.5
1923.....	9.375	24	3.0	43.5	12.5
1924.....	12.5	24	2.0	46.0	12.5
1925.....	12.5	24	1.5	25.0	13.0
1926.....	12.5	24	1.5	25.0	13.5
1927.....	12.5	24	1.5	25.0	13.5
1928.....	12.5	24	1.5	25.0	12.0
1929.....	12.5	24	.5	18.75	11.0
1930.....	12.5	24	1.5	25.0	12.0
1931.....	12.5	24	1.5	25.0	12.0
1932.....	12.5	24	4.0	63.0	13.75
1933.....	12.5	24	4.0	63.0	13.75
1934.....	(1)	12	4.0	63.0	13.75
1935.....	(1)	12	4.0	63.0	15.0
1936.....	(1)	12	4.0	79.0	15.0
1937.....	(1)	12	4.0	79.0	15.0
1938.....	15.0	18	4.0	79.0	19.0
1939.....	15.0	18	4.0	79.0	18.0
1940.....	15.0	18	4.0	79.0	24.0
1941.....	15.0	18	10.0	81.0	31.0
1942.....	25.0	6	19.0	88.0	40.0
1943.....	25.0	6	19.0	88.0	40.0
1944.....	25.0	6	23.0	94.0	40.0
1945.....	25.0	6	23.0	94.0	40.0
1946.....	25.0	6	19.0	86.5	38.0
1947.....	25.0	6	19.0	86.5	38.0
1948.....	25.0	6	16.6	82.1	38.0
1949.....	25.0	6	16.6	82.1	38.0
1950.....	25.0	6	17.4	84.5	42.0
1951 (present tax law).....	25.0	6	20.0	91.0	47.0
Finance Committee bill.....	25.0	6	22.2	91.7	52.0

¹ For the years 1934-37, the rate varied depending on the length of time the asset was held.

Mr. LEHMAN. Mr. President, will the Senator yield?

Mr. DOUGLAS. I yield.

Mr. LEHMAN. The Senator from Illinois has very accurately stated that the top income bracket has been raised up to 91.2 percent. Is it not a fact that all a man in the higher brackets has to do in order to avail himself of the privilege of paying only 25 percent is to hold his stock, or whatever other asset may be involved, for a period of 6 months?

Mr. DOUGLAS. That is correct. The holding period has been reduced from 24 months to 6 months. This is shown in the table that I have just placed in the RECORD.

Mr. LEHMAN. Does not the Senator from Illinois agree with me that there is every incentive under the sun to persuade a man to keep his securities or his other assets for the very brief period of 6 months, and thus in the case of the very high income tax payers, to save the difference between 25 percent and 91.2 percent?

Mr. DOUGLAS. The Senator is completely correct. All we are trying to do is somewhat to narrow the differential, somewhat to reduce the temptation. The disparity will still be great. It will be greater than it was in 1948, because since then we have had two tax increases in corporation and individual income taxes. All we are trying to do is, in this last increase, to have the capital gains tax move proportionately in step with the rate of increase of income taxes on in-

dividuals; as the Senator from New York has stated, there is great incentive to take advantage of capital gains tax rates in order to avoid the increasingly high individual income tax rates. Mr. President, I ask unanimous consent to insert, at this point in my remarks, a table which compares, for each income bracket, the amount to be paid in individual income tax rates with the amount to be paid in capital gains tax rates under the committee bill.

There being no objection, the table was ordered printed in the RECORD as follows:

Table showing comparison of long-term capital-gains rate and maximum income-tax rates

Income bracket	Maximum income-tax rate percentage rate (Finance Committee proposal)	Capital-gains percentage rate
\$0 to \$2,000.....	22.2	11.1
\$2,000 to \$4,000.....	24.4	12.2
\$4,000 to \$6,000.....	29.0	14.5
\$6,000 to \$8,000.....	33.0	16.5
\$8,000 to \$10,000.....	38.0	19.0
\$10,000 to \$12,000.....	42.0	21.0
\$12,000 to \$14,000.....	48.0	24.0
\$14,000 to \$16,000.....	52.0	25.0
\$16,000 to \$18,000.....	56.0	25.0
\$18,000 to \$20,000.....	59.0	25.0
\$20,000 to \$22,000.....	62.0	25.0
\$22,000 to \$26,000.....	65.0	25.0
\$26,000 to \$32,000.....	65.0-67.0	25.0
\$32,000 to \$38,000.....	67.0-69.0	25.0
\$38,000 to \$44,000.....	69.0-73.0	25.0
\$44,000 to \$50,000.....	73.0	25.0
\$50,000 to \$60,000.....	77.0	25.0
\$60,000 to \$70,000.....	80.0	25.0
\$70,000 to \$80,000.....	82.0	25.0
\$80,000 to \$90,000.....	85.0	25.0
\$90,000 to \$100,000.....	88.0	25.0
\$100,000 to \$150,000.....	90.0	25.0
\$150,000 to \$200,000.....	91.0	25.0
\$200,000 and over.....	91.7	25.0

Mr. LEHMAN. Will the Senator yield for one more question?

Mr. DOUGLAS. Yes.

Mr. LEHMAN. Is it not a fact that all which the group supporting this and other amendments is interested in is to raise the capital gains tax from 25 percent to 28 percent, a difference of merely 3 points? Even at the rate of 28 percent those in the very high income brackets will pay less than one-third of what they would pay under the regular income tax rates.

Mr. DOUGLAS. That is correct. The difference between 92 percent and 28 percent. There is still a tremendous saving.

Mr. LONG. Mr. President, will the Senator yield for a question at that point?

Mr. DOUGLAS. I am glad to yield.

Mr. LONG. Is it not true that actually, under the provisions of the bill, everyone is having, on the average, his tax increased 11 percent?

Mr. DOUGLAS. Yes.

Mr. LONG. Is it not also true that many persons are placed in a very disadvantageous position because of inflation, and in many cases, their income has actually been reduced, since many have not yet had an adjustment for the increased cost of living? So actually many people are making less than they were making before, and at the same

time are having their taxes increased. Here we have a situation where the most favored taxpayers in the Nation, those who are given the biggest break under our tax law, are not paying any increased tax. It would seem reasonable, at least, that if the average wage-earner is to pay a 11 percent increase those who have the most to gain by the preservation of the capitalistic system should pay their proportionate share of the tax increase.

Mr. DOUGLAS. The Senator from Louisiana is completely correct.

Mr. LONG. This is not a soak-the-rich proposal. It is simply a question of seeing to it that the rich pay their proportionate share.

Mr. DOUGLAS. That is correct. Under our amendment each tax would be up by 11 percent.

Mr. LONG. The proposal is that the wealthy people should pay the same increase in taxes we are expecting the ordinary American citizen to pay.

Mr. DOUGLAS. That is correct. That applies not merely to the well-to-do, but to the speculator.

Mr. President, a period of inflation, such as we seem probably to be headed for, is one which brings enormous speculative profits. Earnings on common stocks rise. Prices of commodities rise. Real estate rises. The speculators will reap enormous profits. But, as the Senator from New York has pointed out, if they can only hold their assets for 6 months and turn their capital over twice a year, then they will be taxed, not at income-tax rates which would be more than the capital gains rate if you get above \$16,000, but at capital gains rate with a maximum of 25 percent. So the proposal of the committee—and I am sure it is unintentional—is to reward the speculator and punish the regular, hard-working American. In other words, it rewards the group in the community which is probably on the whole one of the least desirable, and rewards it at a time when it is profiting from national distress, does not increase the tax of this group at the same time that it increases, as the Senator from Minnesota pointed out, by 11 percent, one-ninth, the tax on the wage earner, the salaried worker, and the steady investor. In other words, it is a reward to the speculator.

Mr. LONG. Furthermore this is not a time when we wish to encourage speculation.

Mr. DOUGLAS. It is a time when we wish we could discourage speculation, but unfortunately inflation breeds speculation, and what we are trying to do is to lessen the profits from speculation and, to the degree that we draw in more of these speculative profits, we reduce the deficit and also reduce the necessity for borrowing. Hence we also reduce the inflation itself.

Mr. HUMPHREY. Mr. President, will the Senator yield at that point?

Mr. DOUGLAS. I yield.

Mr. HUMPHREY. The Senator just mentioned something about bank credit and he also mentioned something about inflationary pressures. Is it not true that when we have a larger amount of

bank credit available we also place a premium upon the so-called capital-gains type of transaction, because the credit is available at that time for speculative purposes? That is what we saw happen last year?

Mr. DOUGLAS. Mr. President, I am one who believes in the superiority of indirect controls over direct price controls. I only accept direct controls as a last necessity, and I think at the present time, in the present emergency, they are of some help. But if we permit an unlimited expansion of credit by the banks, and do not check the Government deficit, the result is going to be a tremendous expansion of bank credit and an increase in the price level. I think it is time to translate this belief in indirect control into action; that it should not be used merely as an argument against price control, but that it should also be made use of in the revenue bill.

Mr. President, I believe our proposal, while unpopular with the particular groups which will be affected by it, is in the national interest, for two reasons: First, it diminishes the deficit. It diminishes the amount of borrowing which the Government will have to do and it dampens down the inflation. Secondly, it distributes the burden in greater proportion upon the groups best able to pay.

Mr. LEHMAN. Mr. President, will the Senator yield?

Mr. DOUGLAS. I yield.

Mr. LEHMAN. I wonder whether the Senator from Illinois has seen the chart which I cut out of the New York Times of yesterday. It is entitled "Market Averages." It shows that the average price on September 20 of 50 stocks dealt in on the New York Stock Exchange was 180.30; that the price a year ago, at approximately the same time, was 149.03; that the average price of these 50 stocks in 1949 was approximately 135. So that between the present time and a year ago there was an increase of 30 points, or 20 percent, and the difference between the current price and that in 1949 was nearly 50 points, or about 40 percent.

Obviously normally a man would pay on that increase in the form of an income tax. But because of the capital-gains tax—

Mr. DOUGLAS. On the realized profits.

Mr. LEHMAN. Because of the capital-gains tax on the realized profits on securities held for 6 months, he does not pay a cent more than he did 2 or 3 or 4 years ago, in spite of the great emergency with which we are now faced.

Mr. DOUGLAS. Mr. President, I am informed that my time is almost up. I yield the floor, but I ask unanimous consent to have inserted in the RECORD at appropriate points in my remarks supplementary tables which I have prepared.

The VICE PRESIDENT. Without objection, it is so ordered.

Mr. GEORGE. Mr. President, I have yielded to the Senator from Oklahoma [Mr. KERR] my time on this amendment.

Mr. MILLIKIN. Mr. President—

Mr. KERR. Mr. President, does the Senator from Colorado wish me to yield him some time?

Mr. MILLIKIN. Very briefly.

Mr. KERR. I yield to the Senator from Colorado.

Mr. MILLIKIN. Mr. President, I think we have just heard two basic fallacies in the argument presented by the proponents of this amendment. The first one is that our market prices and our other prices are going to increase forever, that therefore there is a cheap, easy, and unfailing opportunity for profits, and that we should catch those profits as income to as great an extent as possible. As to capital gains, it is argued that we should lengthen the period as much as possible and increase the rate as much as possible.

The distinguished Senator from New York [Mr. LEHMAN] told us about the rise in the stock market over a period of time. The stock speculator—and we have heard much about the speculator—does not speculate over a long period of time. He speculates day by day. The distinguished Senator from New York did not tell us about the day-to-day fluctuations in the market—the ripples, the waves, and the tides. He told us about the general movement; but the speculator lives or dies on the ripple, the wave, or the tide. While a general upward trend has been going on, there have been zigzags which can kill the speculator who guesses wrong.

Mr. LEHMAN. Mr. President—

Mr. MILLIKIN. Just a moment. That statement applies with particular force to the speculator who holds on too long.

We are confusing two things. We are confusing the speculator, who must make the play, day by day, and be prepared at every moment to protect himself, with the investor. I am speaking of the true speculator, as compared with the investor, who occupies an entirely different status. The investor has the opportunity to make true capital gains or losses. The speculator who sets out in the stock market, for example, to hold his stocks for 6 months, intending to make a capital gain, is an utter idiot, because he can be wiped out on one dip any day, in the temporary, ephemeral short-term fluctuations of the market. So let us stop confusing the speculator with the longer-term investor, because they are different, and the rules which should apply to each are different.

Mr. LEHMAN. Mr. President, will the Senator yield?

Mr. MILLIKIN. I yield.

Mr. LEHMAN. In the first place, let the Senator from New York say that there is nothing in the amendment which we have offered which in the slightest degree affects the day-by-day speculator. We are talking about the man who is able or desirous to hold his securities for a period of 6 months. I wonder whether the Senator would permit me to read the prices ruling on the stock market for selected stocks for the past 7 years.

Mr. KERR. Mr. President, a point of order.

Mr. MILLIKIN. Mr. President, I ask unanimous consent, without losing the floor, that the distinguished Senator from New York be permitted to put into the RECORD now the information to which he refers.

Mr. LEHMAN. Shall I place it in the RECORD or read it?

Mr. MILLIKIN. No. Please place it in the RECORD. Please do not read it. I must save time.

Mr. LEHMAN. I ask permission to place that information in the RECORD.

There being no objection, the table was ordered to be printed in the RECORD, as follows:

Market averages, Tuesday, Sept. 25, 1951

STOCKS				
	High	Low	Last	Net change
25 rails.....	61.93	60.91	61.22	+0.27
25 industrials.....	300.71	298.10	299.38	+1.68
50 stocks.....	181.32	179.50	180.30	+1.48

DAILY RANGE OF 50 STOCKS					
	High	Low	Date	Last	Net Change
Sept. 24.....	180.43	178.91	179.82	179.82	-0.67
Sept. 21.....	181.86	179.53	180.49	180.49	-1.39
Sept. 20.....	182.88	180.62	181.88	181.88	+1.32
Sept. 19.....	182.72	180.82	181.56	181.56	+1.49
Sept. 18.....	181.79	179.53	181.07	181.07	-1.16
Sept. 17.....	182.43	180.70	181.23	181.23	-0.52

MONTHLY RANGE OF 50 STOCKS						
1951	High	Date	Low	Date	Last	Net Change
September.....	182.88	20	176.30	4	180.30	+3.42
August.....	178.35	7	170.93	1	176.88	+5.42
July.....	173.65	30	160.64	2	171.46	+9.83
June.....	170.97	15	160.51	29	161.63	-6.85
May.....	179.16	4	162.04	24	163.48	-6.92
April.....	176.63	20	164.46	4	175.40	+8.79
March.....	172.64	2	163.68	15	166.61	-4.16
February.....	174.99	5	167.90	1	176.77	+1.87
January.....	169.94	30	157.90	2	168.90	+10.27
1950						
December.....	159.06	28	146.64	4	158.63	+7.60
November.....	157.22	24	146.50	6	151.03	+1.19
October.....	157.29	9	148.95	31	149.84	-1.95

YEARLY RANGE OF 25 RAILROADS					
	High	Date	Low	Date	Last
1951.....	65.45	Feb. 9	51.95	June 29	61.22
1950.....	50.05	Dec. 28	39.27	June 27	57.70

YEARLY RANGE OF 25 INDUSTRIALS					
	High	Date	Low	Date	Last
1951.....	304.96	Sept. 19	258.23	Jan. 2	299.38
1950.....	262.34	Oct. 9	216.82	July 13	259.57

YEARLY RANGE OF 50 STOCKS					
	High	Date	Low	Date	Last
1951.....	182.88	Sept. 20	157.90	Jan. 2	180.30
1950.....	153.35	Sept. 22	128.79	July 13	149.03

FULL YEARS					
	High	Date	Low	Date	Last
1950.....	159.96	Dec. 28	128.79	July 13	158.63
1949.....	134.57	Dec. 30	104.48	June 14	133.78
1948.....	128.20	July 12	107.13	Feb. 14	114.69
1947.....	124.88	Feb. 5	105.51	May 19	118.36
1946.....	148.50	May 28	106.99	Oct. 30	119.61
1945.....	137.34	Dec. 10	105.37	Jan. 26	134.13
1944.....	107.62	Dec. 16	92.21	Jan. 3	106.41
1943.....	102.01	July 15	82.31	Jan. 6	92.48
1942.....	83.11	Dec. 23	64.13	Apr. 26	82.30

Market averages, Tuesday, Sept. 15, 1951—
Continued

DOMESTIC BONDS

20 rails	10 industrials	10 utilities	Combina- tion
92.62+.02-----	100.56-.03	86.56+.10	93.09+.03

DAILY RANGE OF DOMESTIC BONDS

Sept. 24-----	93.06	Sept. 19	93.17+.05
Sept. 21-----	93.06-.03	Sept. 18	93.12-.14
Sept. 20-----	93.09-.08	Sept. 17	93.26-.01

MONTHLY RANGE OF DOMESTIC BONDS

	High	Date	Low	Date	Last
1951-----	97.82	Feb. 9	91.14	Jan. 29	93.09
1950 ¹ -----	95.48	Sept. 13	92.15	July 2	94.98

FULL YEARS

	High	Date	Low	Date	Last
1950-----	96.70	Dec. 20	92.15	July 3	96.70
1949-----	94.02	Jan. 24	89.88	July 1	93.78
1948-----	94.51	June 30	81.16	Feb. 13	93.02
1947-----	98.41	Feb. 7	90.40	Dec. 29	91.08
1946-----	103.57	Apr. 9	95.72	Oct. 10	97.52
1945-----	101.97	Dec. 31	98.08	Jan. 3	101.97
1944-----	98.03	Dec. 30	83.34	Jan. 3	98.03
1943-----	85.54	Dec. 31	78.54	Jan. 2	88.54
1942-----	78.60	Oct. 24	70.07	June 27	78.41

DOW JONES STOCK AVERAGES

	High	Low	Last	Net change
30 industrials-----	273.51	270.05	272.24	+1.47
20 rails-----	87.04	85.59	86.05	+ .33
15 utilities-----	45.46	45.12	45.31	+ .12
65 stocks-----	99.28	97.99	98.63	+ .43

¹ Corresponding day last year.

Mr. MILLIKIN. So we are not talking about the problems of the speculator. We catch the speculator with the taxes on his income. I repeat that a speculator is a complete imbecile if his plan is to hold securities for 6 months and at the same time he expects to protect himself in a rapidly moving, fluctuating market, which goes down as well as up, even in a rising market.

While we are talking about statistics, the Senator from New York read some statistics having to do with the general uprise of security prices. They always come down, Mr. President. Get the statistics for 1928 and 1929. They were going up, up, and up, forever up; but they came down, good sir—and how.

Get the statistics for 1937 and read those into the RECORD. Under the new blessings which had descended upon us, the market was going up, up, and up—forever up. That is the Mortimer Snerd philosophy. Everything is all right, boys; We are going to keep going up and up and up. Nothing is ever coming down.

Mr. DOUGLAS. Mr. President, will the Senator yield for a question?

Mr. MILLIKIN. That is the Mortimer Snerd philosophy.

Mr. DOUGLAS. Mr. President, will the Senator yield for a question?

Mr. MILLIKIN. I repeat, Mr. President—

The VICE PRESIDENT. Does Mortimer Snerd yield to the Senator from Illinois. [Laughter.]

Mr. DOUGLAS. Mr. President, will the Senator yield for a question?

Mr. MILLIKIN. The Senator from Colorado will yield to Mortimer. [Laughter.]

Mr. DOUGLAS. Was it not an eminent Republican who, in 1928, said that everything was all right, that there were two chickens in every pot, and that there was going to be a second car in every garage? Was not Mr. Snerd an associate of my able and witty friend across the aisle?

Mr. MILLIKIN. I have no doubt that on rare occasions gentlemen from my side of the aisle have come within a remote distance of that philosophy; but they have not mentioned it in this debate. However, I have heard it mentioned here. It is like the Mortimer falling off a 10-story building. A man looks out the window as he is passing by and says, "How are you doing, Mortimer?" He replies "I am doing all right so far." [Laughter.]

Mr. LEHMAN. Mr. President, will the Senator yield?

Mr. MILLIKIN. I yield.

Mr. LEHMAN. The Senator from New York was very anxious to read on the floor of the Senate the stock quotations from 1942 to 1951—

Mr. MILLIKIN. Not in my time.

Mr. LEHMAN. That is a period of 10 years.

Mr. MILLIKIN. Mr. President, I ask that the Senator place in the RECORD, in his own time, the statistics which show how the market went up and up and up, never coming down. Let him show what happened in the late 1920's. I ask him to take the figures for 1937, showing how stocks went up and up and up, and how they came down. They always go up, and they always come down.

The business of holding capital investments is not always for profit. The profit of one is the loss of another. Is not that perfectly obvious? If so, why talk this kind of foolishness, which I cannot believe I have heard, because I respect the intelligence of Senators who have uttered such things.

Mr. DOUGLAS. Mr. President, will my dear friend and witty colleague yield for a question?

Mr. MILLIKIN. Certainly, after that compliment. How much time have I, Mr. President?

The VICE PRESIDENT. The Senator has 22 minutes.

Mr. MILLIKIN. Then I can yield for a minute.

Mr. DOUGLAS. Speaking of capital losses, is it not true that while only half of the capital gains are taxed, all the capital losses are deducted?

Mr. MILLIKIN. Most of the capital losses are never recovered.

Mr. DOUGLAS. They are deducted from taxes.

Mr. MILLIKIN. That is one of the points which I thank the Senator for emphasizing. We tax gains. We have a limited period to carry forward losses, but on the whole, most of the losses, in

my opinion, are never recovered. That is why we must have a sensible policy as to capital gains. I am very much obliged to the Senator for his interruption.

Let us take another point. This is just plain common horse sense.

Mr. DOUGLAS. What was the word which followed the word "horse"?

Mr. MILLIKIN. I said horse—h-o-r-s-e.

Mr. DOUGLAS. What was the word which followed that?

Mr. MILLIKIN. I said "sense"—and not Mortimer Snerd sense. Let us see about raising revenue. The distinguished senior Senator from Illinois has deeply moved the junior Senator from Colorado with his statement about raising revenue. I assume there are no social implications in the amendment. I assume there is no background philosophy of any kind except to get revenue. I assume that to be the fact.

Well, Mr. President, if we are out to get revenue, let us see how a plain businessman would get revenue from capital gains. Down to a diminishing point of revenue return—and there is one just as there is a high point at the other end—if we reduce the length of time and if we reduce the rate of capital gains, we do more business. That is the way to get revenue, if there are no background implications beyond raising revenue. That is my parting injunction to the distinguished senior Senator from Illinois. If he wants to get more revenue, if that is what he is after, I say make it 4 months and bring it down to 20 percent, and he will get more revenue.

Mr. KERR. Mr. President, I am glad the Senator from Colorado made the final statement. The distinguished Senator from Illinois [Mr. DOUGLAS], a little while ago, said that we are trying to lessen profits. He made the statement in support of an amendment which he said was for the purpose of increasing revenue. How can we increase revenue by a provision which will discourage profits?

Mr. President, the amendment which is now being presented to the Senate would reduce revenue. From 1938 to 1941 the law provided a holding period of 18 months, and the revenue dropped from \$12,000,000 in 1948 to where, in 1940 and 1941, the capital losses offsets were greater than the capital gains.

In the tax bill of 1942, which was passed late in the year, the holding period was reduced from 18 months to 6 months. The full impact of that reduction was not felt in 1942. Yet capital-gains taxes had increased to \$68,000,000 in 1942. When the first full year had passed, however, following the reduction in the holding period, the capital-gains tax had increased to \$266,000,000, and then in the following 2 years to a total of \$750,000,000. If Senators want to amend the capital-gains provision, so as to increase revenue, they should shorten the holding period and reduce the tax rate. The fact of the matter is that prior to World War II the capital gains tax was 15 percent. It was increased to 16½ percent by the Defense Act of 1940. Then in 1942, as a

war measure, it was increased to 25 percent.

Senators have remarked that during the succeeding years this tax rate has not been increased. That is an argument against the present tax, rather than for it. Other tax rates were decreased, following World War II, but not capital-gains tax. It held at 25 percent and the holding period at 6 months.

The distinguished Senator from New York [Mr. LEHMAN], in a question, asked: "Is it not a fact that if the men in the high brackets want to avoid paying a higher rate of tax, all they have to do is to hold their securities for 6 months and sell them, and then their tax rate is in the lower bracket?"

The Senator of whom the question was asked, answered, "Yes."

Mr. President, it does not even relate to the present provision of the law with reference to which the amendment was sought. It is as far from being applicable to the law in this regard as was the statement of the Senator from New York when he was discussing the "depreciation" feature of the tax bill. He knew just about as much of the principle he was discussing as he knew about the pronunciation of the word. He was not talking about "depreciation." I assume that the word was coined on the Senate floor by a man who heard something about depreciation and about depletion; and, having heard both and knowing neither, he began to talk about "depreciation."

Mr. HUMPHREY. Mr. President, will the Senator yield?

Mr. KERR. I yield for a question.

Mr. HUMPHREY. I wonder whether the Senator from Oklahoma is not willing to agree that possibly it could have been a little admixture of words in the heat of discussion. I am confident that the Senator from New York [Mr. LEHMAN] knows more about finance, if my friend will permit me to say so, than not only any other Member of this body, but any member of the banking profession in the United States of America. He is an eminent banker and an eminent financier in his own right.

Mr. KERR. The Senator from Minnesota is entitled to his opinion, and so is the Senator from Oklahoma.

Mr. LEHMAN. Mr. President, will the Senator yield?

Mr. KERR. For a question.

Mr. LEHMAN. The Senator from New York was unfortunately out of the Chamber when he assumes the Senator from Oklahoma made a reference to him. Would the Senator from Oklahoma mind—

Mr. KERR. I said that the Senator from New York said not once, not twice, but several times "depreciation." Was it the Senator from New York who said it?

Mr. LEHMAN. I talked about depreciation, because in every oil company there is depreciation, as distinguished from depletion. I not only have been a banker for many years, but I have checked on the statements issued by

various oil companies—Standard Oil Co. of New Jersey, Humble Oil Co., Gulf Oil Co., and Phillips Petroleum Co.—and the Senator will find the word "depreciation" as well as the word "depletion" in the statements.

Mr. KERR. As well as "depreciation"? He will not find "depreciation." Mr. President, you will find "depreciation" and "depletion." One has to do with wearing something out, and the other has to do with the exhaustion of a supply that is capable of being exhausted.

Mr. LEHMAN. That is exactly what the Senator from New York said. He spoke about depreciation and depletion.

Mr. KERR. I submit that the Senator neither knew what he was doing then nor remembers now.

Mr. LEHMAN. Mr. President, will the Senator yield?

Mr. KERR. No. My time is limited. I want to make one more point about one whose idea of finance is that all that a man in the higher-income bracket has to do, in order to get into a lower income bracket, is to keep a security for 6 months and sell it for a capital gain, thereby getting his income into a lower bracket. The higher bracket is with reference to income. It makes no difference how many capital assets one sells or at how much profit they are sold, the tax on the capital sale and capital gains is at the capital-gains rate. It does not affect the rate that is paid on income. They do not even apply to the same thing. One applies to income; the other applies to the increased value of capital assets. They are not kin; they are not related; they do not affect each other, and the rate on one leaves the other untouched.

Mr. HUMPHREY. Mr. President, will the Senator yield?

Mr. KERR. Yes; for a question.

Mr. HUMPHREY. Mr. President, will the Senator please repeat, in the case of corporate spin-offs, the argument he has just so eloquently made in the case of corporate capital gains? Will the Senator from Oklahoma tell the Senate how the argument he is making in regard to capital gains adds up in the instance of the reorganization which a corporation makes for spin-off purposes?

Mr. KERR. Mr. President, after the Senator from Minnesota told the Senate for 6 or 7 hours everything anyone had ever heard of and a great deal that no one had ever heard of about spin-offs and reorganizations, who am I to try to enlighten the Senate or the Senator from Minnesota on that question?

We are talking about the capital-gains tax, and in that connection the time is limited.

Mr. HUMPHREY. Mr. President, I do not want the Senator from Oklahoma to expose himself here, because, believe me, corporate spin-offs do apply to capital-gains treatment.

Mr. KERR. No, Mr. President. Capital-gains may apply to spin-offs, but spin-offs do not apply to capital gains. [Laughter.]

Mr. President, illustrative of the lack of knowledge on that subject about

which so much has been said, but so little told, I repeat that not only is the present rate at the wartime rate of 1942, but it is at a rate which, if increased, would bring about a decrease in the amount of revenue, not an increase. Inasmuch as this is a revenue-raising bill, the amendment should be rejected.

The VICE PRESIDENT. The question is on agreeing to the amendment of the Senator from Illinois [Mr. DOUGLAS].

Mr. DOUGLAS. Mr. President, have I any time remaining?

The VICE PRESIDENT. The Senator from Illinois has 4 minutes remaining.

Mr. DOUGLAS. Mr. President, first may I say that I have not attacked profits, but only that profits from capital assets should be given tax-rate increases proportionate to those proposed for individual incomes.

It has been claimed that the increase in the tax proposed by this amendment would produce less revenue, not more.

I hold in my hand the report by the House Committee on Ways and Means. If my good friend, the Senator from Oklahoma, will turn to pages 62 and 63, he will find there an estimate of the increase in revenue which will come from increasing the capital-gains rate from 25 percent to 28 percent. This estimate was not made by me.

Mr. KERR. Neither was it made by me.

Mr. DOUGLAS. It was made by the House committee, acting on the figures produced by the Joint Committee on Internal Revenue Taxation, which serves the Senator's own committee.

Mr. KERR. It does not bind the committee.

Mr. DOUGLAS. If anyone wishes to say that the staff of our own committee is incompetent in regard to this matter, well and good; but I think the joint committee, which is neither Republican nor Democratic, neither a House committee nor a Senate committee, was set up in order to furnish figures on which we could all rely. The estimate of that committee is that an increase of \$48,000,000 in individual income taxes and an increase of \$38,000,000 in corporate taxes will be obtained by increasing, in this way the capital-gains rate. If I can add, that is a total of \$87,000,000, or approximately \$90,000,000, as I said.

Mr. LONG. Mr. President, will the Senator from Illinois yield for a question?

Mr. DOUGLAS. I yield.

Mr. LONG. Even if the rate is 28 percent in the case of capital gains, if a man discovers an oil well and sells it for \$1,000,000, would not he be foolish to treat that transaction as an ordinary income item, and thus have to pay a tax of 90 percent on it, if he could treat it as a capital gains transaction and thus could pay a tax of only 28 percent on it? Or if a man builds a number of houses and sells them to a corporation, and receives, in return, stock in the corporation, would not he be foolish to treat that transaction as an ordinary income

transaction, rather than as a capital gains transaction, and thus have to pay a tax of 90 percent on it, instead of a tax of 28 percent. In other words, if a man is in a high income-tax bracket, and if he is entitled to have certain large transactions taxed as capital gains, would not he be absolutely silly and foolish to refuse to permit them to be taxed at the capital gains rate, but to insist that they be taxed at the ordinary income rate?

Mr. DOUGLAS. The Senator from Louisiana is entirely correct; and his conclusion is borne out by Dr. Lawrence H. Seltzer, in his book *The Nature and Tax Treatment of Capital Gains and Losses*, a publication of the National Bureau of Economic Research. After some 500 pages of that book, Dr. Seltzer, after an exhaustive statistical study, comes to precisely the same conclusion as that just stated by the Senator from Louisiana.

Mr. LONG. Mr. President, the Senator from Illinois himself was the distinguished president of the American Economic Association. In short, Mr. President, in the instances to which I have referred as illustrations, would not the difference between the two tax treatments, as between ordinary income transactions and capital gains transactions, be the difference between the 90 percent tax rate and that now proposed at 28 percent?

Mr. DOUGLAS. Mr. President, I do not pretend to be an expert on public finance, but what the Senator from Louisiana has stated is just plain common sense. You do not have to be president of the American Economic Association to know that.

Mr. HUMPHREY. Mr. President, will the Senator from Illinois yield to me?

Mr. DOUGLAS. I yield.

Mr. HUMPHREY. Is the Senator from Illinois aware of the fact that we are told by the Treasury that those with incomes of \$3,000 or less have less than one-half of 1 percent of their total incomes coming from capital-gains transactions?

Mr. DOUGLAS. Yes, and that is shown on the chart which I have displayed in the rear of the Chamber.

Mr. HUMPHREY. And that persons with incomes of \$500,000 have 25 percent of their incomes coming from capital-gains transactions?

Mr. DOUGLAS. Yes; and those with incomes of \$1,000,000 or more obtain 50 percent of their income from capital-gains transactions. That is shown in the chart to which I just referred.

Mr. President, I ask unanimous consent to insert at this point in my remarks, a table showing the percentage of total income attributable to capital gains broken down by income groups over a period of years. The source of this table is *Nature and Tax Treatment of Capital Gains and Losses*, by Dr. Lawrence H. Seltzer, a publication of the National Bureau of Economic Research, page 389.

There being no objection, the material referred to was ordered printed in the RECORD, as follows:

Long-term net capital gains as percentages of net income reported on all returns, by statutory net income groups, 1922-46

	Statutory net income group (thousands of dollars)								
	Total	Under 5	5-25	25-50	50-100	100-300	300-500	500-1,000	1,000 and over
Assets held longer than 2 years if segregated for special tax treatment									
1922-33:									
1922	1.2			1.4	6.4	12.8	21.3	31.6	38.8
1923	1.2			1.7	7.4	15.8	27.5	30.6	47.7
1924	1.5			2.2	7.8	15.9	26.9	34.2	32.5
1925	4.3			1.4	10.2	21.7	36.5	42.6	56.0
1926	4.2			1.4	10.2	21.0	35.2	36.7	50.3
1927	4.8			1.6	11.0	21.9	30.6	36.5	49.5
1928	7.5			2.0	13.4	25.8	33.1	39.8	52.3
1929	9.5			1.3	15.7	34.8	48.0	52.6	62.7
1930	3.1			1.0	9.6	21.8	32.4	37.0	38.0
1931	1.2			.5	4.7	13.1	22.7	24.0	23.7
1932	.4	(1)	1.3	3.0	6.5	9.7	15.0	(†)	
1933	1.2		0.1	2.4	4.9	13.0	22.3	22.6	42.9
Assets held longer than 2 years									
1934-37:									
1934	2.0	0.6	2.6	5.5	6.4	11.4	10.3	13.1	14.4
1935	3.7	1.2	4.7	8.2	11.7	13.7	22.4	34.7	20.0
1936	5.1	1.5	6.3	9.0	14.2	16.7	18.1	19.6	38.6
1937	4.4	1.5	5.6	9.8	13.2	17.9	25.3	11.7	19.6
Assets held longer than 18 months									
1938-41:									
1938	3.4	0.7	2.8	6.6	10.9	22.9	42.3	52.5	78.6
1939	2.0	.6	2.7	5.2	6.8	10.9	20.7	22.0	31.1
1940	1.5	.4	2.5	4.6	7.3	15.0	23.0	36.8	26.4
1941	1.3	.3	2.1	4.3	7.2	16.5	33.6	38.2	50.9
Assets held longer than 6 months									
1942-46:									
1942	0.9	0.3	1.8	3.0	4.5	9.1	14.2	27.0	45.4
1943	1.6	.5	3.7	6.5	8.6	16.0	24.9	44.5	51.5
1944	2.2	.8	4.5	8.0	12.0	20.2	35.4	40.5	36.4
1945	4.2	1.5	7.6	13.8	20.3	35.4	58.2	57.7	58.5
1946	5.9	2.4	9.8	15.6	23.2	41.0	58.9	66.7	71.1

Mr. DOUGLAS. Mr. President, I had not intended to introduce this chart, because I did not wish it to be said that I was introducing a class element into the discussion. However, inasmuch as the Senator from Minnesota has raised this point unbeknownst to me, I think I should answer it.

Mr. HUMPHREY. I say that every tax bill that comes before the Senate is class legislation, because it aids a preferred group, and I am not at all hesitant in saying that. After a great deal of talk, we end up with preferential-treatment legislation, class legislation. I wish I did not have to say it, but that is what it amounts to.

The VICE PRESIDENT. The time of the Senator from Illinois has expired. All time on the amendment of the Senator from Illinois has expired.

The question is on agreeing to the amendment of the Senator from Illinois.

Mr. DOUGLAS. Mr. President, on this question I ask for the yeas and nays. The yeas and nays were ordered.

The VICE PRESIDENT. The question is on agreeing to the amendment offered by the Senator from Illinois [Mr. DOUGLAS] on behalf of himself and other Senators. Senators who favor the amendment will answer "yea" when their names are called; Senators who

oppose the amendment will answer "nay" when their names are called.

The clerk will call the roll.

The legislative clerk called the roll.

Mr. JOHNSON of Texas. I announce that the Senator from New Mexico [Mr. ANDERSON] is absent by leave of the Senate.

The Senator from Virginia [Mr. BYRD] is absent because of illness in his family.

The Senator from New Mexico [Mr. CHAVEZ], the Senator from Louisiana [Mr. ELLENDER], and the Senator from West Virginia [Mr. KILGORE] are absent on official business.

The Senator from West Virginia [Mr. KILGORE] is paired on this vote with the Senator from Ohio [Mr. TAFT]. If present and voting, the Senator from West Virginia would vote "yea," and the Senator from Ohio would vote "nay."

I announce further that if present and voting, the Senator from Virginia [Mr. BYRD] and the Senator from New Mexico [Mr. CHAVEZ] would vote "nay."

Mr. SALTONSTALL. I announce that the Senator from Utah [Mr. BENNETT], the Senator from New Hampshire [Mr. BRIDGES], the Senator from Washington [Mr. CAIN], the Senator from Vermont [Mr. FLANDERS], the Senator from Missouri [Mr. KEM], the Senator from North Dakota [Mr. LANGER], and the Senator from Ohio [Mr. TAFT] are absent on official business.

The Senator from Wisconsin [Mr. McCARTHY] is absent by leave of the Senate.

The Senator from New Hampshire [Mr. TOBEY] is absent because of illness.

The Senator from Nebraska [Mr. WHERRY] is necessarily absent.

The Senator from Illinois [Mr. DIRKSEN] and the Senator from Idaho [Mr. WELKER] are detained on official business.

If present and voting, the Senator from Utah [Mr. BENNETT], the Senator from Washington [Mr. CAIN], the Senator from Vermont [Mr. FLANDERS], and the Senator from Idaho [Mr. WELKER] would each vote "nay."

On the vote, the Senator from Ohio [Mr. TAFT] is paired with the Senator from West Virginia [Mr. KILGORE]. If present and voting, the Senator from Ohio would vote "nay," and the Senator from West Virginia would vote "yea."

The result was announced—yeas 26, nays 53, as follows:

YEAS—26

Benton	Hunt	Murray
Cordon	Kefauver	Neely
Douglas	Lehman	O'Mahoney
Fulbright	Long	Pastore
Green	McClellan	Robertson
Hayden	McMahon	Russell
Hennings	Monroney	Sparkman
Hill	Moody	Stennis
Humphrey	Morse	

NAYS—53

Alken	Eastland	Johnson, Colo.
Brewster	Eaton	Johnson, Tex.
Bricker	Ferguson	Johnston, S. C.
Butler, Md.	Frear	Kerr
Butler, Nebr.	George	Knowland
Capehart	Gillette	Lodge
Carlson	Hendrickson	Magnuson
Case	Hickenlooper	Malone
Clements	Hoey	Martin
Connally	Holland	Maybank
Duff	Ives	McCarran
Dworshak	Jenner	McFarland

McKellar	Schoeppel	Underwood
Millikin	Smathers	Watkins
Mundt	Smith, Maine	Wiley
Nixon	Smith, N. J.	Williams
O'Connor	Smith, N. C.	Young
Saltonstall	Thye	

NOT VOTING—17

Anderson	Dirksen	McCarthy
Bennett	Ellender	Taft
Bridges	Flanders	Tobey
Byrd	Kem	Welker
Cain	Kilgore	Wherry
Chavez	Langer	

So the amendment offered by Mr. DOUGLAS, on behalf of himself and other Senators, was rejected.

Mr. JOHNSON of Colorado. Mr. President, I desire to call up my amendment designated "9-26-51-A."

The VICE PRESIDENT. The clerk will state the amendment.

The CHIEF CLERK. On page 346, line 11, before the word "Notwithstanding", it is proposed to insert "(a)."

On page 347, after line 6, it is proposed to insert the following:

(b) Section 292 (relating to interest on deficiencies) is hereby amended by adding at the end thereof the following new subsection:

"(d) With respect to any corporation entitled to receive payment for the transportation of United States mail, if an award is retroactively received for the transportation of United States mail, and if such award is required to be treated as income in the year or years in which the mail was carried, then, notwithstanding the provisions of subsection (a) of this section, no interest shall be due, with respect to any period prior to 30 days after such award is granted, for tax deficiencies resulting from the inclusion of such additional mail payments retroactively."

Mr. JOHNSON of Colorado. Mr. President, if an airline has been given an award of back pay, perhaps that back pay covers something which the airline earned from the Federal Government in some previous year. If the airline receives that award and if it is made to apply to some previous year, the airline will not be charged interest for the non-payment of the income tax which would accrue from that payment. That is the purpose of the amendment.

Mr. GEORGE. Mr. President, the airline would be charged interest only from 30 days after the date of the award. Is that correct?

Mr. JOHNSON of Colorado. That is correct. But if they paid their taxes prior to that time, they would not pay interest.

Mr. GEORGE. That is my understanding. We did precisely this in the case of railroads which were given an award which might be thrown back into some previous taxable year. I thought we covered the whole question, but apparently we did not.

Mr. JOHNSON of Colorado. The situation is different.

Mr. GEORGE. All the amendment affects is the interest, and the interest commences to run 30 days after the award. Is that correct?

Mr. JOHNSON of Colorado. That is correct.

Mr. CORDON. Mr. President, will the Senator from Colorado yield?

Mr. JOHNSON of Colorado. I yield.

Mr. CORDON. The amendment really means that as to any corporation

which is entitled to back pay it will not be charged interest for not paying the tax when it could not pay it.

Mr. JOHNSON of Colorado. It did not receive the money, so it did not pay the tax. Now we give it the money and we make the payment apply to a previous year, and this amendment takes care of the situation.

Mr. President, I ask unanimous consent to insert in the RECORD as a part of my remarks a statement with reference to the amendment.

There being no objection, the statement was ordered to be printed in the RECORD, as follows:

STATEMENT BY MR. JOHNSON OF COLORADO

1. The proposed amendment does not affect the present section 610 relating to the railroad mail award of December 4, 1950.

2. The proposed amendment does not specify whether a retroactive mail payment should be related back to the years in which the mail was carried or be taken into account as of the date of payment. This all-important question is left to the rulings of the Bureau of Internal Revenue. In some instances it is to the advantage of a carrier to relate the payment back, and in others to treat it as current income.

3. The proposed amendment relates only to interest, thus if a retroactive award is required to be treated as income in the year in which the mail was carried then no interest on the increased tax liability will be levied until 30 days after the award. This is the only effect of the amendment.

4. The CAB has not allowed interest on either retroactive mail payments or upon tax computations based upon the award. In the past the CAB has assumed a theoretical tax and therefore the mail payment was never increased because it was due in a past year. The CAB is now making actual tax computations but still does not contemplate making any allowance on interest because the award relates to a past period or may affect a past tax liability.

The above information was obtained from the CAB and the Senate legislative counsel, and in view thereof I recommend that you introduce and sponsor the amendment. PAA insists that Senator GEORGE favors the amendment and would like to have it sponsored.

The Senate Finance Committee inserted section 610 of the Revenue Act of 1951 (H. R. 4473) to provide that the retroactive increase in rail mail pay awarded by the Interstate Commerce Commission on December 4, 1950, be treated by the railroads for tax purposes as taxable income in the year the mails were carried. This section, furthermore, specifically provides that no interest shall be due (for any period prior to July 1, 1951) for deficiencies in tax resulting from the inclusion of the additional mail payments in these prior taxable years. The provision in section 610 dealing with the elimination of interest on tax deficiencies of the railroads is eminently fair since the tax deficiencies arose from events which transpired some time after the close of the applicable taxable year and not as the result of any willful defection on the part of the railroad in meeting its tax obligations. Furthermore, the railroads did not have the use of the money in the year the mails were carried and, indeed, did not receive that money for its use until some time thereafter.

The same treatment on interest deficiencies indicated above, for the railroads, should, logically, apply to the airline industry whose United States mail pay is determined considerably after the mails are carried. Unlike the railroad situation, however, in which all the railroads had their mail pay rates redetermined at one time, the airlines

have their mail pay adjustments awarded individually and at different times with the resulting effect that it is not feasible to include the airlines in the present provisions of section 610. Furthermore, the United States Treasury Department has issued specific rulings to a number of airlines holding, in effect, that adjustments in mail pay are taxable, either in the year of the award, or the year the mails were carried, depending on whether the adjustment modified a pre-existing temporary rate or whether it modified a preexisting permanent rate. There is no unanimity of opinion in the airline industry as to whether these rulings represent sound tax law, but it is not the purpose of the amendment suggested below to solve this problem. Instead, the amendment proposed herein goes only to the relief from interest on deficiencies resulting from mail payments which may have to be carried back.

Accordingly, I have introduced an amendment to add a new paragraph (b) to section 610 which provides as follows:

"(b) Section 292 (relating to interest on deficiencies) is hereby amended by adding at the end thereof the following new subsection:

"(d) With respect to any corporation entitled to receive payment for the transportation of United States mail, if an award is retroactively received for the transportation of United States mail, and if such award is required to be treated as income in the year or years in which the mail was carried, then notwithstanding the provisions of subsection (a) of this section, no interest shall be due, with respect to any period prior to 30 days after such award is granted, for tax deficiencies resulting from the inclusion of such additional mail payments retroactively."

The VICE PRESIDENT. The question is on agreeing to the amendment offered by the Senator from Colorado [Mr. JOHNSON].

The amendment was agreed to.

Mr. McKellar. Mr. President, I offer the amendment which I send to the desk and ask to have stated.

The VICE PRESIDENT. The amendment offered by the Senator from Tennessee will be stated.

The LEGISLATIVE CLERK. On page 162, line 10, it is proposed to insert "calcium and magnesium carbonates", after "asphalt."

Mr. McKellar. Mr. President, the amendment applies to page 162 of the bill. I believe there is no objection to it. It may be already included in the bill.

Mr. GEORGE. I think it is already included. But if the Senator will modify his amendment to provide for a 10-percent depletion rate, we would have no objection.

The VICE PRESIDENT. Does the Senator from Tennessee so modify his amendment?

Mr. McKellar. I so modify it, Mr. President.

The VICE PRESIDENT. The question is on agreeing to the amendment offered by the Senator from Tennessee, as modified.

The amendment, as modified, was agreed to.

The VICE PRESIDENT. Without objection, the committee amendment, as amended, is agreed to.

The HUMPHREY. Mr. President, I should like to call up my amendment "9-22-51-17," and in order to save time I am willing to agree to 15 minutes to a side for debate on the amendment.

The VICE PRESIDENT. Does the Senator want his amendment read in full?

Mr. HUMPHREY. No, it is not necessary, Mr. President.

Mr. MILLIKIN. May we have a statement as to what the amendment is? I shall have to object to any unanimous consent agreement regarding the time until I know the nature of the amendment.

Mr. HUMPHREY. It is the split-income amendment.

Mr. MILLIKIN. Then I have no objection.

The VICE PRESIDENT. The Senator from Minnesota is recognized for 15 minutes.

Mr. HUMPHREY. Mr. President, I ask that the amendments may be printed in the RECORD at this point in my remarks.

There being no objection, the amendment offered by Mr. HUMPHREY (for himself, Mr. MORSE, Mr. LEHMAN, Mr. LANGER, Mr. GREEN, and Mr. MAGNUSON) was ordered to be printed in the RECORD, as follows:

ELIMINATION OF TAX ADVANTAGE OF INCOME SPLITTING

On page 25, beginning with line 1, strike out all through line 24, on page 34, and insert in lieu thereof the following:

"Sec. 101. Increase in surtax of married persons.

"Section 12 (b) (relating to rates of surtax) is hereby amended to read as follows:

"(b) Rates of surtax.

"(1) Taxable years beginning after December 31, 1951: In the case of taxable years beginning after December 31, 1951, there shall be levied, collected, and paid for each taxable year upon the surtax net income of every individual (other than an individual to whom paragraph (2) applies) the surtax shown in the following table:

"If the surtax net income is:	The surtax shall be:
Not over \$2,000-----	17 percent of the surtax net income.
Over \$2,000 but not over \$4,000.	\$340, plus 19 percent of excess over \$2,000.
Over \$4,000 but not over \$6,000.	\$720, plus 23 percent of excess over \$4,000.
Over \$6,000 but not over \$8,000.	\$1,180, plus 27 percent of excess over \$6,000.
Over \$8,000 but not over \$10,000.	\$1,720, plus 31 percent of excess over \$8,000.
Over \$10,000 but not over \$12,000.	\$2,340, plus 35 percent of excess over \$10,000.
Over \$12,000 but not over \$14,000.	\$3,040, plus 40 percent of excess over \$12,000.
Over \$14,000 but not over \$16,000.	\$3,840, plus 44 percent of excess over \$14,000.
Over \$16,000 but not over \$18,000.	\$4,720, plus 47 percent of excess over \$16,000.
Over \$18,000 but not over \$20,000.	\$5,680, plus 50 percent of excess over \$18,000.
Over \$20,000 but not over \$22,000.	\$6,660, plus 53 percent of excess over \$20,000.
Over \$22,000 but not over \$26,000.	\$7,720, plus 56 percent of excess over \$22,000.

"If the surtax net income is: The surtax shall be:

Over \$26,000 but not over \$32,000.	\$9,960, plus 59 percent of excess over \$26,000.
Over \$32,000 but not over \$38,000.	\$13,500, plus 62 percent of excess over \$32,000.
Over \$38,000 but not over \$44,000.	\$17,220, plus 66 percent of excess over \$38,000.
Over \$44,000 but not over \$50,000.	\$21,180, plus 69 percent of excess over \$44,000.
Over \$50,000 but not over \$60,000.	\$25,320, plus 72 percent of excess over \$50,000.
Over \$60,000 but not over \$70,000.	\$32,520, plus 75 percent of excess over \$60,000.
Over \$70,000 but not over \$80,000.	\$40,020, plus 78 percent of excess over \$70,000.
Over \$80,000 but not over \$90,000.	\$47,820, plus 81 percent of excess over \$80,000.
Over \$90,000 but not over \$100,000.	\$55,920, plus 84 percent of excess over \$90,000.
Over \$100,000 but not over \$150,000.	\$64,320, plus 86 percent of excess over \$100,000.
Over \$150,000 but not over \$200,000.	\$107,320, plus 87 percent of excess over \$150,000.
Over \$200,000 -----	\$150,820, plus 88 percent of excess over \$200,000.

"(2) Taxable years beginning after December 31, 1951; individuals qualified to file joint returns: In the case of taxable years beginning after December 31, 1951, there shall be levied, collected, and paid for each taxable year upon the surtax net income of every individual qualified to file a joint return under section 51 (b), whether or not such individual files a joint return with his spouse, the surtax shown in the following table:

"If the surtax net income is:	The surtax shall be:
Not over \$1,000-----	17 percent of the surtax net income.
Over \$1,000 but not over \$2,000.	\$170, plus 19 percent of excess over \$1,000.
Over \$2,000 but not over \$3,000.	\$360, plus 23 percent of excess over \$2,000.
Over \$3,000 but not over \$4,000.	\$590, plus 27 percent of excess over \$3,000.
Over \$4,000 but not over \$5,000.	\$860, plus 31 percent of excess over \$4,000.
Over \$5,000 but not over \$6,000.	\$1,170, plus 35 percent of excess over \$5,000.
Over \$6,000 but not over \$7,000.	\$1,520, plus 40 percent of excess over \$6,000.
Over \$7,000 but not over \$8,000.	\$1,920, plus 44 percent of excess over \$7,000.
Over \$8,000 but not over \$9,000.	\$2,360, plus 47 percent of excess over \$8,000.
Over \$9,000 but not over \$10,000.	\$2,830, plus 50 percent of excess over \$9,000.
Over \$10,000 but not over \$11,000.	\$3,330, plus 53 percent of excess over \$10,000.
Over \$11,000 but not over \$13,000.	\$3,860, plus 56 percent of excess over \$11,000.
Over \$13,000 but not over \$16,000.	\$4,980, plus 59 percent of excess over \$13,000.

"If the surtax net income is: The surtax shall be:

Over \$16,000 but not over \$19,000.	\$6,750, plus 62 percent of excess over \$16,000.
Over \$19,000 but not over \$22,000.	\$8,610, plus 66 percent of excess over \$19,000.
Over \$22,000 but not over \$25,000.	\$10,590, plus 69 percent of excess over \$22,000.
Over \$25,000 but not over \$30,000.	\$12,660, plus 72 percent of excess over \$25,000.
Over \$30,000 but not over \$35,000.	\$16,260, plus 75 percent of excess over \$30,000.
Over \$35,000 but not over \$40,000.	\$20,010, plus 78 percent of excess over \$35,000.
Over \$40,000 but not over \$45,000.	\$23,910, plus 81 percent of excess over \$40,000.
Over \$45,000 but not over \$50,000.	\$27,960, plus 84 percent of excess over \$45,000.
Over \$50,000 but not over \$75,000.	\$32,160, plus 86 percent of excess over \$50,000.
Over \$75,000 but not over \$100,000.	\$53,660, plus 87 percent of excess over \$75,000.
Over \$100,000-----	\$75,410, plus 88 percent of excess over \$100,000.

"Sec. 102. Individuals with adjusted gross income of less than \$5,000.

"Section 400 (relating to optional tax on individual with adjusted gross income of less than \$5,000) is hereby amended by adding at the end thereof the following new sentence: 'The Secretary is authorized and directed to promulgate an appropriate table (to be used in lieu of table I) applicable to taxable years beginning after December 31, 1951, reflecting the amendment made to section 12 (b) by the Revenue Act of 1951.'

"Sec. 103. Inapplicability of certain penalties and additions to tax.

"(a) Penalties for failure to file return: Section 145 (relating to penalties with respect to failure to file returns, pay tax, etc.) is hereby amended by relettering subsection (f) as subsection (g) and by adding after subsection (e) a new subsection (f), as follows:

"(f) In the case of taxable years beginning prior to January 1, 1952, and ending after December 31, 1951, the penalties prescribed by this section for willful failure to make declarations of, or pay, estimated tax shall not be applicable to a failure to take into account the increase in tax resulting from the Revenue Act of 1951.'

"(b) Additions to tax: Section 294 (d) (2) (relating to additions to tax for substantial under-estimates of estimated tax) is hereby amended by adding at the end thereof a new sentence as follows: 'In the case of taxable years beginning prior to January 1, 1952, and ending after December 31, 1951, the additions to tax prescribed by this subsection shall not be applicable if the taxpayer failed to meet the requirements of this paragraph by reason of the increase in tax resulting from the Revenue Act of 1951.'

"Sec. 104. Computation of tax in case of certain joint returns.

"If a joint return of a husband and wife is filed under the provisions of section 51 (b) (3) of the Internal Revenue Code in a case where the husband and wife have different taxable years because of the death of either spouse, and the taxable year of the surviving spouse covered by such joint return began before January 1, 1952, and ended after December 31, 1951, the amendments

made by this part and section 131 shall be applicable in respect of such joint return as if the taxable years of both spouses covered by the joint return ended on the date of the closing of the surviving spouse's taxable year.

"Sec. 105. Effective date of part I.

"Except as provided in section 104, the amendments made by this part shall be applicable only with respect to taxable years beginning after December 31, 1951. For treatment of taxable years beginning before January 1, 1952, and ending after December 31, 1951, see section 131.

"On page 67, beginning with line 15, strike out all through line 16 on page 68, and insert in lieu thereof the following:

"(h) Certain taxable years of individuals beginning before January 1, 1952, and ending after December 31, 1951: In the case of a taxable year of a taxpayer, other than a corporation, beginning before January 1, 1952, and ending after December 31, 1951, the tax imposed by sections 11 and 12, or section 400, shall be an amount equal to the sum of—

"(1) that portion of a tentative tax, computed under the provisions of sections 11 and 12, or section 400, applicable to such year, which the number of calendar months in such taxable year prior to January 1, 1952, bears to the total number of calendar months in such taxable year, plus

"(2) that portion of a tentative tax, computed under the provisions of sections 11 and 12, or section 400, applicable to years beginning on January 1, 1952, as if such provisions were applicable to such taxable year, which the number of calendar months in such taxable year after December 31, 1951, bears to the total number of calendar months in such taxable year."

On page 68, beginning with line 24, strike out all through line 20 on page 69.

On page 114, beginning with line 3, strike out through line 24 on page 121.

Mr. HUMPHREY. Mr. President, one of the most controversial issues ever presented was that relating to split-income in community-property States. Briefly, the Congress of the United States, in 1948, in order to equalize the tax burdens of married persons throughout the Nation, gave very substantial tax reductions in a bill that equalized tax burdens by the so-called income-splitting provision. A married man with two children, receiving an income of \$4,000, gains absolutely nothing from this provision. If he receives \$5,000 a year, which means 81 percent of all the taxpayers of the country, he gains \$2. If he receives an income of \$10,000 a year he gains \$168. A married couple receiving an income of \$500,000 saves \$25,000.

To put it another way, 97 percent of the tax relief in this provision would apply to incomes over \$5,000, and that group represented 19 percent of the taxpayers of the country.

This provision was incorporated into the law in the Eightieth Congress. There were certain adjustments made in terms of deductions that were allowable for the low-income groups.

The amendment to which I desire to address myself briefly does not propose to eliminate income splitting but to eliminate the so-called benefits from income splitting. I want the Senate to know that at my request the Treasury Department drew up this amendment, and I can assure this body that it is constitu-

tional, that it in no way is in conflict with the community-property States, and that the principle of income splitting is not done away with, but by a revision of the tax brackets or schedule of rates the benefits from income splitting are completely removed.

I offer the amendment in lieu of the 11 percent super-tax. It is a substitute for the 11 percent super-tax on earned income which is provided for in the bill. What does it mean to the taxpayers of the country? I have heard a great deal about the low-income group of America. I have heard about the terrible burdens that are put upon them. I have heard it repeated on the floor that apparently some of us want to put more burdens on the backs of the low-income groups; that we want to put this crown of thorns upon the brow of the low-income group.

Let me tell how we are going to lift the crown of thorns and how we are going to raise between two hundred million and three hundred million dollars more of revenue from earned income taxes than will be raised under the 11 percent supertax contained in the bill. The bill is scheduled to raise approximately \$2,200,000,000 in earned income tax. My proposal, according to the Treasury estimates, would raise \$2,500,000,000. How would we do it? Listen to me, my colleagues. Let us consider a married couple, with two children, with an income of \$5,000 a year. Under the present law that married couple pays a tax of \$420. Under the House bill the couple will pay an additional \$53. Under the Senate bill they will pay an additional \$46. Under my proposal they will pay an additional \$2. That is the group that is being affected by inflation.

Let us consider a couple with an income of \$6,500 a year. Under the present law they pay \$690 tax; under the House bill an extra \$86, under the Senate bill an extra \$76, and under the Humphrey proposal an extra \$29.

Take the \$7,500 couple. They pay \$877 tax at present; under the House bill they will pay another \$110; under the Senate bill another \$96, and under my proposal they will pay \$54.

Take the \$8,500 income couple. Under the House bill they will pay \$834; under the Senate bill \$118, and under my proposal they will pay an additional \$90. In other words, there is a substantial reduction.

Mr. President, what I am pointing out is that the proposal I offer actually makes a saving for people with an income of less than \$9,400 a year—that is the breaking point—a married couple with 2 children and an income of \$9,400 a year. They will pay a smaller increase of tax under my proposal, by eliminating the benefits of split income, than under the supertax in the bill.

Then where do we pick up the revenue? We pick it up in the group receiving more than \$10,000 a year. How many taxpayers does that represent? That represents about 7 percent of the taxpayers of the country. Even the couple with an income of \$10,000 will, under my proposal, pay only \$18 more a year than under the present Senate bill.

Mr. PASTORE. Mr. President, will the Senator yield?

Mr. HUMPHREY. I yield.

Mr. PASTORE. Will those States which do not have a community property law be in any different position under the Senator's amendment than those States that do have such a law?

Mr. HUMPHREY. I am happy the Senator from Rhode Island asked that question. The amendment applies universally. There is no discrimination. It applies equally and fairly in every one of the 48 States and Territories of the United States.

Mr. McCLELLAN. Mr. President, will the Senator yield?

Mr. HUMPHREY. I yield.

Mr. McCLELLAN. Does the Senator agree that under the present law they are on an equal basis?

Mr. HUMPHREY. Yes, under the present law they are on an equal basis. I wish to say to the Senator from Arkansas that we are not eliminating income splitting. Couples can still file separate returns. That is legal. What I say is that for the lower income groups, those under \$9,400 a year, that is, a married couple with two children, this proposal is a better deal specifically, and it raises almost \$250,000,000 more in the aggregate than the 11 percent supertax the Senate committee bill has within it.

If Senators wish to help the low-income group here is their chance. If Senators wish to bring in \$200,000,000 more revenue, here is their chance to do it. If Senators wish to bring in additional revenue on an equitable and fair basis, here is their chance. Our amendment will raise increased revenue, and eliminate from the law which I consider to be a very discriminatory provision in terms of burden of taxation.

Mr. President, I do not think I need say anything more. I simply say that in a period of inflation, here is a proposal that will raise a total of \$2,500,000, and the impact will fall on those with small incomes less heavily, but will fall on those able to pay. It places every State in the Union on an equitable basis, and it puts the principle of ability to pay back into the law of the United States.

Mr. MAGNUSON. Mr. President, will the Senator yield?

Mr. HUMPHREY. I yield.

Mr. MAGNUSON. I agree with the Senator's last statement, but coming from a community-property State, where the principle is embodied in the State constitution that husband and wife are two separate people, I do not see how the amendment can change the situation existing under our law for tax-paying purposes and for all purposes. If the Senator says the amendment does not affect that situation then why is the income-tax splitting principle involved in the amendment?

Mr. HUMPHREY. The way income-tax splitting was brought about in the first place was by broadening the income-tax brackets. The way to eliminate the benefits of income-tax splitting is to narrow the brackets. The Treasury Department has drawn up for me an amendment, with some reluctance, but

at my request, which has been cleared by legal counsel, and I say categorically that it will not in any way affect the community-property States. In those States couples will still file separate returns, but as a result of the revised tax schedule in the amendment no benefit will accrue from rate splitting.

Mr. MAGNUSON. All the amendment does is to change the rates?

Mr. HUMPHREY. All the amendment does is to change the brackets.

Mr. President, I am running out of time, and I yield the remainder of my time to the Senator from New York [Mr. LEHMAN].

Mr. LEHMAN. I am not sure that I will use all the time remaining.

Mr. President, I can think of no more constructive action this body could take than to approve the pending amendment submitted by the junior Senator from Minnesota and cosponsored by a number of Senators, including myself. The disposition of the Senate as reflected in previous votes does not hold forth any brilliant promise of success in regard to this amendment which holds the greatest promise of all for raising additional revenue. Yet because we believe it to be sound and equitable we would be remiss if we did not present it.

I know that some of us, in fact many of us, who see merit in this amendment are still loath to vote for it. It is said that this amendment is politically unpopular and that the split-income provision adopted by the Eightieth Congress was politically popular.

Well, Mr. President, I would not judge that any amendment that we have proposed or will propose, is politically popular. No bill to raise revenues is politically popular.

But the pending amendment is necessary. It is necessary for the sake of equity. It is necessary for the sake of the tax structure of this country. It is necessary in order to take away from persons of high income this special privilege, this special device for reducing their tax liability that bears so heavily upon the whole country.

Yesterday, in the course of the debate, the junior Senator from Colorado who is an honest as well as a brilliant thinker said very candidly that this split-income arrangement was plainly and frankly designed by its authors, of whom he was one, to bring tax relief to individuals with an income of \$10,000 or more. He stated that this provision of our tax laws brought no real benefit to persons with an income less than \$10,000.

I will take the Senator from Colorado at his word. The table to which the junior Senator from Minnesota referred in the course of his remarks gives the detailed figures on the effect of this provision on persons of different income levels, but the Senator from Colorado, with his usual skill and talent in getting to the root of the matter, stated the fact, namely, that his was a provision for the relief of persons of high income.

Whatever justification there was for enacting this provision in 1946—and I will not go into that today—there is no justification for keeping this provision on the books in 1951. That was before

China, before Korea, before the emergence in all its outlines of the Soviet threat to our very national existence. There might have been a time for tax relief. That time is passed. That time will not come again very soon.

Now we have adopted higher and higher income tax rates, higher and higher corporation tax rates. Now we go deeper and deeper into the lower income brackets and bite deeper and deeper into the income of those whose income is not even enough to assure them a decent subsistence.

Excise taxes are already applicable to 61 different commodities, services, and articles. We propose in this tax bill to add 20 more such commodities and products. These excise taxes lay most heavily on the great mass of the people. In the pending bill and in this fiscal year the excise taxes will raise more revenue than any other single tax, with the exception of the individual income tax.

Mr. President, it is time to be honest with ourselves and with the people. The elimination of this split-income provision is the only way in which we can make the graduated income tax work fairly and equitably in these times of national emergency. It may not be this year or next year or the year after, but we will be forced to repeal this provision. We will be forced to adopt an amendment like the pending one. In the end the people will insist. I think a great many people will wonder why we do not have the courage this year to approve this amendment and raise \$2,500,000,000, according to the Treasury's estimate. Thus, we could either come close to balancing the budget or, if the Senate does not wish to balance the budget, abandon the burdensome increase in income tax.

Mr. President, the split-income provision, as it works now, is not, as some would have us believe, a progressive development, a recognition of the fiscal equality of man and wife, and of their entitlement to equal consideration under law. It is rather a device, an easy legislative device—by widening the bracket—whereby the well-to-do and rich may escape a fair share of the tax burden by the division of the breadwinner's income into two halves.

Mr. HOLLAND. Mr. President, will the Senator yield?

Mr. LEHMAN. No. My time is limited, and I want to complete my remarks.

The Senator from Colorado has frankly said, as I stated, that this was not meant to be of assistance to anyone with an income of \$10,000. Under the proposal we have made for doing away with the split-income form of return here is the situation: A man with an income of \$5,000, under the Finance Committee bill would be paying \$46—

The VICE PRESIDENT. The time of the Senator from New York has expired.

Mr. LEHMAN. May I ask 1 minute more from the time of the opposition, to read this table?

Mr. McCLELLAN. I yield 1 minute to the Senator from New York.

Mr. GEORGE. Mr. President, I object. I am willing to have the Senator place his statement in the Record.

Mr. LEHMAN. I do not know whether the Senator—

Mr. GEORGE. I am going to yield to the Senator, but I am asking for the regular order. We have reached an agreement, on the invitation of the proponents of the amendment. I am perfectly willing to have the Senator place his statement in the Record.

The VICE PRESIDENT. Does the Senator so request?

Mr. LEHMAN. The Senator from New York will place the statement in the Record, but he thinks it is important to read it to Senators.

The VICE PRESIDENT. Without objection, the Senator from New York will be permitted to place the table in the Record.

The table is as follows:
Comparison of the tax increases if income splitting were eliminated with the tax increases under the House bill and the Finance Committee bill

Adjusted gross income ¹	Present law tax	Increase over present law tax		
		House bill	Finance Committee bill	Present tax rates with income splitting eliminated
\$5,000.....	\$420	\$53	\$46	\$2
\$6,500.....	690	86	76	29
\$7,500.....	877	110	96	54
\$8,500.....	1,075	134	118	90
\$10,000.....	1,372	172	150	168
\$15,000.....	2,486	311	277	572
\$25,000.....	5,318	665	588	1,998
\$50,000.....	15,976	1,997	1,780	5,558
\$100,000.....	44,724	5,591	3,568	11,880
\$500,000.....	356,956	27,821	7,437	25,180

¹ Income before deductions and before exemptions.

NOTE.—In computing the tax, a deduction of 10 percent of gross income was allowed at all income levels.

Mr. GEORGE. Mr. President, I had no intention of being arbitrary, but I have been too indulgent—particularly, I think, with the distinguished Senator from New York. He has imposed too often upon our good nature. I am going to yield all my time on this amendment, after this one statement.

This is nothing on earth but the old compulsory joint income provision in an indirect way, which we fought out in Congress in years past. The reformers wanted it. It was intended to compel the wife and husband to file a joint return. Indirectly, that is all this amendment does. I therefore hope it will be rejected.

I yield the remainder of my time to the Senator from Arkansas [Mr. McCLELLAN], who is very much interested in the split-income provision.

Mr. LEHMAN. Mr. President, a parliamentary inquiry.

Mr. MILLIKIN. Mr. President—

The VICE PRESIDENT. The Senator from Georgia has yielded to the Senator from Arkansas.

Mr. McCLELLAN. Mr. President, I yield a minute of my time to the Senator from Colorado.

Mr. MILLIKIN. Mr. President, I simply wish to say at this stage of the proceedings that the distinguished Senator from Arkansas, who will discuss this question, was one of the prime movers in

the insertion of the split-income provision in the Tax Reduction Act of 1948. He conducted a brilliant campaign over a year or two before it succeeded. The vote on the tax bill which included the split-income plan was 77 to 10.

I agree with the distinguished Senator from Georgia that this amendment would destroy the split-income system. It raises the suggestion that under the way they want to do it they would be adding additional discriminatory taxes against the real community-property States.

Senators, by some kind of magic which I cannot understand, there is the implication that this amendment would raise two and one-half billion dollars without hurting anyone. Finally there was a gentle statement to the effect that the tax would be put on those in the middle and higher income brackets.

Let us see for a moment where we are, so far as those people who would have to pay the two and one-half billion dollars are concerned. Let us consider very briefly the relation under present law of the income taxes paid per dollar of income by taxpayers in different brackets. Let us assume a single person with no dependents with income after deduction and before exemptions. Under this text the \$5,000-a-year man pays 12 times as much as the \$1,000 man. The \$10,000 man pays 30 times as much as the \$1,000 man. The \$20,000 man pays 87 times as much as the \$1,000 man. The \$25,000 man pays 122 times as much as the \$1,000 man. The \$50,000 man pays 317 times as much as the \$1,000 man. The \$100,000 man pays 779 times as much as the \$1,000 man.

I suggest that without further argument, that this is carrying progressivity to a point which should satisfy the most voracious confiscator, and that when we talk about adding two and a half billion dollars to the taxes of people who are paying taxes under the spiralling progressivity which I have pointed out, I think perhaps, to put it mildly, we have piled it high enough.

Mr. McCLELLAN. Mr. President, I yield half a minute to the Senator from New York [Mr. LEHMAN].

Mr. LEHMAN. Mr. President, I ask whether the statement to which I referred, being a comparison of the tax increases under this amendment and the tax increases under the House bill and the Finance Committee bill, has been placed in the RECORD?

The VICE PRESIDENT. It was ordered placed in the RECORD some time ago, in accordance with the request at the conclusion of the Senator's speech.

Mr. LEHMAN. I thank the Chair.

Mr. McCLELLAN. Mr. President, I yield 2 minutes to the Senator from Florida.

Mr. HOLLAND. Mr. President, I thank the Senator.

Of all the remarkable amendments which we have considered during the course of this debate, this is the most remarkable. For the first time during this debate it is suggested that the old idea of encouraging marriage and encouraging the setting up of a home shall be converted into the idea of penalizing

marriage and levying further and heavier taxation because of marriage.

I cite merely two cases, and then I shall relinquish the floor. First, take the case of a man and a woman each making \$4,000 net income. The tables appear on pages 2 and 3 of the printed amendment. It will appear that, as a single man and a single woman, they pay \$720 tax a year each. When married, with the same income of \$4,000 each, each of them pays \$860 tax, or \$140 more tax each year, making \$280 more for the two of them as a penalty for the marriage.

Mr. HUMPHREY. Mr. President, will the Senator yield?

Mr. HOLLAND. I am sorry, but I have only 2 minutes. I am citing the facts with respect to this remarkable amendment.

Second, as to persons making a net income of \$6,000, it will be found by looking at the table on page 2 that so long as they retain their single blessedness they each pay taxes of \$1,180 a year, whereas when wed they are taxed \$1,520 a year each, or an increase of \$340 a year each, or a tax upon the marriage of \$680.

How many more ridiculous things of this kind is the Senate going to have suggested to it?

Mr. HUMPHREY. Mr. President, will the Senator yield at this point?

Mr. HOLLAND. I yield the floor. My time has expired.

Mr. HUMPHREY. I merely wish to ask the Senator one question.

Mr. McCLELLAN. I yield 1 minute to the Senator from Minnesota to ask the Senator from Florida a question.

Mr. HUMPHREY. I should like to ask a very simple question. Would the schedule of rates pertaining to married people, as proposed in my amendment, cost married people less in terms of taxes under my amendment, than under the Senate bill?

Mr. HOLLAND. The schedule of rates—

Mr. HUMPHREY. I ask this question: Is the amount of tax which they would have to pay less under my amendment than under the Senate bill?

Mr. HOLLAND. The Senator from Minnesota is asking something not disclosed by the amendment, so the Senator from Florida will not and cannot attempt to answer categorically. The Senator from Florida does state categorically that the situation is just as suggested by him, and that this amendment imposes a penalty upon marriage.

Mr. President, will the Senate consider seriously such ridiculous legislation as that?

Mr. HUMPHREY. Mr. President, would the Senator from Florida like to see the Treasury statement?

Mr. McCLELLAN. Mr. President, I should like to yield further, but the time is limited and I want to make a brief statement. I do not wish to unduly delay a vote.

The statement has been made that the purpose of enacting in the 1948 statute the provision for the splitting of income by husband and wife for Federal tax purposes, was as a favor and as a special benefit—that is the substance of the re-

mark to a special class—and to lower the taxes for the higher income groups.

Mr. President, that was never the purpose of it. As has been stated by the Senator from Colorado, I sponsored amendments to two tax bills to enact this provision. The amendment was rejected twice. On the second rejection of it in 1947 we were given assurance by the able Senator from Colorado, as ranking minority member of the Committee on Finance, by the distinguished chairman of the Committee on Finance, the Senator from Georgia [Mr. GEORGE], and also by letter to the Senator from Virginia [Mr. BYRD], from the chairman of the Ways and Means Committee of the House, that if we would wait until the following year, until another tax revision bill could be considered, the provision would be studied; and every assurance was given that if the merit was found in it that I claimed it possessed, the provision would be included in the new bill. That was done.

The only reason why the amendment was ever offered, and the sole purpose for enacting it into law, was to place upon an equal basis as taxpayers husbands and wives throughout the Nation. There were 12 States which had community property laws. They had a right to have them. Under their laws, when husbands and wives paid their Federal tax they were able to split incomes, and thus lower their taxes; whereas in 36 States the husbands and wives, when they paid their Federal taxes had to make joint returns.

Therefore, because of citizenship in certain States, tax advantages and privileges did accrue. That did not matter very much before Federal income taxes became high. As we raised the rates, and as the taxes increased during the last war, it became imperative that the inequity and the discrimination be corrected.

It is said by the proponents of the pending amendment, "Oh, we are leaving the provision on the statute books; we are not repealing it." This amendment is not a direct repeal, but it is an indirect repeal, because it not only nullifies the correction of inequity which thus existed, but it penalizes the States which have had that protection throughout the years as a matter of States' rights and as a matter of their own laws.

It is ridiculous, and it does place a penalty on marriage. Taxes have risen and risen. This amendment would place \$2,500,000,000 in additional taxes principally on those who might be called the middle-income group. However, it starts to increase the tax of the husband and wife who make only \$4,000 a year. That is what it means. Do we want to place that additional burden in the bill? Do we want to nullify the principle of community property so far as Federal taxes are concerned? The community-property States have a vital interest at stake in this amendment. I trust the amendment will be rejected.

Mr. HUMPHREY. Mr. President, will the Senator yield?

Mr. McCLELLAN. I am glad to yield.

Mr. HUMPHREY. I merely want to clarify a misunderstanding. There is no

elimination of community property laws involved. There is, by a revision of the rate schedule, an elimination of the benefits of the community property laws.

Mr. McCLELLAN. That is exactly correct.

Mr. HUMPHREY. I will say to the Senator from Arkansas that under the terms of the Senate bill married couples with incomes of less than \$10,000 will pay more than under the amendment.

I believe we are talking about money, about tax revenue, not about legal language. I assume we are talking about dollars. The Treasury estimate, which I have in my hand, and which any Senator can see—it was put in the RECORD—reveals that a married man with an income of \$9,400, with two children, will pay less in taxes under the amendment than under the split-income provision with the super tax of 11 percent.

Mr. McCLELLAN. I am not undertaking to correct the Senate bill. It speaks for itself. I know the viciousness of this proposed amendment, and I know it is an opening wedge, and I vigorously oppose it.

The VICE PRESIDENT. The time of the Senator from Arkansas has expired.

Several Senators requested the yeas and nays.

The VICE PRESIDENT. Is the request sufficiently seconded?

The yeas and nays were ordered.

Mr. HUMPHREY. Mr. President, I withdraw the amendment.

The VICE PRESIDENT. The Senator from Minnesota cannot withdraw it without unanimous consent.

Mr. HUMPHREY. Mr. President, I ask unanimous consent to withdraw the amendment.

Mr. KNOWLAND. Mr. President, I object.

The VICE PRESIDENT. Objection is heard. The clerk will call the roll.

Mr. JOHNSON of Texas. I announce that the Senator from New Mexico [Mr. ANDERSON] is absent by leave of the Senate.

The Senator from Virginia [Mr. BYRD] is absent because of illness in his family.

The Senator from New Mexico [Mr. CHAVEZ], the Senator from Arkansas [Mr. FULBRIGHT], the Senator from West Virginia [Mr. KILGORE], and the Senator from Virginia [Mr. ROBERTSON] are absent on official business.

The Senator from West Virginia [Mr. KILGORE] is paired on this vote with the Senator from Ohio [Mr. TAFT]. If present and voting, the Senator from West Virginia would vote "yea," and the Senator from Ohio would vote "nay."

I announce further that if present and voting, the Senator from Virginia [Mr. BYRD], the Senator from New Mexico [Mr. CHAVEZ], and the Senator from Arkansas [Mr. FULBRIGHT] would vote "nay."

Mr. SALTONSTALL. I announce that the Senator from Utah [Mr. BENNETT], the Senator from New Hampshire [Mr. BRIDGES], the Senator from Maryland [Mr. BUTLER], the Senator from Washington [Mr. CAIN], the Senator from Vermont [Mr. FLANDERS], the Senator from

Missouri [Mr. KEM], the Senator from North Dakota [Mr. LANGER], and the Senator from Ohio [Mr. TAFT] are absent on official business.

The Senator from Wisconsin [Mr. McCARTHY] is absent by leave of the Senate.

The Senator from New Hampshire [Mr. TOBEY] is absent because of illness.

The Senator from Nebraska [Mr. WHERRY] is necessarily absent.

The Senator from Illinois [Mr. DIRKSEN] and the Senator from Idaho [Mr. WELKER] are detained on official business.

If present and voting, the Senator from Utah [Mr. BENNETT], the Senator from Maryland [Mr. BUTLER], the Senator from Washington [Mr. CAIN], the Senator from Vermont [Mr. FLANDERS], and the Senator from Idaho [Mr. WELKER] would each vote "nay."

On the vote, the Senator from Ohio [Mr. TAFT] is paired with the Senator from West Virginia [Mr. KILGORE]. If present and voting, the Senator from Ohio would vote "nay" and the Senator from West Virginia would vote "yea."

The result was announced—yeas 15, nays 62, as follows:

YEAS—15

Benton	Lehman	Murray
Douglas	Magnuson	Neely
Green	McMahon	O'Mahoney
Hill	Moody	Pastore
Humphrey	Morse	Sparkman

NAYS—62

Alken	Hennings	McKellar
Brewster	Hickenlooper	Millikin
Bricker	Hoey	Monroney
Butler, Nebr.	Holland	Mundt
Capehart	Hunt	Nixon
Carlson	Ives	O'Connor
Case	Jenner	Russell
Clements	Johnson, Colo.	Saltonstall
Connally	Johnson, Tex.	Schoeppel
Cordon	Johnston, S. C.	Smathers
Duff	Kefauver	Smith, Maine
Dworshak	Kerr	Smith, N. J.
Eastland	Knowland	Smith, N. C.
Eaton	Lodge	Stennis
Ellender	Long	Thye
Ferguson	Malone	Underwood
Fear	Martin	Watkins
George	Maybank	Wiley
Gillette	McCarran	Williams
Hayden	McClellan	Young
Hendrickson	McFarland	

NOT VOTING—19

Anderson	Dirksen	Robertson
Bennett	Flanders	Taft
Bridges	Fulbright	Tobey
Butler, Md.	Kem	Welker
Byrd	Kilgore	Wherry
Cain	Langer	
Chavez	McCarthy	

So the amendment offered by Mr. HUMPHREY, for himself and other Senators, to the committee amendment was rejected.

The PRESIDING OFFICER. (Mr. HOLLAND in the chair). The question now is on agreeing to the section of the committee amendments which was opened up by the last amendment.

The amendments were agreed to.

Mr. DOUGLAS. Mr. President, I now call up my amendment identified as "9-24-51-A," as I have revised it. I offer the amendment and ask that it be stated at this time.

The PRESIDING OFFICER. The amendment will be stated.

The CHIEF CLERK. At the proper place in the bill, it is proposed to insert the following new section:

SEC. — Trade or business expenses.

(a) Limitation on deduction: Section 23 (a) (1) (relating to trade or business expenses) is amended (1) in subparagraph (A) thereof by inserting "not in excess of \$25 per day per person" after "entire amount," and (2) by inserting at the end thereof the following:

"(D) Limitation: No deduction shall be allowable under subparagraph (A) for expenditures for alcoholic beverages for entertainment purposes, or for gifts or gratuities to other than employees of the taxpayers."

(b) Effective date: The amendment made by this section shall be applicable with respect to taxable years beginning after December 31, 1950.

Mr. DOUGLAS. Mr. President—

Mr. McFARLAND. Mr. President, will the Senator from Illinois yield to me for a moment?

Mr. DOUGLAS. Yes; I am glad to yield to the majority leader.

Mr. McFARLAND. Mr. President, I simply wish to make an appeal to all Senators to remain on the floor and thus facilitate the prompt handling of the amendments. I hope that by having Senators remain on the floor, it will not be necessary to have yea-and-nay votes, and thus we shall be able to conclude action on the bill in a short time.

I am sure that if Senators remain on the floor, those who offer amendments will be satisfied with voice votes or, at the most, with divisions; and thus we can expedite the handling of the bill, and conclude action on it in short order.

Mr. DOUGLAS. Mr. President, the amendment which has just been called up is submitted in an attempt to check what I think is a great and growing abuse in the field of corporate and individual income taxation, namely, the tendency to charge off gifts, gratuities, donations of liquor, and excessive expenses while traveling.

The amendment as changed differs from that which was originally proposed, in that it originally fixed, for tax-deductible purposes or tax-exemption purposes, a ceiling of \$12 a day. I included \$12 a day because the standards of the Senator from Illinois are relatively simple; but since then I have heard complaints that this is not a sufficient allowance, so I have now placed the amount at \$25 a day, and that applies in turn simply to room and board, not shoeshines, tips, or other incidentals. I am not trying to crimp anyone, but I would like to put a stop to high living at the taxpayers' expense.

Mr. President, my concern about this matter first arose in the investigations which the Senator from Arkansas and some of us conducted in connection with the RFC. We found in the case of one witness before our committee, an industrialist, the following items had been charged as expense:

Jewelry, \$65,458; liquor in cases, \$22,331; night clubs, \$35,822; gifts, \$25,638; boat expense, \$16,351; unexplained, \$132,645.

This is found on page 1039 of the hearings on the investigations into the Reconstruction Finance Corporation, part 2, at another point, on the same page, can be found an item of \$51,194 listed as direct payment for entertainment and gifts.

Then in connection with the testimony of Mr. Merl Young, who was employed both by Lustron and by the F. L. Jacobs Co., we found certain expense and entertainment items while employed by the Lustron Corp. which seemed rather extravagant to me. For instance:

January 16, 1949, entertainment, \$112.44; January 22, 1949, entertainment, \$165; February 15, 1949, entertainment, \$200; February 27, 1949, entertainment, \$97.20; March 13, 1949, \$148.90, entertainment; March 20, 1949, entertainment, \$118.55.

These figures can be found at page 944 of the same hearings. The overwhelming majority of items listed were for entertainment.

In other words, while these estimates were submitted weekly, the entertainment, of course, seemed to be quite high.

The same is true of Mr. Young's entertainment expenses as an employee of the F. L. Jacobs Co. Three-fourths of all his expenses were charged up to "entertainment." This is shown in part 3 of the RFC hearings, page 1221.

Mr. President, what happens in these cases is that where these items are charged off as expense, the taxpayers pay most of the bill. In the case of the corporations, the taxpayers will be paying at least half the bill, and where the corporations are in the upper earning groups, the taxpayers will pay 70 percent of the bill. In the case of individuals whose incomes are extremely high the taxpayers may pick up to 90 percent of the bill.

Mr. President, I do not wish to limit the expenditures of people for these purposes in any respect whatever. They can spend these sums out of their own income. But I do object to having these items made expenses and have the taxpayer pick up the tab. Behind the shoulder now of almost every party at a night club is John Q. Public, the unseen payer.

Mr. President, I propose the complete exclusion of payments for liquor; and I do not, as I said before in another connection, wish to sail under any false colors in this matter; I am not a prohibitionist. I am not a teetotaler.

Mr. NEELY rose.

Mr. DOUGLAS. But I do say that when one buys liquor or gives liquor, he should be willing to pay for it himself, and he should not ask the taxpayer to meet from one-half to nine-tenths of the cost. That is all I am trying to say.

Now lest any newspapers take fright, I may say I am not proposing any limitation on the amount spent for advertising matter, or of institutional advertising; they need not be afraid of that. I shall not oppose it, so they need not take fright. The provision of \$25 a day would seem to meet ordinary requirements, and I believe the amendment, if adopted, would check a real abuse with-

out working any real hardship. I have no desire to hamstring anyone, but I think the hard-pressed taxpayer should have some protection.

Mr. LONG. Mr. President, will the Senator yield for a question?

Mr. DOUGLAS. I yield first to the Senator from West Virginia.

Mr. NEELY. Will the Senator inform us what the amendment proposes with regard to liquor?

Mr. DOUGLAS. I am making a proposal that no deductions for the purchase of liquor be made for tax purposes.

Mr. NEELY. What did it cost last year?

Mr. DOUGLAS. How does anyone know? I do not know.

Mr. NEELY. Does anyone know that any money was spent for that purpose?

Mr. DOUGLAS. Everyone knows that entertainment bills are frequently entered as items of business expense, and spirituous liquors are not absent in entertainment. I am not proposing that we stop drinking liquor, I am not proposing that we stop going to night clubs; I am not proposing that we stop gifts. I merely say that the people who do the entertaining, the people who furnish the liquor, should pay the bills, and not the innocent payer, the taxpayer.

Mr. McFARLAND. Mr. President, will the Senator yield?

Mr. DOUGLAS. I shall be glad to yield to the Senator from Louisiana, who was first on his feet.

Mr. LONG. Are we to understand that the Senator's amendment is directed solely to entertainment expense?

Mr. DOUGLAS. No. It is also directed to gifts and gratuities, which may be aside from entertainment.

Mr. LONG. For business purposes?

Mr. DOUGLAS. Cameras, for instance. I do not think the donation of cameras, or hams, or deep freezes, or any of the other donations, should be entered as business expenses. Such gifts are made not merely to governmental officials, but to people in private business as well.

Mr. LONG. Are we to understand that the Senator's amendment is proposed to eliminate as a tax deduction, let us say, the expenses incurred if someone gives a lavish party for the purpose of procuring a war contract or something of that sort? Is that what it is directed toward?

Mr. DOUGLAS. That is one of the things toward which it is directed, yes.

Mr. LONG. Would the Senator eliminate dinners or a deduction for food served to people at a party for the purpose of enhancing the prospect of obtaining a contract?

Mr. DOUGLAS. It would not affect food. It would affect liquor and gifts. I would not consider a dinner a gift.

Mr. KERR. Mr. President, will the Senator yield?

Mr. DOUGLAS. I yield.

Mr. KERR. Does it not limit the expense item to \$25 a day for everything?

Mr. DOUGLAS. That refers simply to room and board.

Mr. KERR. It does not say room and board.

Mr. DOUGLAS. If the Senator will consult the Internal Revenue Code—

Mr. KERR. I am looking at the Senator's amendment.

Mr. DOUGLAS. It is an amendment to the Internal Revenue Code. The Internal Revenue Code will indicate that this item refers to meals and lodging only. There can be additional allowances for food offered to others.

Mr. KERR. Does the Senator know that food is board?

Mr. McFARLAND. Mr. President, will the Senator from Illinois yield?

Mr. DOUGLAS. First, let me say that the \$25 limitation affects only the expenses of the individual himself. I am glad to yield now to the Senator from Arizona.

Mr. McFARLAND. If the \$25 limitation applies to living expenses—

Mr. DOUGLAS. Per person.

Mr. McFARLAND. It seems to me that is sufficient for anyone, and that deductions for income-tax purposes should not be made for intoxicating liquors or entertainment. I propose to support the amendment of the Senator from Illinois.

Mr. DOUGLAS. I thank the Senator from Arizona.

Mr. MAGNUSON. Mr. President, will the Senator from Illinois yield?

Mr. DOUGLAS. I yield to the Senator from Washington.

Mr. MAGNUSON. The Senator said he was going to eliminate gifts, did he not?

Mr. DOUGLAS. No, we are not proposing to eliminate gifts, but merely that the giver, not the taxpayer, shall pay for the gift. "It is more blessed to give than to receive," but—

Mr. KERR. But not more profitable.

Mr. DOUGLAS. But I do not believe the taxpayer should pay the cost.

Mr. MAGNUSON. Mr. President, I had not finished my question. I do not disagree with the Senator, but it is my understanding that deductions for gifts are not allowed. I do not know, but if one were to put on his income-tax return a deduction for gifts I feel sure the Collector of Internal Revenue would check up on him.

Mr. DOUGLAS. It could be treated as an expense for the alleged purpose of building up "goodwill."

Mr. MAGNUSON. Secondly, entertainment deductions are pretty closely scrutinized, and if they are not reasonable, the internal revenue collector will collect, under the present law.

Mr. DOUGLAS. What is the test of reasonableness?

Mr. MAGNUSON. I think the Internal Revenue Bureau sometimes abuses the term "reasonable," but it is pretty tight on it, and if one lists expenses for business entertainment which go beyond the scope of what would be considered reasonable, the internal revenue collector will collect the money. Possibly the limit might be even lower than \$25 a day. In proposing \$25 a day, the Senator from Illinois might be raising the ante a little bit.

Mr. DOUGLAS. I had set \$12 a day, but I heard great complaints from news-

paper reporters and correspondents, who apparently sometimes send in bills to their publishers in excess of \$12 a day. So in order not to prevent the press—and it is true that away-from-home expenses have risen—salesmen, and others from living on the scale to which they are accustomed, we raised the limitation to \$25.

Mr. AIKEN. Mr. President, will the Senator yield?

Mr. DOUGLAS. Certainly.

Mr. AIKEN. Does the Senator's amendment apply to corporations and holding companies that make a practice of furnishing liquor for conventions, or to persons who are in a position to help them in their business, or officials who are supposed to regulate their business?

Mr. DOUGLAS. That is correct.

Mr. AIKEN. I think the Senator's amendment is a good one if it covers that practice, which is one of the worst that I know of.

Mr. DOUGLAS. It is so intended to arrange the situation so that gifts can proceed from the donor's heart and not from the taxpayer's pocketbook.

I hope, Mr. President, that the amendment will be adopted by an overwhelming vote.

The VICE PRESIDENT. The question is on agreeing to the amendment offered by the Senator from Illinois [Mr. DOUGLAS].

Mr. GEORGE. Mr. President, the amendment, if adopted, would cost the Treasury money. That may not be the intention of the Senator, but that is what would occur. The law now is that all reasonable business expenses may be deducted. Now we are confronted with an amendment providing that not in excess of \$25 a day shall be paid in connection with lodging, when we deduct alcoholic beverages as such, and gifts and gratuities as such from the income tax. Mr. President, it is all a part of a program to harass and worry the business elements of the country. If the Senator wants to do that and the Senate wants to accept it with the knowledge that it will cost more money than is now allowed in ordinary cases, it is all right, and we will take it to conference.

I should like to tell the Senator something. When I was at home on my last visit last year, the railroad men all over the States who have to go to Atlanta and spend the night came to me and said they were having trouble in getting their expense allowances "O. K.'d" by the Internal Revenue Bureau.

It strikes me that this will be taken as an indication that fully \$25 for board and lodging should be allowed, and it will not apply to business groups only. But, Mr. President, it is not worth arguing about, except that it is just a precedent that ought not to be injected into the tax law. If we are not satisfied with what the Commissioner of Internal Revenue does or what the Secretary of the Treasury does, we should get another Commissioner of Internal Revenue or another Secretary of the Treasury.

I am willing for the Senate to vote on the amendment by voice vote.

Mr. MORSE. I ask for the yeas and nays, Mr. President.

Mr. DOUGLAS. Before we vote, may I point out that the wording of the amendment is that "not in excess of \$25" may be allowed.

The VICE PRESIDENT. The yeas and nays have been asked for, but there is not a sufficient second. The question is on agreeing to the amendment offered by the Senator from Illinois. [Putting the question.]

Mr. HUMPHREY and other Senators requested a division.

On a division, the amendment was rejected.

The VICE PRESIDENT. The bill is open to further amendment.

Mr. MOODY. Mr. President, I should like to call up my amendment "9-25-51—C."

The VICE PRESIDENT. The clerk will state the amendment offered by the Senator from Michigan.

The CHIEF CLERK. On page 270, lines 2 and 3, it is proposed to strike out "electric vacuum cleaners; electric washing machines."

The VICE PRESIDENT. The Senator from Michigan is recognized for 15 minutes.

Mr. MOODY. Mr. President, I do not want to take much time on this amendment. I believe the amendment is in a different category from any other amendment that can be offered in the excise-tax group.

Mr. President, no Member of the Senate is more aware than I of the acute necessity for raising revenue as a means of meeting the expenses of our great defense program and of checking inflation. No Member has keener realization of the long and tedious hours spent on this bill by the committee, nor more respect for the members of that committee and especially for its distinguished chairman.

But, Mr. President, there is one item in that bill on which an excise tax is proposed to be levied as a luxury which is not a luxury. It is a tool that is necessary to the most essential work that anyone can do, the work of making a home.

Washing machines should not be taxed. The added levy on these machines would make little or no difference to housewives who can afford plenty of domestic help.

But to the great majority of American homes, the added tax of \$25 to \$35 would mean a great deal. It might make the difference in the budget of many families of whether or not they could buy a machine.

There are comparatively few families, Mr. President, where the housewife can afford adequate domestic help. In most, the homemaking is done by the wife, who must not only cook and clean for her family, but do the washing—and bear the children. And with every child comes immediately, as some Senators here may still be young enough to recall, an immediate increase in the load of family washing.

Mr. President, I do not believe the day has been reached in America yet when we cannot pay for the essential services of Government according to our ability each to meet his share. I do not think in order to build the military strength vital to repel or, if possible, to deter Red

aggression we must throw overboard the general principle that a consumer tax on the necessities of life is a regressive and undesirable tax and should not be enacted by this Congress.

I believe, Mr. President, that any man who works hard and earns decent wages should be able to provide his wife with the modern equipment which makes housekeeping less of a drudgery. If that is not the American standard of living, what is the American standard of living? And do we have it only for those who can afford luxuries? Or should such essential equipment be available to any family whose breadwinner has worked to win for himself a useful place in our great system of production.

There was a time not so many years ago, Mr. President, when it was the usual thing for a husband to outlive two or three or even more wives. Women in America then grew old before their time, as they do today in many other countries of the world. Why? Because of the strain of child-bearing combined with the drudgery of housework.

American ingenuity, skill, and industry have now provided the American housewife with many implements to make her job less onerous. I do not believe all of these items are necessary, though most of them are ingenious and desirable. But I do believe, and I might say that the real boss of my home thoroughly concurs with me in this, that there is nothing so necessary to a woman's job as the washing machine and the vacuum cleaner.

Let me emphasize, the total revenue in this bill is not too great. If anything, it is too small. It is doubtful that with even the best of Government economy we can bring the budget into balance in the coming year, because of our vast requirements for making sure of the survival of our country.

But we do not have to raise this money by taking it out on the housewife in drudgery, Mr. President. By eliminating washing machines and vacuum cleaners from this bill, I am informed, the loss in revenue would be \$53,000,000. We could have made that up 10 times over by revoking the windfall given corporations when the effective date of the increased corporate tax was moved forward from January 1 to April 1.

I certainly mean no criticism of my colleagues, Mr. President, when I point out that had this tax bill been enacted 3 or 4 months ago, there scarcely would have been any question about making the new corporate rate effective at the beginning of the current year. The House of Representatives made it effective at that date. Corporate taxpayers were on notice that there would be an increase which would likely be stiff. I see no good reason why, merely because the wheels of legislation grind slowly, that the new corporate rates should not apply in the first quarter of 1951—the highest-profit quarter, I am informed, in the history of our country.

It is a poor swap, it seems to me, for us to soak a tax on the housewife on essential items which were not taxed at all during World War II, in order to raise the House bill by some \$50,000,000

on the ground that every last penny of revenue must be found, and then forgive \$500,000,000—10 times as much—to corporate taxpayers by the simple device of changing a date in the law. Changing this date is one way the revenue lost by removing washing machines and vacuum cleaners could be recovered 10 times over and with justice, Mr. President, and this still may be done in conference. There are other ways to increase the total revenue in this bill, should the Senate decide this to be necessary.

But I believe the Senate should take another look at this one, Mr. President. Let us think twice before we turn this into a washboard Congress. Let us not squeeze our revenue out of the backs and knuckles of the American housewife.

Mr. President, I believe this is a tax which clearly ought to be removed from the bill. The House of Representatives did not include it in the bill. I understand there are distinguished members of the Finance Committee who do not want it in the bill. I should like to have a roll-call vote.

Mr. MONRONEY. Mr. President, will the Senator yield?

Mr. MOODY. I yield.

Mr. MONRONEY. Is it not a fact that throughout the last war there was no tax levied on washing machines at all?

Mr. MOODY. The distinguished Senator is entirely correct. Up until this time it has not been considered proper or necessary to put a sales tax on these necessities. During World War II, when there were many excise taxes imposed, the opinion of Congress was that washing machines and vacuum cleaners should not be taxed.

I am hopeful that my amendment, with so many sponsors from both sides of the aisle, will be adopted by the Senate. I might add, also, that the larger the family, Mr. President, the more necessary it is to have this sort of equipment, and I believe the Senate will agree that this equipment should not be taxed.

Mr. MORSE. Mr. President, will the Senator yield?

Mr. MOODY. I yield to the Senator from Oregon.

Mr. MORSE. I merely wanted to say in one or two sentences that I shall vote for the amendment because I think voting for it symbolizes opposition to what I consider to be growing efforts to impose a Federal sales tax upon people least able to pay. Whenever we get an opportunity to indicate that we are opposed to the principle of the Federal sales tax, we should not miss the opportunity at least to symbolize that opposition. Certainly when we are dealing here with a household necessity, such as a washing machine, we ought to strike out against it, because an excise tax in this particular instance, in my judgment, is really the label for encouragement of a Federal sales tax.

The VICE PRESIDENT. The question is on agreeing to the amendment of the Senator from Michigan [Mr. Moody] to the committee amendment.

Mr. DOUGLAS. Mr. President, I ask for the yeas and nays.

Mr. GEORGE. Mr. President, it is a matter of indifference to me what the Senate does on this matter, but I say that adoption of the amendment will cost \$53,000,000. There is not a single item in the excise group that does not contain one or more necessary things. Refrigerators are taxed. Freezers, appliances in which foods are kept, are taxed. Electrical appliances are taxed. But now some Senators do not want to tax electric vacuum cleaners and electric washing machines.

Mr. MOODY. Mr. President, will the Senator yield?

Mr. GEORGE. That is all it will cost, according to a very conservative estimate, Mr. President—\$53,000,000.

It seems strange to me that so many proposals come from the group which has been insisting on increasing Federal revenue. What is the use of doing it? These excise taxes are not all levied on luxuries. Some of them may be levied on luxuries, but they are levied on trucks, they are levied on freezers, they are levied on electrical appliances, they are levied on thousands of items. If we start whittling away on the revenue, we will not have any left.

Mr. President, there is another reason. This particular item is in conference, and I have stated to the proponents of the amendment that in conference we will take a careful look at it, an honest survey of it, and if the conferees on the part of the House are opposed to it, certainly we would be in a position to give full consideration to their opposition. But, Senators, do not kid yourselves by talking about taxing necessities. They have been taxed under the provisions of this bill to the extent of almost an additional billion dollars. Most of the items taxed are actual necessities. The items contained in the category involved are electrical appliances. The Treasury recommended that we place taxes on these items. The Treasury recommended that we impose twice as much tax as we have placed on these items.

Mr. LONG. Mr. President, will the Senator yield?

Mr. GEORGE. I yield.

Mr. LONG. The point that has most impressed the junior Senator from Louisiana in respect to this type of tax is that these items more than almost any other type of manufactured products use up the critical materials we need for defense industries.

Mr. GEORGE. Undoubtedly they do.

Mr. LONG. There is no doubt in my mind that if we are going adequately to prepare to defend the Nation, one day the same people who are using these items will be compelled to stop buying new automobiles, for there will have to be a cutback in the production of automobiles; they will have to stop buying vacuum cleaners, washing machines, and many other items of that kind. If we raise a little revenue on these products at the present time we at least make them available to the people who have money with which to buy these conveniences at the present time. They used to be called luxuries. Perhaps they are not entirely luxuries today. But there are still people who, even without the tax on these items, will not be able to buy a vacuum

cleaner or a washing machine. In view of the fact that there is not going to be enough material anyway with which to make enough such products to supply all those who would like to have them, it seems to me that to tax them now would make them available for a longer period of time.

Mr. GEORGE. The Senator from Louisiana is quite right. In World War II, Leon Henderson—and Leon Henderson certainly had no animosity toward the plain people in the United States—came before us, as did other representatives of the Government, and ask us to put a tax upon many articles, including the very articles which are now in the bill, in order to conserve strategic and critical materials.

Mr. MOODY. Mr. President, will the Senator yield?

Mr. GEORGE. I yield.

Mr. MOODY. I certainly did not mean to impute any animosity toward the people on the part of anyone, either the chairman of the committee or members of the committee. I should like to point out, in view of the remarks of the Senator from Louisiana, that if the price of these articles is going up, then it will be less possible for those families which should have them, those who have no domestic help, to buy them, and if their production is cut back by control of materials used in manufacturing them, then the revenue loss would be much less than it would be otherwise.

The distinguished chairman of the committee has pointed out that we would lose \$53,000,000 if we adopt the amendment. That is certainly true. I do not think the tax bill, over-all, does provide enough revenue. But, as the Senator from Illinois [Mr. DOUGLAS] and the Senator from Minnesota [Mr. HUMPHREY] have pointed out before, we are accepting a tax bill which does not balance the budget. Yesterday, by the change of a single word in the House bill, by the change of the word "January" to "April," we decided, by a heavy vote in the Senate, to relinquish more than \$500,000,000, a half a billion dollars of corporate taxes.

Mr. GEORGE. Mr. President, I do not think the Senator's observations are exactly pertinent. I cannot think they are pertinent at all. Here is a proposal simply to lose \$53,000,000 in revenue.

Mr. MOODY. Mr. President, will the Senator yield?

Mr. GEORGE. No; I decline to yield further. We have before us a proposal to lose \$53,000,000 in revenue. Why? Because certain things that use up a great deal of strategic and critical material are simply going to be subjected to an excise tax. That is all there is to it. If the Senate wishes to do it, that is all right with me. But it is a very significant thing, I think, that when we try to raise taxes somebody is always objecting, and when we try to make the tax burdens fall on the whole people, so far as we can, then someone objects.

Mr. President, I should like to have a vote on the amendment.

Mr. MOODY. Mr. President, I wish to comment briefly, if I may.

Mr. GEORGE. Mr. President, what is the time remaining?

The VICE PRESIDENT. The Senator from Michigan has 11 minutes left, and the Senator from Georgia has 7 minutes.

Mr. MOODY. Mr. President, the Senator from Michigan will not use all of his 11 minutes.

I simply wish to point out that the question of whether or not strategic materials are used in the manufacture of these items has nothing whatsoever to do with the amendment. The amount of strategic materials to be allotted to these two necessary items will be given by the National Production Administration, whether there is a tax on those items or whether there is not. There will not be saved a single ounce of strategic materials by taxing the items. All that will be done will be to put necessary items farther out of the reach of the type of housewives that need them most.

I may say that the junior Senator from Wyoming, one of the cosponsors of the amendment, in discussing it on the floor a few moments ago, pointed out to me that the families who need these appliances most, often have to buy them on time, and make a very small percentage of down payment. The amount of tax which, of course, lies on the entire cost, makes a very substantial increase in the down payment. It seems to me a peculiar statement to say that there is no relationship between the loss of \$53,000,000 in excise taxes, which may be the first step toward a creeping sales tax in America, and the fact that the Senate has voted down amendment after amendment, to the extent of voting down amendments which would have provided more than \$2,000,000,000 worth of additional revenue. How does that make sense? Does it make sense to say that it is not a loss of revenue when we forgive more than half a billion dollars of revenue to the corporations of America in the highest profit quarter in the history of American business, with the support of the committee, but that we cannot afford to take \$53,000,000 from excise taxes on necessities used by the housewives of America?

The VICE PRESIDENT. The question is on agreeing to the amendment offered by the Senator from Michigan [Mr. MOODY] to the committee amendment on page 270, beginning in line 2.

Mr. DOUGLAS. I ask for the yeas and nays.

The yeas and nays were ordered, and the Chief Clerk called the roll.

Mr. JOHNSON of Texas. I announce that the Senator from New Mexico [Mr. ANDERSON] is absent by leave of the Senate.

The Senator from Virginia [Mr. BYRD] is absent because of illness in his family.

The Senator from Connecticut [Mr. BENTON], the Senator from New Mexico [Mr. CHAVEZ], the Senator from West Virginia [Mr. KILGORE], the Senator from Wyoming [Mr. O'MAHONEY], the Senator from Virginia [Mr. ROBERTSON], and the Senator from Georgia [Mr. RUSSELL] are absent on official business.

The Senator from West Virginia [Mr. KILGORE] is paired on this vote with the Senator from New Mexico [Mr. CHAVEZ]. If present and voting, the Senator from West Virginia would vote "yea," and the

Senator from New Mexico would vote "nay."

I announce further that if present and voting the Senator from Virginia [Mr. BYRD] and the Senator from Georgia [Mr. RUSSELL] would vote "nay."

Mr. SALTONSTALL. I announce that the Senator from Utah [Mr. BENNETT], the Senator from New Hampshire [Mr. BRIDGES], the Senator from Maryland [Mr. BUTLER] the Senator from Nebraska [Mr. BUTLER] the Senator from Washington [Mr. CAIN], the Senator from Vermont [Mr. FLANDERS], the Senator from Missouri [Mr. KEM], the Senator from North Dakota [Mr. LANGER], and the Senator from Ohio [Mr. TAFT] are absent on official business.

The Senator from Wisconsin [Mr. McCARTHY] is absent by leave of the Senate.

The Senator from New Hampshire [Mr. TOBEY] is absent because of illness.

The Senator from Nebraska [Mr. WHERRY] is necessarily absent.

The Senator from Idaho [Mr. WELKER] and the Senator from North Dakota [Mr. YOUNG] are detained on official business.

If present and voting, the Senator from Utah [Mr. BENNETT] and the Senator from Maryland [Mr. BUTLER] would each vote "nay."

On the vote, the Senator from Ohio [Mr. TAFT] is paired with the Senator from Washington [Mr. CAIN]. If present and voting, the Senator from Ohio would vote "yea," and the Senator from Washington would vote "nay."

On the vote, the Senator from Idaho [Mr. WELKER] is paired with the Senator from Vermont [Mr. FLANDERS]. If present and voting, the Senator from Idaho would vote "yea" and the Senator from Vermont would vote "nay."

The result was announced—yeas 52, nays 22, as follows:

YEAS—52

Alken	Hill	Mundt
Brewster	Holland	Murray
Bricker	Humphrey	Neely
Carlson	Hunt	Nixon
Case	Ives	O'Connor
Cordon	Jenner	Pastore
Dirksen	Johnston, S. C.	Schoeppel
Douglas	Knowland	Smathers
Duff	Lehman	Smith, Maine
Dworshak	Lodge	Sparkman
Ferguson	Magnuson	Stennis
Frear	Malone	Thye
Fulbright	Maybank	Underwood
Gillette	McCarran	Watkins
Hayden	McFarland	Wiley
Hendrickson	Monroney	Williams
Hennings	Moody	
Hickenlooper	Morse	

NAYS—22

Capehart	Hoey	McKellar
Clements	Johnson, Colo.	McMahon
Connally	Johnson, Tex.	Millikin
Eastland	Kefauver	Saltonstall
Eaton	Kerr	Smith, N. J.
Ellender	Long	Smith, N. C.
George	Martin	
Green	McClellan	

NOT VOTING—22

Anderson	Chavez	Russell
Bennett	Flanders	Taft
Benton	Kem	Tobey
Bridges	Kilgore	Welker
Butler, Md.	Langer	Wherry
Butler, Nebr.	McCarthy	Young
Byrd	O'Mahoney	
Cain	Robertson	

So Mr. Moody's amendment to the amendment was agreed to.

The VICE PRESIDENT. The question now is on agreeing to the committee amendment, as amended.

The amendment, as amended, was agreed to.

Mr. McMAHON. Mr. President, I call up my amendment designated "9-22-51-21."

The VICE PRESIDENT. The Secretary will state the amendment.

The CHIEF CLERK. On page 221, it is proposed to insert after line 23:

Sec. 344. Publishing business carried on by tax-exempt organization.

(a) Treatment as related trade or business: Section 422 (b) (relating to definition of unrelated trade or business) is hereby amended by adding at the end thereof the following: "If a publishing business carried on by an organization during the taxable year is, without regard to this sentence, an unrelated trade or business, but before the beginning of the third succeeding taxable year the business is carried on by it (or by a successor who acquired such business in a liquidation which would constitute a tax-free exchange under section 112 (b) (6)) in such manner that the conduct thereof is substantially related to the exercise or performance by such organization (or such successor) of its educational or other purpose or function described in section 101 (6), such publishing business shall not be considered, for the taxable year, as an unrelated trade or business."

(b) Effective date: The amendment made by this section shall be applicable with respect to taxable years beginning after December 31, 1950, and prior to January 1, 1953.

Mr. GEORGE. Mr. President, this is the amendment which has been under discussion since the opening of the debate on the tax bill. As I stated to the Senator from Connecticut, I would be willing to take the amendment to conference, but I would wish to have it understood that I should like to have an opportunity to give it careful consideration. As I understand, all that the amendment seeks to do is, if within the time specified, an institution—in this instance a university or college—can conform or relate the related business to its ordinary business—

Mr. McMAHON. Its educational purposes.

Mr. GEORGE. If it could relate it to its educational purposes, it would be relieved of the tax.

Mr. McMAHON. That is correct.

Mr. GEORGE. If it was not able to do so, it would have to pay the tax.

Mr. McMAHON. That is correct.

Mr. GEORGE. I would be willing to take the amendment to conference.

The VICE PRESIDENT. The question is on agreeing to the amendment offered by the Senator from Connecticut [Mr. McMAHON].

The amendment was agreed to.

Mr. McMAHON. I ask unanimous consent to insert in the RECORD at this point a statement dealing with the amendment.

There being no objection, the statement was ordered to be printed in the RECORD, as follows:

STATEMENT BY SENATOR McMAHON

I am perhaps more aware than many of my colleagues of the desperate need to help our colleges. I think the Treasury should strain in every way consonant with the let-

ter of the law to give education the funds which it needs to remain strong and free.

So far as the technicalities of relatedness go in the matter of the Wesleyan Press and the Revenue Act of 1950, I have studied the facts, and agree completely that this Press should now be construed as exempt. I am therefore of course in favor of this amendment. And I do hope that it will be recognized as the sense of the Senate as we adopt this amendment that we do want the administrative officials to work out this problem satisfactorily to the college, because, by the very fact of the higher tax rates which this bill places on the public, and therefore the alumni of the colleges, we are compelled to dry up the well springs of funds on which the colleges have relied to meet their ever mounting deficits.

The purpose of this amendment is to enable a college which owns a press which is admittedly serving an educational need and purpose to integrate these educational publishing activities more fully under its own direction. This may mean more faculty participation or closer administrative affiliation, but that it will successfully work out the situation I have no doubt. All this amendment does is recognize that perhaps because our colleges must move slowly, perhaps because the Treasury in administering a new law must move slowly, more time is needed. But I am sure we do expect that the administrative officers will respect our intention and desire that a solution be found within the framework of the law without wrecking our educational institutions on the shoals of Treasury fear of less clear cases which may never arise.

Mr. FERGUSON. Mr. President, I send to the desk my amendment designated "9-22-51-31," and ask that it be stated.

The VICE PRESIDENT. The secretary will state the amendment.

The CHIEF CLERK. On page 128, beginning with line 19, it is proposed to strike out all through the period in line 25 and insert in lieu thereof the following:

The deduction under this subsection shall not be in excess of an amount equal to such part of the adjusted gross income as does not exceed \$5,000, except that in the case of more than one exemption under section 25 (b) for the taxable year (exclusive of exemptions allowed under sec. 25 (b) (1) (B) or (C)), the deduction shall not be in excess of an amount equal to such part of the adjusted gross income as does not exceed \$10,000.

Mr. FERGUSON. Mr. President, this is the section of the law on individual income taxes which provides for deductions of a taxpayer's medical expenses on a specified basis.

The law allows deductions for such expenses as exceed 5 percent of the taxpayer's adjusted gross income, up to \$1,250 for a single person and in multiples of that amount up to \$5,000 for married persons with two dependents.

As I understand, the history of this allowance for medical expense is relatively recent. It was first introduced in one of the early wartime tax bills, and the present maximum deductions were placed in the 1948 Revenue Act.

The theory of allowing for deductions in excess of 5 percent of one's income is quite clear. Starting as they do at the 5-percent level of one's income, they do not exempt what may be called ordinary medical expense. But they are intended to provide relief for what may be

called extraordinary medical expense. In effect, the law says that anything which exceeds 5 percent of a man's income is extraordinary expense, and he gets a measure of relief from it.

The logic of imposing ceilings on deductions is also understandable. It was not desired to invite so-called extraordinary expense which might not be a genuine medical expense at all, merely because the expense would be deductible. A simple illustration of abuse would be a vacation in Florida or Arizona, which was claimed to be a rest cure and a medical necessity. Wealthy people could afford to do that, and they could do it at a discount because it would be deductible.

At the same time, however, the arbitrary ceiling imposes some hardships on persons of low or middle incomes whose necessary medical expenses are not merely extraordinary but are devastating in proportion to their income.

The perfect illustration is that of a case described in a letter before me. It is from an arthritis victim. She earns \$4,500 a year and is single. She is able to work and to earn a living through the blessings of cortisone. But as everyone knows, that is an exceedingly expensive drug.

Her medical expense this year will run to \$2,400, which is more than half her income. Even allowing the deduction of \$1,250 she will be paying taxes on \$1,150, or approximately a quarter of her entire income, which was never really hers since it went directly to her doctors or for drugs.

This amendment proposes to alleviate the burden of that person or any other person who has an income of less than \$5,000 a year if single or \$10,000 a year with dependents where catastrophic medical expenses eat so heavily into their earnings.

The effect of the amendment is simply to allow a deduction for medical expenses of \$5,000 for single persons and \$10,000 for persons with dependents. Such deductions would be allowable, of course, only for expenses which exceed 5 percent of one's income.

Although not permitting multiples of the single person's deduction as in the present bill, it is basically a proposal to raise the ceilings now in the law from \$1,250 to \$5,000 for single persons and from \$5,000 to \$10,000 for a married couple with two dependents.

It gives a 95-percent deduction allowance for exceptional medical expenses to persons in the low-and middle-income groups. It is consistent with the consideration which the committee gave to persons 65 years of age and over as it appears in the committee amendment on page 128 of the bill, since it directs attention to another group in potential distress. I hope the chairman of the committee will accept the amendment and take it to conference for any technical adjustments that might be found desirable.

Mr. President, if a person really has large medical expenses, in excess of 5 percent of his net income, under the present law he is unable to deduct more than \$1,250 of those expenses if he is

a single person, or more than \$2,500 of those expenses if he is married.

On the other hand, I say to every Member of the Senate that if a person has medical expenses amounting to \$2,500 during 1 year, this amendment will enable him to deduct those expenses from his income before figuring his income tax, so that he will not have to pay an income tax on the money he is really paying for his medical expenses.

Mr. MAGNUSON. Mr. President, will the Senator yield?

Mr. FERGUSON. I yield.

Mr. MAGNUSON. Does the amendment apply to everyone?

Mr. FERGUSON. Yes.

Mr. MAGNUSON. It would not be confined to those in only one income bracket, would it?

Mr. FERGUSON. No; the amendment gives any single person the right to deduct up to \$5,000 for medical expenses, or any married person the right to deduct up to \$10,000 for medical expenses.

Mr. President, I think the amendment would cost very little if it were adopted and became part of the law, and, of course, it would take care of those who encounter a great catastrophe in their lives and have large medical expenses. At the present time, with medical expenses as high as they are, and increasing almost every day, an allowance of \$1,250 is not sufficient.

Therefore, I think the amount deductible should be increased, so that a single person will be able to deduct up to \$5,000 of medical expenses, or a married person with two dependents will be able to deduct up to \$10,000.

The PRESIDING OFFICER. The question is on agreeing to the amendment of the Senator from Michigan [Mr. FERGUSON] to the committee amendment on page 128.

Mr. GEORGE. Mr. President, of course all amendments of this kind are very appealing. I do not know what the amendment would cost, if it were put into effect. However, I think it would be very unwise for the Senate to adopt such amendment and place it in the law.

In the United States there are many persons who own considerable amounts of property, even though their annual gross income may not be very large. In other words, a wealthy person may not be interested in acquiring more wealth, and may not have more than \$500 of actual income. Yet he may be quite wealthy, but simply may not be trying to add anything more to what he already has. Perhaps he may have inherited a large amount of property, for instance. If that person has to pay medical expenses amounting to more than 5 percent of his gross annual income, and if he may then deduct, for income-tax purposes, all his medical expenses up to \$10,000, of course it is apparent that he may then carry forward that loss and may convert some of his property into cash or into liquid assets, and in that way may obtain a rather large deduction.

Of course the amendment has an appeal, because undoubtedly there are cases in which a person having an income of

perhaps \$5,000 or \$10,000 has large medical expenses. He might be able to deduct \$10,000, in the case of a married person, or \$5,000, in the case of a single person, under the provisions of this amendment, and thereby considerably reduce the revenue.

I do not have any dependable figures on the effect of the amendment; but in the beginning I thought of offering an amendment to remove entirely the 5 per cent limitation on the deduction for medical expenses in the case of persons in the low-income brackets. However, I was advised that such a change would be too costly to the Treasury. Of course, Mr. President, this amendment does not involve exactly that situation.

It is entirely agreeable to me if the Senate wishes to accept the amendment.

Mr. FERGUSON. Mr. President, I hope the amendment will be adopted and will go to conference in a reasonable amount.

I shall not ask for a yea-and-nay vote on the amendment, because I think it will be adopted and will be taken to conference.

The VICE PRESIDENT. The question is on agreeing to the amendment offered by the Senator from Michigan to the committee amendment on page 128. [Putting the question.]

The "noes" seem to have it.

Mr. FERGUSON. Mr. President, I ask for a division.

On a division, the amendment to the committee amendment was rejected.

The VICE PRESIDENT. The bill is open to further amendment.

If there be no further amendment—

Mr. HUNT. Mr. President, I call up the amendment designated as "9-22-51-28," and offer it, and ask that it be stated. I offer the amendment on behalf of myself, the Senator from Tennessee [Mr. KEFAUVER], the Senator from Maryland [Mr. O'CONOR], the Senator from Wisconsin [Mr. WILEY], and the Senator from New Hampshire [Mr. TOBEY].

The VICE PRESIDENT. The amendment will be stated.

The CHIEF CLERK. At the proper place in the bill, it is proposed to insert the following:

SEC. —. Net worth statement by individuals engaged in illegal businesses

(a) Individuals engaged in illegal businesses: Section 54 (relating to records and special returns) is further amended by adding at the end thereof a new subsection as follows:

"(h) Net worth statements by certain individuals: Every individual who has, during the taxable year or during any of the 5 years preceding the taxable year, received gross income in excess of \$10,000 from one or more unlawful trades or businesses, shall file with his return for the taxable year, in such form and in such detail as the Secretary may by regulations prescribe, a statement of net worth showing, as of the close of the taxable year, each asset and liability of such individual, of such individual and his spouse jointly, and, in the case of a joint return by an individual and his spouse, each asset and liability of such spouse. Such statement shall contain or be verified by a written declaration that it is made under the penalties of perjury."

(b) Effective date: The amendment made by this section shall be applicable only with respect to taxable years ending after the date of enactment of this act.

Mr. HUNT. Mr. President, this amendment is sponsored by myself and my four colleagues on the Special Committee To Investigate Organized Crime in Interstate Commerce. The amendment is submitted for the sole purpose of attempting to get at the actual wealth of gangsters and hoodlums who have homes in various cities, worth from \$50,000 to \$100,000, and perhaps have fleets of Cadillac automobiles and pleasure boats. Yet they apparently have no visible source of income.

In our work in the committee we found that as we interrogated the witnesses it was very difficult to arrive at the net worth of such persons; but by means of our investigators, we often found that such persons had large bank accounts and often were so wealthy that they were using their excess funds to go into legitimate businesses such as purchasing huge blocks of stock in railroads or hotel companies or, in one case, in a bank.

So we feel that this amendment, which will not in any way reduce the revenue, will help the Bureau of Internal Revenue to obtain increased amounts of revenue. The amendment simply provides that such persons whose gross income from illegal gambling is in excess of \$10,000 for any one of the previous 5 years shall, under oath, file a statement of net worth.

I think that explanation is sufficient. The amendment relates to gambling, of course.

Mr. KEFAUVER. Mr. President, will the Senator from Wyoming yield for a question?

Mr. HUNT. I yield.

Mr. KEFAUVER. Does not the Senator from Wyoming believe that if the internal revenue agents could obtain such statements of net worth, they would be able to make out cases against the racketeers and gangsters, instead of having to search the records for the last 25 or 30 years in an effort to build up statements of net worth on the part of such persons?

Mr. HUNT. That is correct. The Bureau of Internal Revenue will be helped by the adoption of this amendment, just as those of us on the special committee would have been helped in our work if we had been able to have such statements of net worth in the cases of such persons, instead of having to institute searches all over the United States in an effort to determine their actual assets.

Mr. MAGNUSON. Mr. President, will the Senator from Wyoming yield?

Mr. HUNT. I yield.

Mr. MAGNUSON. Why does not the Senator from Wyoming make the amendment apply to all illegal businesses, instead of only to gambling?

Mr. HUNT. The amendment does apply to all illegal businesses.

Mr. KERR. Mr. President, will the Senator from Wyoming yield for a question?

Mr. HUNT. Will the Senator permit me to make a short statement? We would appreciate it greatly, and I am sure it would help the Internal Revenue Bureau, if the distinguished chairman would take this amendment to conference, where we would hope that it might

be found desirable. I now yield to the Senator from Oklahoma.

Mr. KERR. Would the Senator be willing to limit his amendment to the taxable year? That would make it effective for this year and succeeding years.

Mr. HUNT. I believe I may say to the Senator that that is the situation now. The amendment proposed to this section, if adopted, would apply only to taxable years after the date of its enactment.

Mr. KERR. But it says "every individual who has, during the taxable year or during any of the 5 years preceding the taxable year."

Mr. KEFAUVER. Mr. President, if the Senator from Wyoming will yield—

Mr. HUNT. I yield to the Senator from Tennessee.

Mr. KEFAUVER. The reason it was stated in that way was that the statute of limitations for fraud would run in 6 years, and if in the past 5 years the person making the return had earned in any 1 year more than \$10,000 out of an illegal transaction, and if he should file a net-worth statement, this provision would assist agents who might be trying to make out a case of tax fraud against the gangster.

Mr. GEORGE. Mr. President, I would take this amendment to conference, although the Commissioner of Internal Revenue has full power to do now what the amendment provides, if it were limited to the 1 year; but I am unwilling to take it to conference if, relative to the preceding 5 years, the Treasury or the Commissioner of Internal Revenue says, "You earned \$10,000 in one of those years, or in two of them, or in three of them, and now you must file a net-worth statement." I want to say to the Senator that this is one of the most dangerous steps he has taken or that anyone has suggested, and it will prove itself to be an instrumentality which will make it altogether possible to persecute many citizens. But if the Senator will limit it to "every individual who has, during the taxable year, received gross income in excess of \$10,000," then I will accept it.

Mr. HUNT. I may say to the distinguished chairman that I believe there is so much value in this amendment, and I am so anxious that it go to conference, where I hope it will eventually be approved and will become the law of the land, that I am very glad and am very much pleased to accept the suggested amendment of the Senator from Georgia.

The VICE PRESIDENT. The Senator from Wyoming modifies his amendment accordingly.

Mr. GEORGE. I shall be pleased to take it to conference with that modification. We shall give it fair study.

Mr. HUNT. I request that the amendment be so modified.

The VICE PRESIDENT. The question is on agreeing to the amendment of the Senator from Tennessee [Mr. KEFAUVER], offered for himself and other Senators, as modified.

The amendment was agreed to.

Mr. O'CONOR. Mr. President, I desire to call up the amendment identified as "9-22-51-29," as modified.

The VICE PRESIDENT. The Secretary will state the amendment.

The CHIEF CLERK. At the proper place it is proposed to insert the following:

SEC. —. Illegal wagering.

(a) Disallowance of business expenses incurred in illegal wagering: (a) (relating to deductions from gross income) is amended by adding at the end thereof the following new paragraph:

"(3) Illegal wagering: No deduction shall be allowable to a taxpayer for any expense paid or incurred in or as a result of illegal wagering."

(c) Effective date: The amendments made by this section shall be applicable only with respect to taxable years ending after the date of enactment of this act.

Mr. O'CONOR. Mr. President, this amendment is a very simple one. It merely provides that no expense incurred in illegal wagering shall be allowed. In other words, it would make impossible a number of practices which have been shown to have existed in the past, whereby racketeers and gamblers have been permitted and are being permitted to deduct in their income-tax returns so-called expenses, which expenses have included protection of the gambling operations and other very questionable items under the heading of "expense."

I may say this amendment is approved by the American Bar Association. It has been given study as to its constitutionality and as to its legality, because it has been felt that the allowance of taxes by a taxpayer is a matter of legislative grace, and that any such item which has to do with a violation of the law in illegal wagering ought not to be permitted. In other words, the Government should not make possible the elimination from the gambler's returns of items which he lists as so-called expenses in the very act of law violation.

Mr. President, we think the amendment will materially add to the revenues of the Government and that it is not in such a category that, if enacted, it will cause a reduction, because now that this tax has virtually been voted as a result of the acceptance of the various provisions thus far, it is evident that a great additional amount of revenue may be expected. In fact, on estimates given on behalf of the committee, it will vary from approximately \$400,000 to \$2,000,000,000, as has been reported.

We think it all the more important that this amendment be adopted inasmuch as the Federal Government now is going into this question on a much broader scale. We think it will simplify rather than make more difficult the collection of the moneys needed. As a matter of fact, to give an indication of the scope of the work, there are, according to the recent statement of the Bureau of Internal Revenue, approximately 27,000 cases as of the end of July, of which approximately 19,000 have been referred to the racket squads, showing the great volume of questionable returns, of which number already 6,175 are under actual investigation, with a view to possible prosecution and increased assessments.

Because of this increased activity the Bureau of Internal Revenue is entitled to commendation and credit, under both Mr. George Schoeneman and his suc-

cessor, Mr. Dunlop. Assessments have been made in the aggregate of \$5,600,000. If the cases are to increase as a result of the tax or of the levy being made under this bill, we think it all the more important that questionable items, which involve really protection money, and which represent corruption in the form of payment by gamblers for the protection of their casinos and other places of operation, should not be allowed as deductions. For that reason I urge that this amendment be adopted.

Mr. GEORGE. Mr. President, this amendment is decidedly objectionable. What is the amendment? It deals with a tax on net income under section 23 (a), a deduction under section 23 (a), and the proposal is not to allow a deduction for a house or for a clerk or for the lawyer who drew the income tax return, if the earnings were illegal, or if they were realized in wagering transactions in violation of a State law, I believe it is said in the provision.

Mr. President, I think this is clearly an unconstitutional provision, regardless of who has given an opinion to the contrary, because the tax is not on the net income, and it is not only inequitable but it is not legal to tax the gross income; and this applies only to gross income. It is a question of net income. Yesterday we voted to impose a tax of 10 percent upon the gross take or gross earnings or gross income, as an excise tax. Persons are taxed 10 percent now if they are engaged in an illegal transaction. This amendment deals with a deduction under section 23 (a) of the code, which relates entirely to deductions from the gross income in order to arrive at the net taxable income.

Mr. KERR. Mr. President, will the Senator yield?

Mr. GEORGE. I yield.

Mr. KERR. Is not this amendment an attempt to impose a penalty for a wrongful act, rather than in the spirit of a tax on net income?

Mr. GEORGE. The Senator is entirely correct, and under the decisions of the Supreme Court it does not make any difference who says the contrary. If the real purpose is to punish an offense, it does not make any difference how it is to be done, it is unconstitutional, and that applies to this amendment. This amendment would prohibit a deduction from gross income in computing net income by saying, "You engage in some sort of illegal transaction, and we will not allow you deductions for necessary expenses incurred by you in making that income."

Mr. President, yesterday I submitted to the Senator from Tennessee, as the RECORD will show, when his first amendment was offered, the plain question whether or not he was offering all of these several amendments as a substitute for the committee amendment, and the answer was in the affirmative. Now the Senators are offering a series of amendments again.

Mr. President, these questions are matters to be decided by the Senators themselves, but so far as I am concerned, this proposal is clearly unconstitutional. Its main function is to punish a wrongdoer,

and that being so, it cannot be sustained as a revenue provision. I therefore am opposed to it.

Mr. KEFAUVER. Mr. President, will the Senator from Maryland yield me some time.

Mr. O'CONOR. Mr. President, I ask the Chair how much time there is remaining.

The VICE PRESIDENT. Ten minutes.

Mr. O'CONOR. I am very happy to yield to the Senator from Tennessee any portion of the 10 minutes he may desire.

Mr. KEFAUVER. Mr. President, perhaps the distinguished Senator from Georgia was not present when I made the statement which appears on page 12481 of the RECORD when I started my discussion yesterday. I stated:

If the substitute is rejected, it will be our intention to offer, first, an amendment to strike out the wagering section of the bill; and then we shall offer, one by one, the amendments which we have prepared, which will require—

Certain things which were included in the substitute. I made it very clear in the beginning what our intention would be if the substitute were rejected. Then after the vote I again stated that I was going to offer the amendments separately, that definite intention is found on page 12491 of the RECORD.

The distinguished Senator from Georgia bases his opinion that it is unconstitutional, undoubtedly, on the case of *United States v. Constantine* (296 U. S. 287) which was decided several years ago, in which there was a split decision of the Supreme Court. In that case a special levy imposing a special tax for liquor sold in a dry State was held unconstitutional by a majority of the court. But that is a different proposition from what is now before the Senate, and if the decision in that case has not been overruled by implication, the Supreme Court has adopted a different principle regarding the matter of allowance of deduction, because the Supreme Court has distinctly and definitely said, and I am sure there can be no real question about it, as is set forth in the case of *Deputy v. duPont* (308 U. S. 488):

But allowance of deductions from gross income does not turn on general equitable considerations. It "depends upon legislative grace; and only as there is clear provision therefore can any particular deduction be allowed." *New Colonial Ice Co., Inc. v. Helvering* (292 U. S. 435).

Recently in the Fourth Circuit Court of Appeals a deduction was claimed for kick-backs that were paid to an optical manufacturer, and the Fourth Circuit Court of Appeals said they could not be allowed because they were in contravention of public policy. The case is now before the Supreme Court on certiorari. This is the case of *Lilly v. Commissioner* (188 Fed. 2d 269).

Mr. President, in the case of *Humphreys against Commissioners*, a case which arose in the Court of Tax Appeals, a certiorari had been denied after the case went through the circuit court of appeals, see one hundred and thirty-fifth Federal second, 340. An individual who was engaged as a racketeer and bootlegger tried to get certain deductions for

gasoline, oil, garage, and service and depreciation of his automobile. The Commissioner even under the present general rule, held that those things were not deductible, and the Supreme Court denied certiorari in that case.

As a matter of fact, in the Defense Production Act and in the Wage Stabilization Act it is provided, and the courts have sustained the position, that if a person paid a salary in excess of what he could pay under the Wage Stabilization Act, he could not claim a tax deduction for the excess paid or for the legitimate amount paid; and that has been sustained by the courts in several States.

Mr. President, we had this matter fully briefed and went into it very thoroughly, and we have gone into the matter further since the point was raised by the Senator from Georgia. The position was sustained in the case involving an employers' group of motor freight carriers, Seventy-ninth United States Court of Appeals, page 105, and certiorari was denied as appears in Three Hundred and Twenty-third United States Reports, page 735. There are many State cases, including one from Georgia, found in Thirty-fourth South-eastern Reports, Second, page 563, sustaining these acts.

Mr. President, if the tax which is proposed in the bill remains in the measure, and apparently it will, it applies only to bookies, lotteries, and numbers runners. It does not apply to casinos, to roulette wheels, dice games, and all the other vicious forms of gambling. So the only thing such people are going to do is to get out of gambling and into other activities to which the law does not apply. Unless we can prevent them from charging off their expenses of operation, their good will, and many other items they have been getting by with, and cheating the United States Government out of millions of dollars, the Government will lose a great deal of revenue, and be defrauded by commercialized gambling, which is going to be on the increase in the line of casinos, roulette games, crap games, and all such things, which are not taxed by the pending bill.

Mr. President, we have consulted with eminent authorities, and they feel this is a constitutional provision. It is purely a matter of grace. It is a matter of what the legislature desires to allow the deduction to be. That is the result of the decisions.

I have referred to the case of United States against Constantine. That was a case in which Justice Stone, Justice Cardozo, and Justice Brandeis dissented, back in 1935, when the decision was handed down, sustaining the view we have defended. That case was on another point. We are not here levying different taxes in States where certain acts are illegal. The amendment here deals with deductions which are permitted not as a matter of right but by legislative grace only.

Mr. GEORGE. Mr. President, I do not rely upon that case at all. I rely upon the broad general principle that the tax laws must be uniform. We can-

not pick out one and make fish of him and another make fowl of him. If we are to tax citizens on their net incomes, then we cannot say to one man, "You can make your deduction," and to the other man, "You shall not have your deduction." It is so simple that I question whether any lawyer to whom the issue was put frankly and clearly would have any hesitancy in saying that there must be a uniform system in a revenue act.

Mr. President, what is the issue? The amendment does not propose a revenue provision. It provides a punishment to be visited on somebody for violating the law. Far beyond the last decision referred to by the Senator from Tennessee is the absolute requirement for uniformity in fixing the liability of citizens. We cannot distinguish between the citizens of the United States because one is white and one is black, one is red and one is yellow, one is playing cards and another selling liquor and another is plowing in the fields.

Mr. President, that is all that is involved. The provision violates the principle of uniformity, and it denies to citizens the equal protection of the law.

Mr. KEFAUVER. Mr. President, will the Senator yield for a question?

Mr. GEORGE. I yield.

Mr. KEFAUVER. Do we not already make a differentiation in that we do not allow the charge-off for something that is an illegal payment or something that is in general contravention of law?

Mr. GEORGE. Oh, certainly. If the Senator hired me to go out and kill John Jones, of course, I could not take off any of the expense for an illegal act which is not only against public policy, but constitutes a crime. But that is not the case here at all. It is simply a proposal as to what shall be done by certain individuals in arriving at their net taxable income.

Mr. KEFAUVER. Mr. President, will the Senator permit me to ask him one more question?

Mr. GEORGE. Yes.

Mr. KEFAUVER. If one cannot charge off a loss for an illegal act in carrying out a legitimate business, then should one be able to charge off as a loss the payment of a salary which is necessary for carrying out an illegal business, that is, if the business is illegal in its inception? Would not the same principle apply?

Mr. GEORGE. Yes; because it is just as plain as this. One man is entitled to the same deduction that every other man is given under the law in arriving at his net income. That is the principle involved. The Senator is wrong, his committee is wrong, and I am surprised at them, but I am willing to have a vote on the amendment.

Mr. O'CONOR. Mr. President, the Senator from Georgia expresses surprise over the fact that we propose the amendment. I wish to repeat that this specific proposal has been considered by the American Bar Association.

Mr. GEORGE. Will the Senator tell me by whom?

Mr. O'CONOR. By the standing committee.

Mr. GEORGE. By what committee?

Mr. O'CONOR. The American Bar Association Committee on Organized Crime, which committee, composed of Federal judges, of past presidents of the bar association, and of eminent counsel, has this very month made its report.

Mr. GEORGE. Has the Senator that report with him?

Mr. O'CONOR. Yes, I have, and if the Senator will permit me, I will read it.

Mr. GEORGE. The Senator can read it then in his own time.

Mr. O'CONOR. I shall try. I quote from the published report of September 1 of this year, this present month. It is the report of the American Bar Association Committee on Organized Crime to the American Bar Association. It refers to a specific Senate bill which has been introduced, and is pending, and it says that the bill would allow no deduction in computing net income for tax purposes for any expense paid as a result of illegal wagering.

At the present time—

Says the American Bar Association—there is nothing to prevent the expenses paid or incurred in the conduct of illegal gambling enterprises from being deducted from gross income for tax purposes.

* * * * *

The practice of permitting racketeers and criminals to deduct the operating expenses of illegitimate enterprises from their gross incomes for the purposes of taxation is thoroughly undesirable. If a man makes money out of crime, he should pay income taxes like everyone else. However, the tax should be paid on the "gross take" and not on the "take" minus expenses.

Mr. GEORGE. Mr. President—

Mr. O'CONOR. Permit me to finish.

Mr. GEORGE. I want to tell the Senator—

Mr. O'CONOR. I will not yield to the Senator, Mr. President. I am reading a statement, and I am entitled to continue.

Mr. GEORGE. Very well.

Mr. O'CONOR. I continue to read: Only too frequently these expenses include protection for law-enforcement officials.

I repeat that.

Only too frequently these expenses include protection for law-enforcement officials. Moreover, there is absolutely no way of checking the amount of such expenses.

Mr. GEORGE. Mr. President, is the time now being consumed being taken out of the time of the proponents?

Mr. O'CONOR. Mr. President, I am not yielding. I continue to read.

Only too frequently these "expenses" include protection for law-enforcement officials. Moreover there is absolutely no way of checking the amount of such expenses.

Mr. President, this question will have to go to the courts, possibly, but the courts have spoken on the matter already. We have decisions from the courts which in the final analysis must determine this question, which say that it is proper for the legislative branch of the Government to determine what are to be considered as deductions.

The Federal court, for example, in one case from which I read, said:

The power to tax income * * * is plain and extends to the gross income.

Whether and to what extent deductions shall be allowed depends upon legislative grace; and only if there is clear provision therefor can any particular deduction be allowed.

And again in another case the court has said:

To permit the violator to gain a tax advantage through deducting the amount of the penalty as a business expense, and thus to mitigate the degree of his punishment, would frustrate the purpose and effectiveness of that public policy.

Therefore, I suggest that the courts in this, and other decisions, have stated that it is proper for the legislative branch of the Government to determine what is to be allowed as deductible items, that protection money, graft, corruption, and other things of that kind which are now listed, may be included as deductible items and be allowed.

There is one case right here in Washington where a man in his income tax included as an annual item "Good will, \$10,000," and has been permitted to deduct that from his taxable income.

Mr. GEORGE. Mr. President, there is not any Federal law against ordinary gambling. A man who goes to Mexico and gambles may do so, so far as Federal punishment is concerned. Of course, if a man who pays graft or who does anything else in the commission of crime, wants to deduct such payment, he cannot do so. But all the Senator has said and all any of those referred to by the Senator from Maryland are able to say, if they understand the matter at all, and I think they probably do, is that it is a question of grace as to what deductions will be allowed. But whatever is allowed must be uniform. We have adopted the system of taxing the net income, and ordinary business expense is allowed to be deducted. It must be uniform. It cannot be denied to one person simply because we want to punish him and because we think that he is not living the right sort of a life, or because he actually is not living the right sort of life. That is all I have said, and that is all the law is, as I understand it. The whole principle of uniformity is violated by the proposed amendment. I therefore hope that the Senate will reject it.

The VICE PRESIDENT. The question is on agreeing to the amendment numbered 29 offered by the Senator from Tennessee [Mr. KEFAUVER], for himself and other Senators.

The amendment was rejected.

Mr. WILEY. Mr. President, I send to the desk a short amendment which I ask to have stated.

The VICE PRESIDENT. The amendment will be stated.

The LEGISLATIVE CLERK. It is proposed to insert at the proper place in the bill the following:

SEC. —. Subsection (a) (4) (D) of the Renogiation Act, as amended by section 201 (c) of the Renegotiation Act of 1951, is hereby amended by striking out "June 30, 1951," and inserting in lieu thereof "October 31, 1951."

Mr. WILEY. Mr. President, the chairman of the committee has kindly consented to take the amendment to con-

ference. I will take only 2 or 3 minutes to explain what it is. There are two corporations, one from Wisconsin and one from Detroit, which desire to file claims for renegotiation rebates. It will be remembered that the Renegotiation Act was passed in the early part of this year. It placed a limitation upon the time for filing claims as of June 30, 1951.

These particular corporations were examined by the Government, and because of the delayed audit and because of the failure to have the information as to the expiration date, they got their claims in after June 30. This amendment involves nothing more than granting equity to these corporations. It extends to October 31 of this year the period in which they shall be permitted to file their claims.

I ask unanimous consent that following my statement a brief memorandum analyzing this question, which memorandum was prepared by Mr. Stam, chief of the committee staff, be incorporated in the RECORD.

There being no objection, the memorandum was ordered to be printed in the RECORD, as follows:

SEPTEMBER 28, 1951.

Staff memorandum for Mr. Colin F. Stam, chief of staff.

Subject: Section 201 (c) of the Renegotiation Act of 1951: Expiration date for filing claims for rebate arising out of renegotiation settlements under the World War II renegotiation statute.

Reference is made to the attachments from Senator WILEY of this date.

Section 201 (c) of the Renegotiation Act of 1951 fixes the expiration date for the filing of claims for net renegotiation rebates arising under the World War II statute and reads as follows:

"(c) Amendment of the Renegotiation Act: Section (a) (4) (D) of the Renegotiation Act is amended by inserting at the end thereof the following: 'A net renegotiation rebate shall not be repaid unless a claim therefor has been filed with the Board on or before the date of its abolition, or unless a claim shall have been filed with the Administrator of General Services (i) on or before June 30, 1951, or (ii) within 90 days after the making of an agreement or the entry of an order under subsection (c) (1) determining the amount of excessive profits, whichever is later. A claim shall be deemed to have been filed when received by the Board or the Administrator, whether or not accompanied by a statement of the Commissioner of Internal Revenue showing the amortization deduction allowed for the renegotiated year upon the recomputation made pursuant to section 124 (d) of the Internal Revenue Code.'"

The National Rivet Manufacturing Co., Waupun, Wis., and the Detrex Corp., Detroit, Mich., request legislation opening up the statute of limitations for filing claims for net renegotiation rebates. It is represented that the claim originates under regulations governing amortization of war facilities, and that the claim and the amount was established in 1945; that the Government advised at that time that the claim could not be filed until such time as the field audit of the Federal tax returns for the years 1942, 1943, and 1944 had been completed; that the claim was held in abeyance pending completion of the field audit; that the audit was completed by the Treasury Department late in 1950; that, due to lack of sufficient publicity, section 201 (c) of the Renegotiation Act of 1951, approved March 23, 1951, did not come to their notice in time to permit preparation and filing of claim by the required date, June 30, 1951; and that claim was filed on August 18, 1951 and was rejected on August 20, 1951, covering the years 1942, 1943, and 1944.

not come to their notice in time to permit preparation and filing of claim by the required date, June 30, 1951; and that claim was filed on August 18, 1951, and was rejected on August 20, 1951, covering the years 1942, 1943, and 1944.

An attempt has been made by the parties to ascertain the volume of cases of a similar nature but no information appears in this respect. We have attempted to ascertain from the Government whether similar complaints have been presented but in the short time available have not been able to get proper data beyond the statement from one renegotiation official that he knew of no other complaints.

BRYANT C. BROWN.

Mr. CASE. Mr. President, will the Senator yield?

Mr. WILEY. I yield.

Mr. CASE. I should like to ask the distinguished Senator from Wisconsin whether the argument for his amendment is based upon the first suggestion or the latter. If the Government was late in computing its audit, it seems to me that that would be a valid reason. But if the situation was merely that these companies did not know the date, there would be no more justification in pleading for leniency for them than for any other company. The date could be extended indefinitely.

Mr. WILEY. The statute is general. I know of no other companies in the same situation.

Mr. CASE. Is it true that the audit was delayed until it was too late for them to file their claims?

Mr. WILEY. Let me read from the memorandum:

It is represented that the claim originates under regulations governing amortization of war facilities, and that the claim and the amount was established in 1945; that the Government advised at that time that the claim could not be filed until such time as the field audit of the Federal tax returns for the years 1942, 1943, and 1944 had been completed; that the claim was held in abeyance pending completion of the field audit; that the audit was completed by the Treasury Department late in 1950; that, due to lack of sufficient publicity, section 201 (c) of the Renegotiation Act of 1951, approved March 23, 1951, did not come to their notice in time to permit preparation and filing of claim by the required date, June 30, 1951; and that claim was filed on August 18, 1951 and was rejected on August 20, 1951, covering the years 1942, 1943, and 1944.

The Senator from Georgia [Mr. GEORGE] is willing to take the amendment to conference, and I appreciate his cooperation.

Mr. GEORGE. Mr. President, I am willing to take the amendment to conference, but it will have to be understood that we shall be free to examine it on its merits at that time, because it goes outside the tax bill for the consideration of a matter which is not exactly germane to what we are trying to do. I am willing to take it to conference.

The VICE PRESIDENT. The question is on agreeing to the amendment offered by the Senator from Wisconsin [Mr. WILEY].

The amendment was agreed to.

Mr. KEFAUVER. Mr. President, I call up my amendment designated 9-22-51-27, and offer it.

The VICE PRESIDENT. The amendment offered by the Senator from Tennessee will be stated.

The legislative clerk read the amendment offered by Mr. KEFAUVER (for himself, Mr. O'CONOR, Mr. HUNT, Mr. WILEY, and Mr. TOBEY), as follows:

At the proper place insert the following:

"SEC. —. Preservation of records.

"(a) Preservation of records: Section 54 (relating to records and special returns) is further amended by adding at the end thereof the following new subsection:

"(1) Preservation of records: Every person required to keep records pursuant to the provisions of this section or pursuant to regulations issued under the authority thereof shall retain such records for a period of 7 years after the time of the transactions to which they relate."

"(b) Effective date: The amendment made by this section shall be applicable only with respect to taxable years ending after the date of enactment of this act."

Mr. KEFAUVER. Mr. President, internal-revenue agents all over the country have told us that one reason they are not able to collect very large sums of revenue from racketeers and gangsters is that immediately after they give their auditor or bookkeeper the amounts they make, the records are gone. As a matter of fact, the only way we were able to get any records from racketeers and gangsters was if we happened to subpoena them and get at them before they knew our subpoena servers were coming, and before they could destroy their records. Their habit—and they do it brazenly—almost invariably is to throw away their records or burn them so that there are no records for the internal-revenue collector to find.

It is true that under the present statute the taxpayer is supposed to keep such records as the Commissioner shall determine. The Commissioner has some discretion in the matter, but the sad fact is that they have not been keeping such records. The Commissioner has not required them to keep records, or they have defied the Commissioner. No one has been successfully prosecuted for not keeping records.

This amendment merely provides that records shall be kept for 7 years. The fraud statute runs out after a period of 6 years, so after 7 years the records would be of no value to the internal-revenue collector. This amendment would work no hardship on the honest businessman or corporation, because they all keep their records anyway. It would be applicable only to the individual who is trying to evade the payment of tax by destroying his records. In my opinion this amendment would bring in many millions of dollars in revenue to the United States Government, and I hope it will be adopted.

The VICE PRESIDENT. The question is on agreeing to the amendment offered by the Senator from Tennessee [Mr. KEFAUVER].

Mr. GEORGE. Mr. President, it is wholly useless to write another statute into the law. The law already authorizes the Commissioner to require the keeping of records for any particular time he insists upon. This is merely writing something else into a tax bill

which will give us plenty of trouble anyway because of the length of the bill and the lateness of the period of the year. The bill must go to conference, and we must consider innumerable provisions which are already in the bill. I ask the Senate to reject the amendment.

The VICE PRESIDENT. The question is on agreeing to the amendment offered by the Senator from Tennessee [Mr. KEFAUVER] for himself and other Senators.

Mr. KEFAUVER. Mr. President, if I may be heard for just 1 minute further, in executive testimony Mr. Schoeneman, Mr. Oliphant, and Mr. Lynch, of the Internal Revenue Bureau, told us they felt that this amendment, definitely putting the racketeers on notice that they had to keep records for a certain number of years, and that they would be violating the law if they did not, would be of tremendous help to them. I think it would save a great deal of the time of the Internal Revenue agents, and would help in the enforcement of the income-tax laws against these individuals.

The VICE PRESIDENT. The question is on agreeing to the amendment offered by the Senator from Tennessee [Mr. KEFAUVER] for himself and other Senators. [Putting the question.]

Mr. KEFAUVER. I ask for a division.

On a division, the amendment was rejected.

Mr. KEFAUVER. Mr. President, I call up my amendment designated "9-22-51-25."

The VICE PRESIDENT. The amendment offered by the Senator from Tennessee will be stated.

Mr. KEFAUVER. Mr. President, I ask that the reading of the amendment be dispensed with, and that it be printed in the RECORD at this point.

The VICE PRESIDENT. Is there objection? The Chair hears none, and it is so ordered.

The amendment offered by Mr. KEFAUVER (for himself, Mr. O'CONOR, Mr. HUNT, Mr. WILEY, and Mr. TOBEY) is as follows:

At the proper place insert the following:

"SEC. —. Wagering houses.

"(a) Special records and returns: Section 54 (relating to records and special returns) is amended by adding at the end thereof the following new subsection:

"(g) Wagering houses.

"(1) Additional records: Every person liable to any tax imposed by this chapter who operates a wagering house shall file an annual return, which shall contain or be verified by a written declaration that it is made under the penalties of perjury, listing records of net daily gains and losses resulting from wagering transactions during the taxable year and shall, in addition to such other records as may be prescribed to be made under subsection (a), keep such records, render under oath such statements, make such other returns, and comply with such rules and regulations as the Secretary may from time to time prescribe.

"(2) Illegal wagering: Every person liable to any tax imposed by this chapter who operates a wagering house illegally shall, in addition to such other records as may be prescribed to be made under this chapter, keep records of every wagering transaction,

the amount wagered, the name and address of every person participating in the wagering transaction, and the date of such wagering transaction.

"(3) Inspection: All books and records of wagering houses shall be open to inspection at all times by agents of the Bureau of Internal Revenue upon identification and request.

"(4) Definition: As used in this subsection the term "wagering house" means any room, building, vehicle, vessel, or other place in which wagering transactions are carried on as a business.

"(5) Penalty: Any person required under this subsection, or required by law or regulation made under authority thereof, to make a return, keep any records, or supply any information, who willfully fails to make such return, keep such records, or supply such information, at the time or times required by law or regulations, shall, in addition to other penalties provided by law, be guilty of a felony and, upon conviction thereof, be fined not more than \$10,000, or imprisoned for not more than 2 years, or both, together with the costs of prosecution."

"(b) Effective date: The amendment made by this section shall be applicable only with respect to taxable years ending after the date of enactment of this act."

Mr. KEFAUVER. Mr. President, this amendment simply provides that in wagering houses which are legal the operator of the house must keep a record of his daily net gains and losses resulting from wagering, and that in illegal wagering houses they must keep a more detailed record showing the wagering transactions, and how much was won or lost. It provides that the books and records of the wagering house shall be open for inspection. There is a penalty for failure to comply of \$10,000 fine or imprisonment for not more than 2 years, or both. The provision would take effect after the date of enactment of this act.

As gambling houses operate, the illegal ones have a so-called bank account with which they start their operations. Let us say it is \$50,000. At the end of the business of the day someone takes the bank account and carries it away, or keeps it in his automobile, or takes it to his home. Then he is supposed to bring it back, or to bring back a part of it the next day. It is added to or subtracted from. After the season is over they take what they have in the bank account and figure up what they have made. They keep no books or records. There are no records of the transactions which have taken place. The result is that unquestionably, considering the amount of money which is involved in these transactions, they are defrauding the Government out of hundreds of millions of dollars a year.

Mr. President, we talk about amendments which will bring in revenue. This amendment will bring in more revenue than the provision which taxes gambling and gives it a quasi legal standing, and which, as we contend, would hurt local law enforcement.

The amount of money that goes through the hands of some of these operators is really stupendous. They may keep the bankrolls for four or five different operations and mix them all together; or keep the bankroll on gambling operations mixed in with their personal operations. This amendment re-

quires them to keep real records. The amendment will bring in some real revenue. I may say that the language of the first part of it, as it is applicable to legal gambling houses in Nevada, is not obnoxious to the Senator from Nevada.

The VICE PRESIDENT. The question is on agreeing to the amendment offered by the junior Senator from Tennessee.

Mr. GEORGE. Mr. President, I sincerely hope that the Senate will not adopt the amendment. There is not one requirement in the amendment which the Commissioner of Internal Revenue could meet. The only thing that might be said about this amendment is that it imposes a penalty of from 2 to 10 years in jail for not doing something. I do not believe there is any disposition to say whether that sort of penalty ought to be imposed for merely violating some regulation. That is what it says.

The VICE PRESIDENT. The question is on the amendment offered by the junior Senator from Tennessee [Mr. KEFAUVER] for himself and other Senators.

The amendment was rejected.

Mr. KEFAUVER. Mr. President, I offer my amendment "9-22-51-26."

The VICE PRESIDENT. The clerk will state the amendment.

The CHIEF CLERK. On page 251, beginning with line 4, it is proposed to strike out all through line 6 on page 259.

Mr. KEFAUVER. The amendment merely strikes out the wagering-tax section of the bill. I yield 8 minutes to the distinguished Senator from Mississippi [Mr. STENNIS].

Mr. GEORGE. Mr. President, is this the wagering tax on which we voted yesterday?

Mr. KEFAUVER. It is.

Mr. GEORGE. I make a point of order that this amendment is not in order. We voted on it yesterday. Precisely this amendment was offered yesterday, and it was rejected.

The VICE PRESIDENT. The Chair is advised by the Parliamentarian that this amendment merely strikes out the provision, whereas the other amendment struck it out and inserted something in lieu thereof.

Mr. GEORGE. What did it insert? The identical amendment which is offered now was offered yesterday. These amendments were offered en bloc, and they are now being offered one by one. Their proponents said they reserved the right to offer them, but they inserted nothing.

Mr. McFARLAND. Mr. President, a parliamentary inquiry.

The VICE PRESIDENT. The Senator will state it.

Mr. McFARLAND. The RECORD will show that the distinguished junior Senator from Tennessee asked permission to offer the amendments en bloc, and that he stated he would offer them separately, but we did not know that we were going to have the same amendments offered again. If we are to stay here and vote on every amendment five times, we will be here until 1 o'clock in the morning. This amendment has been voted on once. I plead with the junior Senator from Tennessee not to offer it

again. We voted it down yesterday. We will be here until midnight or later if Senators are to offer the same amendments over and over again. The Senator asked for unanimous consent to offer the other amendments en bloc; otherwise, he would not have been able to do it.

Mr. KEFAUVER. I did not ask unanimous consent to offer the other amendments en bloc. I offered an amendment to strike out this section and I offered a substitute of four amendments. I stated that if the substitute was voted down, I expected to offer the amendments one by one. The reason this is being done is that some Members of the Senate have told me that they would have voted for the amendment to merely strike out the section, but that some of the amendments which were included in the substitute were objectionable to them, and therefore they did not vote for the motion. I am doing exactly what I said I would do yesterday when the substitute was offered.

Mr. GEORGE. I will be compelled to suggest the absence of a quorum.

The VICE PRESIDENT. The Senator from Georgia made a point of order, and the Chair would like to make a ruling.

Mr. GEORGE. I made it in all good faith. It will be seen from the RECORD of yesterday, near the end of the proceedings; that I asked the junior Senator from Tennessee whether he wished to have all of his several amendments voted on en bloc. His answer was, "Yes." I have not looked at the RECORD, but I recall that that was said.

The VICE PRESIDENT. The Chair believes that the RECORD will show that the Senator from Tennessee moved to strike out this section, which he is now moving to strike out, but offered as a complete substitute for the language to be stricken out the four propositions which he is now offering ad seriatim. Therefore, the amendment merely to strike out is not identical with the amendments that were offered.

Therefore, the Chair feels compelled to overrule the motion.

Mr. STENNIS. Mr. President, I wish to support the amendment which would strike out part VI, wagering, beginning on 251, line 4.

From a financial standpoint and purely from a taxing standpoint a great many sound and logical arguments could be made in favor of part VI. From the standpoint of making operators engaged in this character of business pay their just share of the cost of running the Government and strictly from the standpoint of taxation, a great many sound arguments could be made.

However, the full import of this section is that the Federal Government is going into a new field of taxation. It is going into 47 States, where gambling is illegal. It is not seeking to do anything about restraining it, or regulating it, or eliminating it, or stopping it. It is just going into this field with an excise tax of 10 percent and saying, "We want 10 percent of each pot."

That is the effect of the first provision. It provides a 10-percent cut on all wagers in lotteries, bookmaking, and the num-

bers racket. The Government is going into 47 States. It is not attempting to pass any laws regulating the evils which have been shown to exist by the crime investigating committee. It is merely going into this field from the dollar-mark approach.

I repeat, Mr. President, that we are going into the 47 States on a financial basis alone.

Not only that but, according to page 255 of the bill, we are going to put a \$50 occupational tax on those engaged in these activities. Occupational tax on what? An occupational tax on an illegal business.

We talk about morality in Government; we talk about integrity in Government; and we talk about people having faith in Government; but a 20-year-old boy standing by sees the operation of one of these illegal gambling devices. It is against the State law, but he sees on the wall a Federal license. The law provides that the operator must post that license. It is so provided for on page 256. The boy sees the Federal license on the wall, allowing the gambling table to operate. He is told by the district attorney that it is illegal to operate a gambling table in the State. Mr. President, what do you think the boy's conception of integrity in government is? What do you think his conception of integrity and morality in government is, and what do you think his conception of consistency in government is, under such circumstances?

Such a provision, if enacted into law, will destroy faith in the sincerity of the whole governmental process. I know by experience as a prosecuting attorney and as a circuit judge that that is true.

Mr. SALTONSTALL. Mr. President, will the Senator yield?

Mr. STENNIS. Mr. President, I have only a few minutes in which to speak. I shall yield later, if I find that I have time to do so.

Mr. President, an examination of page 257 of the bill will disclose that by enacting that provision we shall seemingly recognize the validity of such enterprises, by means of issuing licenses to them, and no doubt the licenses will be placed on the walls of the establishments where the devices are found. I read from the bill, on page 257:

The payment of any tax imposed by this chapter with respect to any activity shall not exempt any person from any penalty provided by a law of the United States or of any State for engaging in the same activity, nor shall the payment of any such tax prohibit any State from placing a tax on the same activity for State or other purposes.

That provision of the bill indicates that it is recognized that under such circumstances there will arise in the mind of the average person the thought that if such an enterprise has a Federal license, it is legal for it to engage in that activity. What other concept would the average person have under such circumstances?

Mr. President, that is the way the jurors feel about these matters, and that is the way the man on the street and the man on the farm feel about them.

If we really wish to take honest action to stop gambling, we should pass laws

to stop gambling, and should not go into the business.

Let it be remembered that at the beginning of my remarks I said that from the point of view of taxation there is a great deal which can be said in favor of this provision of the bill. However, when we consider this proposal from the standpoint of sincerity of purpose and consistency of conduct on the part of the Federal Government and from the standpoint of keeping the Federal Government on a clean, high plane, to which the youth of the country can look for an example, it is obvious that such a provision would be one of the most degrading influences to which we could subject our people.

Mr. President, how much time have I remaining?

Mr. KEFAUVER. Mr. President, I yield to the Senator from Mississippi all the time available to me.

Mr. STENNIS. Mr. President, in my State a so-called black-market tax was enacted in regard to sales of liquor. Even the ministers joined in advocating that tax, because they were told that it would suppress the liquor business. However, the result was to tear down the moral fiber behind the State prohibition law.

Let me cite an example which came to my attention when I was serving as a State judge. Under a law somewhat similar to this provision of the bill, a representative of the State government collected an excise tax of 10 percent on the liquor sales which were made by an illegal liquor seller who had a place behind some oak trees. Before the tax collector left, the sheriff showed up with a search warrant, destroyed the rest of the liquor, and carried the liquor seller to jail. Mr. President, do you think the youth of that county had, in that incident, a very fair example of integrity and consistency in government, and of government on a high plane?

The situation depicted is somewhat similar to what the situation will be under this section of the bill. That is why I support the amendment to strike out the section. It is dirty. We cannot clean ourselves by going into business with those who are engaged in such illegal activities; but that is what we would be doing if we arranged for the Federal Government to collect as revenue 10 percent of their take.

Mr. SALTONSTALL. Mr. President, will the Senator yield?

Mr. STENNIS. I yield.

Mr. SALTONSTALL. Let us assume that a State by referendum turns down a proposal for a State lottery. Do I correctly understand that the bill as now written would permit, in such a State, a Federal license to be issued and to be hung on the wall of an establishment that might be conducting a lottery, and would permit the Federal Government to collect taxes from that business?

Mr. STENNIS. Absolutely so. I read further from the bill:

Sec. 8293. Posting.

Every person liable for special tax under this subchapter shall place and keep conspicuously in his principal place of business the stamp denoting the payment of such

special tax; except that if he has no such place of business he shall keep such stamp on his person, and exhibit it, upon request, to any officer or employee of the Bureau of Internal Revenue.

Mr. SALTONSTALL. Mr. President, will the Senator yield further?

Mr. STENNIS. I yield.

Mr. SALTONSTALL. My State has turned down a proposal for a State lottery. At the time I was Governor of the State, and I opposed the proposal for a State lottery.

However, this provision of the bill would mean that the Federal Government could issue a license to an establishment conducting a lottery, and that establishment could hang its Federal license on the wall, and the Federal Government would collect taxes on the business done by that establishment, even though the State had prohibited the operation of such a business.

Mr. STENNIS. Yes.

If we turn to the next page of the bill, we find a provision to the effect that the issuance of such a license by the Federal Government shall not be presumed as making such a business legal. What an example of integrity that is, Mr. President.

Mr. THYE. Mr. President, will the Senator from Mississippi yield to me?

Mr. STENNIS. I yield.

Mr. THYE. The Senator from Mississippi has made a most stirring protest against such a legislative proposal.

Let me say that the State of Minnesota passed a law outlawing slot machines. Yet only in the past few weeks I noted that the Federal Government had issued several hundred licenses authorizing the licensing of various types of penny machines and other coin machines or slot machines in the State of Minnesota.

Mr. STENNIS. The Federal Government did that?

Mr. THYE. Yes.

Mr. STENNIS. That is exactly following the pattern of this provision of the bill. In other words, under such an arrangement the Federal Government would issue licenses for gambling tables and dice tables, and the establishments housing them would be required to hang such licenses on the wall, and they would do so.

Mr. THYE. And that would be done even though the State of Minnesota has outlawed all such devices.

Mr. STENNIS. Absolutely.

Mr. THYE. By this provision of the bill, if it is enacted into law, the Congress would authorize such operations and would issue licenses to them.

Mr. STENNIS. Absolutely.

Mr. CASE. Mr. President, will the Senator from Mississippi yield to me?

Mr. STENNIS. I yield.

Mr. CASE. The Senator has referred to a point which I wish to make. It seems to me that if we are to be entirely consistent along the lines the Senator has argued, we shall be required to repeal the present tax on slot machines, for the situation to which other Senators have referred also exists in my State of South Dakota. Slot machines are illegal in South Dakota, but

slot machines in South Dakota are taxed by the Federal Government.

Mr. STENNIS. Of course the Federal Government cannot repeal a State law making slot machines illegal, and the Federal Government does not attempt to do so by means of this provision of the bill. Nevertheless, such a provision gives the appearance that the Federal Government is attempting to make slot machines legal and respectable.

Mr. CASE. My point is that we should also repeal the law levying a Federal tax on slot machines.

Mr. STENNIS. Absolutely. Such a law is a farce. In States where the sale of liquor is illegal, the Federal Government levies taxes on persons selling liquor, and issues to them licenses carrying the words "retail liquor dealer," and the Federal Government requires such persons to post or display those licenses.

Mr. GEORGE. Mr. President, the Senator is mistaken. The Federal Government simply requires them to pay a tax; that is all.

Mr. STENNIS. Mr. President, as a former prosecuting attorney, let me state that I have held such retail liquor licenses in my hand during the presentation of cases in court, and I have read such licenses to juries.

Mr. GEORGE. The Federal Government simply licensed them.

Mr. STENNIS. It gave them a license, so far as the Federal Government was concerned, and the license was marked "retail liquor dealer."

Mr. GEORGE. The Federal Government simply made such persons pay a tax.

Mr. STENNIS. Of course, this bill contains a further provision which says, in effect, "Provided further, however, that despite all the respectability we place upon you by this means, the issuing of this license shall not entitle you to violate a State law." What a lack of integrity, Mr. President.

Mr. O'CONOR. Mr. President, will the Senator from Mississippi yield to me?

Mr. STENNIS. I yield.

Mr. O'CONOR. Let me say that in our work on the Special Committee to Investigate Organized Crime in Interstate commerce, as we went about the country we found places where gambling was being tolerated and permitted openly, in violation of law; and some of the officials attempted to excuse themselves on the basis that the Federal Government had issued a permit, and that therefore the Federal Government must countenance and approve that activity.

Mr. STENNIS. That is the very thing the jurors told me after court. They said, "Listen: After all, the Federal Government has sold these fellows a license, and has recognized them to that extent." That is the feeling which creeps into the minds of people.

If we are sincere about wanting to prevent lotteries and numbers rackets and similar activities and all the things that go with them, we are going into the wrong door by this means—the door with a dollar mark over it. I submit that such a provision of law would seemingly indicate a great lack of integrity and lack

of consistency and lack of honesty on the part of the Federal Government, when it issued licenses to such concerns or establishments and actually required the licenses to be hung and displayed in a conspicuous place.

Mr. FERGUSON. Mr. President, will the Senator yield?

Mr. STENNIS. I yield.

Mr. FERGUSON. As the Senator from Mississippi has said, is it not unreasonable for the Federal Government to proceed in that way, thus apparently indicating to those engaged in such activities, "Your business is a totally legitimate one, so far as the Federal Government is concerned"?

Mr. STENNIS. Absolutely.

I wish to say that not one person has written to me about this matter, and I have not received a single letter about it. I am simply trying to be honest for my boy and other boys and other young people. They are the ones who would get such ideas from these things.

Mr. FERGUSON. In other words, by means of such a provision, after the Federal Government said, "This is an illegal business," in the next breath the Federal Government would be saying, in effect, "But Uncle Sam, in Washington, says you will be given a Federal license and will be allowed to pay a tax on this business"—thus giving the impression that the business is a legal one.

Mr. STENNIS. Absolutely. The greatest asset a gambler could have would be such a Federal license to pin on his wall.

Mr. GEORGE. Mr. President, if the Senator from Mississippi will read the bill, he will not become so excited about something which is not in the bill and is not in the law and never has been the law since the license cases were tried, immediately after the War Between the States. Nearly a book full of decisions were written by the Supreme Court then. The Court said, in effect, "If a person pays to the Federal Government a tax to sell liquor, he does not receive a permit to sell liquor, but he has simply squared himself with the taxing authority of the Federal Government."

However, the bill makes this matter reasonably clear. I read from the bill: SEC. 8297. Applicability of Federal and State laws.

The payment of any tax imposed by this chapter with respect to any activity shall not exempt any person from any penalty provided by a law of the United States or of any State for engaging in the same activity, nor shall the payment of any such tax prohibit any State from placing a tax on the same activity for State or other purposes.

Mr. STENNIS. Mr. President, will the Senator yield for one short question?

Mr. GEORGE. I yield, but I do not have much time.

Mr. STENNIS. I appreciate that. I quoted that same provision, but I ask the question, Does the Senator think the man in the street or the man who goes to these places and sees that tax notice will know about this law, or, much less, will read it or get his impression from the law?

Mr. GEORGE. Yes; I think so. I think the man in the street has a great deal more sense than we give him credit for having.

I want to say one word about the license tax. The Senator calls it a license tax for selling liquor. I was district attorney and I was district judge, and I served on the reviewing courts of my State, and I convicted not one but many men because I was able to go to the Bureau of Internal Revenue to find that John Smith or Bill Jones or Jack White had paid for a liquor license. It was formerly \$25. It has gone up. It used to be \$25 back in those days.

Mr. HUNT. It still is.

Mr. GEORGE. I thought it was more than \$25. Everything else has gone up, and I thought it had.

Mr. KERR. It is being raised in this bill.

Mr. GEORGE. At any rate, I obtained that information from the Federal Government, and then the sheriff had to go and take the man into custody, when he had some other evidence that he was selling liquor. The fact that he had this license for which he paid the Federal Government was no defense to him whatever, but on the contrary rather hurt his case.

Mr. SALTONSTALL. Mr. President, will the Senator yield for a question?

Mr. GEORGE. I yield, though I do not have much time.

Mr. SALTONSTALL. I find it necessary to leave the Senate Chamber briefly. Does the Senator agree with what the Senator from Mississippi said, that in a State where a proposal for a State lottery has been rejected on a referendum of all the people, a man who wanted to conduct such a lottery or a bookie establishment, should put a license on the wall, so to speak, from the Federal Government and pay a Federal tax to the Federal Government on the lottery business, even though the State by a referendum of its people had made the lottery illegal?

Mr. GEORGE. It would not be a license. It would be a mere receipt for a tax, if the Government issued it. The Government issues licenses for liquor sales in every State of this Union, and has done so ever since the War Between the States, and before. It is not at all new.

Mr. SALTONSTALL. This bill would be adding gaming, and numbers pools, and things of that kind would it not?

Mr. GEORGE. If a person is required to get a license for gaming from the Federal Government, he would be able to say, "I paid my Federal tax," that is all, and there would be certainty of the collection of the tax.

Mr. President, I now want to go into the record of the facts. I do not wish to be discourteous, but yesterday, after a long, hard day, as appears by page 12487 of the CONGRESSIONAL RECORD of September 27, I asked the Senator from Tennessee certain questions to which he replied as appears in the following colloquy:

Mr. GEORGE. Mr. President, do I understand correctly that the vote will be on all the amendments which the junior Senator

from Tennessee has submitted, or only on the motion to strike out?

Mr. KEFAUVER. No, Mr. President; I say to the Senator that the motion is to strike out this portion of the bill and to insert as a substitute the four amendments I propose.

Mr. GEORGE. I understand that the vote will be taken on all of that, together.

Mr. KEFAUVER. Yes.

Now, Mr. President—

Mr. KEFAUVER. Mr. President—

Mr. GEORGE. No, no; I am not going to yield to the Senator until I finish this statement. That colloquy occurred long after the Senator's opening statement. But immediately before the vote was taken, as shown by page 12491 of the RECORD of yesterday, this occurred:

Mr. MCCARRAN. Is the Senator from Tennessee offering all his amendments en bloc?

Let me repeat it:

Mr. MCCARRAN. Is the Senator from Tennessee offering all his amendments en bloc?

Mr. KEFAUVER. That is correct; to strike out the wagering part in the bill before us, and to offer en bloc these four amendments which have been discussed.

Mr. MCCARRAN. There were five amendments offered, and there was one amendment which the Senator from Nevada made quite a study of, and with respect to which he suggested certain changes.

Mr. KEFAUVER. They have been made.

Mr. MCCARRAN. Is that the amendment the Senator is now offering?

Mr. KEFAUVER. Yes.

Mr. President, we had a vote on this very question yesterday. I do not know whether the distinguished Senator from Mississippi was present or not.

Mr. STENNIS. I was not.

Mr. GEORGE. We had a vote on this question yesterday. We had a vote upon these several amendments yesterday, as I have read from the RECORD, and we are now asked to repeat it.

Mr. KEFAUVER. Mr. President, since the Senator has quoted what I said, I think it should be made clear. Will the Senator yield for a question? Did I not state in the beginning of my speech—

Mr. GEORGE. Yes, Mr. President, he did. But I asked what I have read before the vote was taken, and the Senator from Nevada asked his question before the vote was taken, and it was on that basis that the vote was taken. I am not now saying that the Senator may not take advantage—he may—but I hesitate to think that the Senator would do it in the face of the record.

Mr. KEFAUVER. Mr. President, will the Senator yield?

The VICE PRESIDENT. Does the Senator from Georgia yield to the Senator from Tennessee?

Mr. KEFAUVER. I certainly have no intention of trying to take advantage of anyone. I am merely doing exactly what I said in the beginning I was going to do, and I think I have done it.

Mr. GEORGE. Mr. President, what the Senator said in the beginning was one thing. What he said on the pages from which I have read, which was immediately before the vote came, when I was making the very specific inquiry, was an altogether different thing.

Mr. President, I do not yield further, because I want to yield time on this

amendment to the distinguished Senator from Oklahoma first.

Mr. KERR. Mr. President, I believe that my distinguished friend from Mississippi did vote on this amendment.

Mr. STENNIS. I was not present during the argument.

Mr. KERR. That is correct.

Mr. STENNIS. If the Senator will yield, I got the facts during the roll call and changed my vote.

Mr. KERR. Yes. I desire to say I am greatly impressed by what my great friend from Mississippi has said. There is no Senator in this body for whom I have a higher respect and regard. I find, however, I cannot agree with his deductions. I believe there is a little different situation in Mississippi from that which exists in some States, because in Mississippi there is a constitutional prohibition against the sale of liquor. There is at least a law against the sale of liquor. I had understood it was in the State constitution, but am I correct in saying it is a statute of the State?

Mr. STENNIS. That is correct.

Mr. KERR. Then in the State of Mississippi there is a statutory prohibition against the sale of liquor, and at one and the same time there is a State licensing law placing an excise tax on the sale of liquor. Am I correct in that statement?

Mr. STENNIS. A "black market" tax; yes.

Mr. KERR. It is a tax levied by the legislature of the State of Mississippi on the sale of liquor in the State, is it not?

Mr. STENNIS. It is a so-called black-market tax, a 10-percent excise tax on all illegal sales. It was proposed during World War II when the black market was a stigma in connection with nearly everything.

Mr. KERR. But it is a statute of the State levying an excise tax on the sale of liquor.

Mr. STENNIS. Yes.

Mr. KERR. That is an entirely different situation—

Mr. STENNIS. Mr. President, will the Senator yield?

Mr. KERR. Let me finish my statement, and then I shall yield.

It is an entirely different situation from one where the Federal Government applies a tax upon a prohibited act. It is an entirely different situation where the same sovereign power has one statutory prohibition against the sale of liquor and another statutory provision levying an excise tax on an article which the other statute prohibits being sold.

Mr. STENNIS. Mr. President, will the Senator yield now for a brief question?

Mr. KERR. Yes.

Mr. STENNIS. Where is there a difference in political morality or political integrity, or where is there a difference in the consistency or inconsistency of the idea?

Mr. KERR. There is this difference: The Federal Government cannot be prevented from levying a tax upon the sale of that which it has not declared illegal, merely because a State has declared it illegal. The Federal Government does not issue a license to violate a State law. In every State in the Union, I believe, certainly in most of them, there are

local-option counties, and in many States where there is local option there are counties in which prohibition prevails. But the Federal Government says that anyone who sells liquor anywhere in the United States must pay a license fee, and it collects a license fee from them. It does not give them a license to violate a State law. In fact, it identifies them, and any local official who wants to prosecute them has a plea of guilty from them.

The Federal Government charges a license fee to those who are licensed to sell opium. It is legal to sell it in many places, and the Federal Government collects a license fee. It can be found in a drug store, and the druggist is licensed to sell it on the prescription of a physician. At the same time there is a law against selling it without such prescription.

Mr. President, whoever underestimates the intelligence of the American people makes a mistake. They know what is going on as well as we know. I live in a prohibition State, and I want to say that in those counties where the officials want to enforce the prohibition law they do so, although there are some persons who have paid a Federal tax on the basis of the Federal law, which they would have to pay in order to sell the liquor. When they do, Mr. President, the people there know them, and if they do not like the local officers, they run them out of office and elect some whom they do like.

The VICE PRESIDENT. The time of the Senator from Oklahoma has expired.

Mr. KEFAUVER. Mr. President, how much time do I have remaining?

The VICE PRESIDENT. The Senator has 2 minutes remaining.

Mr. KEFAUVER. I yield a minute to the Senator from Mississippi.

Mr. STENNIS. Mr. President, this is not a question to be decided on the basis of a prohibition law; and the license to sell liquor was used solely as an illustration.

Another thing that might have been said when this kindred matter was previously before us was with reference to the morality of it, the integrity of it, and the effect it will have on our people in States where the practices are illegal.

A license to sell opium covers registration. As the Senator has said, opiates are legally sold on a physician's prescription. There is merely a \$6 license for a whole year.

The VICE PRESIDENT. The time of the Senator from Mississippi has expired.

Mr. KEFAUVER. Mr. President, I regret that the Senator from Georgia has seen fit to take me to task for offering this amendment. I never had any other intention than to offer it, and I said so in the beginning. Maybe I did not understand the legal technicalities—

Mr. GEORGE. Mr. President, I think the time for debate has expired.

The VICE PRESIDENT. The Senator from Tennessee has 1 minute, or he did have when he started.

Mr. KEFAUVER. Mr. President, I said I was offering a motion to strike out and was offering the other amendments en bloc. Many Senators may have voted against the motion to strike out

because they do not like the substitute. There was no other intention on my part except to offer the amendments one by one, as I stated.

Immediately after the vote was taken yesterday the following colloquy occurred, which showed my intention:

Mr. KEFAUVER. Mr. President, I wish to offer some individual amendments, if we are to continue in session this evening.

Mr. GEORGE. Mr. President, I understood that the junior Senator from Tennessee had offered his series of amendments by way of a substitute for the bill. I asked him that specific question, and it was so understood.

Mr. McFARLAND. Mr. President, a point of order.

Mr. GEORGE. May I first clear up this matter?

Mr. McFARLAND. The Senator from Tennessee is out of order.

Mr. GEORGE. I thought so.

Mr. KEFAUVER. I stated during the course of the argument that I was offering an amendment to strike out the section in the bill, and these four amendments as substitutes.

Mr. GEORGE. That was my understanding. I asked the Senator if they should be voted on en bloc.

Mr. KEFAUVER. However, I stated that if the request were not agreed to I expected to offer the amendments singly.

Therefore, I stated my intention in the beginning, during the debate, and immediately, following the vote.

There was not any change of opinion as to what I was going to do. The clear issue is whether a State by its action is going to sanction something that is in violation of the laws of the State—

The VICE PRESIDENT. The time of the Senator has expired.

Mr. GEORGE. The regular order, Mr. President.

The VICE PRESIDENT. The question is on agreeing to the amendment offered by the Senator from Tennessee [Mr. KEFAUVER]. (Putting the question).

Mr. KEFAUVER. I ask for a division, Mr. President.

On a division, the amendment was rejected.

Mr. KEFAUVER. A parliamentary inquiry.

The VICE PRESIDENT. The Senator will state it.

Mr. KEFAUVER. May I ask for the yeas and nays?

The VICE PRESIDENT. Not now.

Mr. HENNINGS. Mr. President, I desire to call up at this time my amendment "9-27-51-B."

The VICE PRESIDENT. The clerk will state the amendment offered by the Senator from Missouri.

The CHIEF CLERK. At the proper place in the bill it is proposed to insert the following:

SEC. —. Tax refunds on spirits lost in floods of 1951.

(a) Authorization: The Secretary of the Treasury is authorized and directed to make refund or allow credit in the case of a distiller or rectifier if he so elects, in the amount of the internal-revenue tax and customs duties paid on spirits previously withdrawn, and lost, or rendered unmarketable, by reason of the floods of 1951 while such spirits were in the possession of (1) the person originally paying such tax or such tax and duty on such spirits, (2) a rectifier for rectification or for bottling, or which have been used

in the process of rectification, under Government supervision as provided by law and regulations, or (3) a wholesale or retail liquor dealer, all hereafter referred to as the possessor or possessors. The refunds and credits authorized by this section may be made to (1) any of the possessors, except a retail liquor dealer, or (2) to any distiller, rectifier, importer, or wholesale liquor dealer who replaced for the possessor the full equivalent of the distilled spirits so destroyed or rendered unmarketable, without compensation, remuneration, payment, or credit of any kind in respect of the tax, or tax and duty on such distilled spirits. A claim for the amount of such tax, or such tax and duty, shall be filed with the Secretary of the Treasury within 90 days from the date of enactment of this act. The claimant shall furnish proof to the Secretary's satisfaction that (1) the internal-revenue tax on such spirits, or the tax and duty if imported, was fully paid, (2) such spirits were lost, or rendered unmarketable, by reason of damage sustained as the result of the aforesaid flood conditions, (3) claimant was not indemnified by any valid claim of insurance or otherwise against loss of the tax (or tax and duty if imported) paid on the spirits, and (4) in those cases where applicable, that the claimant has replaced for the possessor the full equivalent of the distilled spirits so destroyed or rendered unmarketable, without compensation, remuneration, payment, or credit of any kind in respect of the tax, or tax and duty, on such distilled spirits.

(b) Destruction of spirits: When the Secretary, pursuant to this section, makes refund, or allows credit, in the amount of the tax, or tax and duty, on spirits rendered unmarketable, such spirits shall be destroyed under the supervision of the Secretary.

(c) Credit: Where credit is allowed to a distiller or rectifier for the internal-revenue tax previously paid as aforesaid, the Secretary is authorized and directed to provide for the issuance of stamps to cover the tax on spirits subsequently withdrawn or rectified to the extent of the credit so allowed.

(d) Regulations: The Secretary is authorized to make such rules and regulations as may be necessary to carry out the provisions of this section.

Mr. HENNINGS. I might say at the outset, Mr. President, that my statement will be very brief. The chairman of the committee has very graciously consented to take this amendment to conference—

Mr. GEORGE. Mr. President, will the Senator yield?

Mr. HENNINGS. I am very happy to yield to the distinguished chairman of the Finance Committee.

Mr. GEORGE. Mr. President, I have given careful attention to this amendment. A similar amendment was enacted into law about a year ago. All the amendment does is to refund the tax paid on liquors which were lost in the recent floods.

Mr. HENNINGS. In the floods in the Missouri and Kansas areas. The Senator is quite correct.

Mr. GEORGE. It is restricted as to time, and so forth. The committee would have no objection to taking the amendment to conference.

The VICE PRESIDENT. The question is on agreeing to the amendment offered by the Senator from Missouri [Mr. HENNINGS].

The amendment was agreed to.

Mr. CONNALLY. Mr. President, on behalf of the Senator from Texas [Mr. JOHNSON] and myself I submit an

amendment which I hope will be taken to conference.

The VICE PRESIDENT. The amendment will be stated for the information of the Senate.

Mr. GEORGE. Mr. President, it is an amendment which has very close relationship to an amendment which has already been ordered to conference, relating to educational institutions having a period of grace in which they might conform to the present law; but this amendment, as I understand, gives the same privilege to other organizations, colleges, and universities. Since we have a similar question in conference, if it is agreeable to the Senate, we will take this amendment to conference.

Mr. McCARRAN. Mr. President, can we not have the amendment read.

The VICE PRESIDENT. The amendment will be stated.

The LEGISLATIVE CLERK. On page 221, after line 23, it is proposed to insert the following:

SEC. 344. Business carried on by tax-exempt organization.

(a) Treatment as related trade or business: Section 422 (b) (relating to definition of unrelated trade or business) is hereby amended by adding at the end thereof the following: "If a business carried on by an educational organization described in section 54 (f) (2) is, during the taxable year, without regard to this sentence, an unrelated trade or business, such business shall not be considered an unrelated trade or business for a taxable year beginning prior to January 1, 1954.

(b) Effective date: The amendment made by this section shall be applicable with respect to taxable years beginning after December 31, 1950, and prior to January 1, 1954.

The VICE PRESIDENT. The question is on agreeing to the amendment offered by the Senator from Texas [Mr. CONNALLY] for himself and his colleague [Mr. JOHNSON] of Texas.

The amendment was agreed to.

The VICE PRESIDENT. The bill is open to further amendment.

Mr. JOHNSTON of South Carolina. Mr. President, I send to the desk an amendment designated 9-20-51-G.

The VICE PRESIDENT. The amendment will be stated.

The LEGISLATIVE CLERK. At the proper place in the bill it is proposed to insert the following:

SEC.—. Interest on United States bonds held by individuals.

(a) Exclusion from gross income of certain interest: Section 22 (b) (relating to exclusions from gross income) is hereby amended by adding at the end thereof a new paragraph as follows:

"(16) Certain interest on United States bonds: In the case of an individual, one-half of the amount of interest received or accrued during the taxable year on obligations of the United States, to the extent such interest is attributable to not in excess of \$5,000 of such obligations (face or maturity value, whichever is higher) owned by the taxpayer which mature in any one calendar year."

(b) Effective date: The amendment made by subsection (a) shall be applicable only with respect to taxable years beginning after December 31, 1950.

Mr. JOHNSTON of South Carolina. Mr. President, I first commend the peo-

ple of the United States for having bought Government bonds. I am offering the amendment in order that individuals will in the future continue to buy bonds.

Mr. President, I wish to give the Senate a concrete illustration with respect to the purchase of Government bonds. I know an individual in Columbia, S. C., who bought \$5,000 of E bonds. He paid \$3,750 for them. That same person made a down payment of \$3,750 on a little duplex costing \$10,000. The rent from that duplex has up to date paid the remaining \$6,250 owing on the duplex. Instead of being worth \$10,000, that duplex is today worth \$20,000. The bonds which were bought in 1943 cannot be cashed in for their full value until 1953. The purchaser will then receive only \$5,000.

Mr. President, I commend those individuals who bought Government bonds. But when they start paying taxes on the interest we shall find that some of them will stop buying Government bonds. We might just as well face the facts. When the Government makes a bondholder pay tax on \$1,250, as in the case of the bondholder I have just described, then we will hear of people beginning to cash in their bonds; we will hear of people refusing to buy bonds; we will hear of people making other investments.

My amendment does not relieve a bondholder, for example, of paying taxes on the \$1,250; it simply relieves him from paying taxes on 50 percent of that amount. That is, he would pay taxes on \$625. Why do I do that? Because the same individual, who bought the property, is given the right by the Government to treat his gain on that property as a capital gain. If he sells the property for \$20,000, he pays a tax only on 25 percent of his gain.

Let us see what the bond will really be worth in money, when we speak of \$5,000. Has he actually made anything on the investment? No, it will be found that because of the fact that the Government has seen fit to spend and spend, the dollar is worth only approximately 54 cents. So he is being taxed on something he is not receiving. I think we should begin to think about what we will do to encourage people to buy Government bonds. My amendment gives them just a little encouragement along the way.

I do not want to hold the Senate. I do not want to discuss the amendment in detail. I see that Members are anxious to get away. But I plead with Senators to do something to encourage people to continue to buy Government bonds in the future. I am not worrying about the Government if the individual citizens hold its bonds. They are paying the taxes. That is not quite so bad. But if we force the situation to the point where none but corporations buy Government bonds then we shall be faced with something different. I hope the Senate will consider the amendment seriously and do what it thinks is best for the United States.

Mr. GREEN. Mr. President, will the Senator yield for a question?

Mr. JOHNSTON of South Carolina. Yes.

Mr. GREEN. Does the Senator mean to imply that any investment that a purchaser might have put his money into would be doubled in 10 years?

Mr. JOHNSTON of South Carolina. I will say that during the last 10 years, because of the depreciation of the dollar, most every person who bought any property, real estate, has doubled his money.

Mr. GREEN. We are talking about the future and not the past.

Mr. JOHNSTON of South Carolina. We can only judge the future by the past. If we continue to spend and build up a debt, I think anyone who studies finance will tell us that the dollar will depreciate.

Mr. GREEN. Is the Senator making an argument in favor of future investors putting their money into duplex apartments rather than United States bonds?

Mr. JOHNSTON of South Carolina. I am making a talk to encourage people in the future even to sacrifice in order to buy Government bonds, but in order to induce them to buy them, I think we ought to offer some incentive.

Mr. GREEN. Would the Senator be willing to guarantee to prospective purchasers that their money would double in value if they put it in private investments, and is he saying that it would be better for them to do so rather than to put it into United States Government bonds, with the entire credit of the United States Government behind such bonds?

Mr. JOHNSTON of South Carolina. The Senator from Rhode Island ought to know more about finances than I do. But if I knew exactly what was going to happen in this country I could be a millionaire some day, like the Senator from Rhode Island.

Mr. GREEN. Is that the only answer the Senator has to make? I have in mind the prospective purchaser of United States bonds. I would hesitate to recommend that he put his money into the average private investments in preference to United States bonds. I believe that the credit of the United States Government behind those bonds should not be left out of account in comparison with the credit behind privately issued bonds.

Mr. JOHNSTON of South Carolina. I was hoping that no one would bring up the question as to whether or not it was a good investment to buy bonds. Anyone who knows anything about finances knows that to buy Government bonds is a bad investment, so far as finances are concerned.

Mr. GREEN. Was it not the Senator himself who brought up the subject?

Mr. JOHNSTON of South Carolina. I brought up the point that we ought to encourage the people, as much as possible, to buy them. I stated in the beginning that I wanted to commend the people for sacrificing and buying bonds in order that we could carry on a war.

Mr. GREEN. The Senator's argument was in favor of selling the bonds. I am afraid I cannot agree with him.

The VICE PRESIDENT. The question is on agreeing to the amendment offered by the Senator from South Carolina [Mr. JOHNSTON].

Mr. GEORGE. Mr. President, I dislike to oppose this amendment, but I am obliged to do so. It raises the same old question of whether or not we are going to have half or partially tax-exempt bonds, or whether we are going to tax them all.

It will be noted that the amendment itself provides that a taxpayer may have tax free one-half the interest on \$5,000 worth of bonds maturing in any one year. So over a period of 20 years a taxpayer could accumulate \$100,000 in bonds, and he would pay taxes on one-half the interest on the \$100,000 involved. The little fellows would hardly get much benefit from this amendment, but the big boys would certainly have a tax-exempt security again, which they would like to have.

I hope the Senate will not accept the amendment.

The VICE PRESIDENT. The question is on agreeing to the amendment offered by the Senator from South Carolina [Mr. JOHNSTON].

The amendment was rejected.

The VICE PRESIDENT. The bill is open to amendment.

Mr. JENNER. Mr. President, I offer an amendment which I send to the desk and ask to have stated.

Mr. GEORGE. Mr. President, will the Senator from Indiana withhold his amendment for a moment?

Mr. JENNER. Certainly.

Mr. GEORGE. Both the Senator from Indiana and the Senator from Arkansas [Mr. McCLELLAN] will be recognized. I shall be glad to yield to either Senator as soon as I finish certain formal matters.

The VICE PRESIDENT. The Senator from Georgia is recognized.

Mr. GEORGE. Mr. President, I offer the amendment which I send to the desk and ask to have stated.

The VICE PRESIDENT. The amendment offered by the Senator from Georgia will be stated.

The LEGISLATIVE CLERK. On page 221, after line 23, it is proposed to insert the following:

SEC. 344. Nondistributable income of personal holding companies.

Effective for taxable years beginning after December 31, 1939, section 504 is hereby amended by adding at the end thereof the following new subsection:

"(e) The amount by which the undistributed subchapter A net income determined without reference to this subsection exceeds the amount which could be distributed on the last day of the taxable year as a dividend (1) without violating any action, regulation, rule, order or proclamation taken, promulgated, made or issued by, or pursuant to the direction of, the President or any agency that he may designate, under the Trading With the Enemy Act of October 16, 1917, as amended, or the First War Powers Act of 1941, and (2) not subject to a lien in favor of the United States."

Mr. GEORGE. Mr. President, this amendment was considered by the Finance Committee in executive hearings. This proposal was, in fact, approved to the extent covered in the amendment.

I was surprised, and I am sure other members of the committee were surprised, that this amendment did not appear in the bill. It applies only to the

section 102 tax, the penalty tax. It relieves against the penalty tax only because the funds of the company were seized by the Government, by the Alien Property Custodian, and held. Of course the holding company could not pay out its earnings under those circumstances.

I ask that the amendment be approved.

The VICE PRESIDENT. The question is on agreeing to the amendment offered by the Senator from Georgia [Mr. GEORGE].

The amendment was agreed to.

Mr. GEORGE. Mr. President, I send to the desk an amendment proposing certain clerical corrections. They do not change any of the substance of the bill, or any of the provisions of the bill. They are purely clerical changes.

The VICE PRESIDENT. Without objection the amendments will be printed in the Record at this point, and considered en bloc.

The amendments, en bloc, are as follows:

Page 45, insert at the end of line 22 the following: "In the case of taxable years beginning after March 31, 1951, and before January 1, 1954."

Page 46, line 2, strike out "net income" and insert "net income."

Page 135, line 17, insert a comma after the word "or."

Page 166, line 25, strike out "section" and insert "sections."

Page 172, line 6, strike out "sentence" and insert "sentences."

Page 226, line 21, strike out "inure" and insert "inures."

Page 234, line 12, strike out "barbershop" and insert "barber shop."

Page 276, line 13, strike out "stock refund" and insert "stocks refunds on gasoline."

Page 288, line 16, strike out "In" and insert "in."

Page 290, line 22, insert after the word "the" the following: "excess of the."

Page 290, line 24, strike out "Four" and insert: "Five."

Page 309, line 6, strike out "subsection" and insert "subsections."

Page 309, line 23, strike out "average of the."

Page 310, line 3, strike out "(a)" and insert "(b)."

Page 311, line 5, strike out "average of the aggregate" and insert "aggregate of the."

Page 315, line 12, strike out "(b)."

Page 323, line 14, insert after the word "base" the following: "period."

Page 330, line 1, strike out "(c)" and insert "(a)."

Page 343, line 13, strike out "inure" and insert "inures."

The VICE PRESIDENT. The question is on agreeing en bloc to the amendments offered by the Senator from Georgia [Mr. GEORGE].

The amendments were agreed to.

Mr. GEORGE. Mr. President, I now yield to either the Senator from Arkansas [Mr. McCLELLAN] or the Senator from Indiana [Mr. JENNER], if either Senator wishes to be recognized at this time.

The VICE PRESIDENT. Has the Senator from Georgia concluded?

Mr. GEORGE. Yes.

Mr. JENNER. Mr. President, I offer the amendment, which I send to the desk and ask to have stated.

The VICE PRESIDENT. The amendment offered by the Senator from Indiana will be stated.

The LEGISLATIVE CLERK. At the proper place in the bill it is proposed to insert the following:

SEC. —. Prohibition upon denial of Social Security Act funds.

No State or any agency or political subdivision thereof shall be deprived of any grant in aid or other payment to which it otherwise is or has become entitled pursuant to title I, IV, X, or XIV of the Social Security Act, as amended, by reason of the enactment or enforcement by such State of any legislation prescribing any conditions under which public access may be had to records of the disbursement of any such funds or payments within such State.

Mr. JENNER. Mr. President, I do not care to detain the Senate on this question. The Senate is thoroughly familiar with this amendment, which has been passed twice by this body on previous occasions. I have talked with the distinguished chairman of the Finance Committee. I am sure that since the Senate has acted and expressed its desire, it will accept the amendment. I would appreciate it if the chairman of the committee would accept it and take it to conference to see what can be done with the House.

Mr. GEORGE. Mr. President, I shall be glad to take the amendment to conference.

The VICE PRESIDENT. The question is on agreeing to the amendment offered by the Senator from Indiana [Mr. JENNER].

The amendment was agreed to.

Mr. McCLELLAN. Mr. President, I offer the amendment which I send to the desk and ask to have stated.

The VICE PRESIDENT. The amendment offered by the Senator from Arkansas will be stated.

The LEGISLATIVE CLERK. On page 331, after line 12, it is proposed to insert the following:

SEC. 522. Strategic minerals.

Section 450 (b) (1) (relating to corporations engaged in mining of strategic minerals) is hereby amended by inserting after the word "chromite" the following: "bauxite."

Mr. McCLELLAN. Mr. President, this is an amendment to section 450 of the statutes regarding strategic materials. This amendment would place bauxite in the list of strategic materials included in that section. It involves no new principle at all. This amendment would affect only domestic mining companies. It would encourage exploration for bauxite within the United States, thereby making our country less dependent upon foreign bauxite in time of war.

Mr. GEORGE. Mr. President, I have stated to the Senator from Arkansas that I would be glad to take this amendment to conference for the purpose of fully exploring it.

The VICE PRESIDENT. The question is on agreeing to the amendment offered by the Senator from Arkansas [Mr. McCLELLAN].

The amendment was agreed to.

Mr. CAPEHART. Mr. President, I offer the amendment which I send to the desk and ask to have stated.

The VICE PRESIDENT. The amendment offered by the Senator from Indiana will be stated.

The LEGISLATIVE CLERK. It is proposed to amend section 516 by amending new section 459 (a), as follows:

(a) By adding the following language at the end of subsection (2) thereof: "or, the adjusted basis for determining gain of taxpayer's total facilities (as defined in section 444 (d)) on the last day of its base period was 180 percent or more of the adjusted basis for determining gain of its total facilities on the first day of its base period."

(b) By adding the following language at the end of subsection (4) thereof: "or, (A) the monthly average of the excess-profits net income of the taxpayer (computed under section 433 (b)) for the calendar year 1950 was 350 percent or more of such monthly average for the 48 months of its base period and (B) the monthly average excess-profits net income of the taxpayer (computed under section 433 (b)) for all taxable years commencing after December 31, 1940, and ending before the first day of its base period was 250 percent or more of such monthly average excess-profits net income for the 48 months of its base period."

Mr. CAPEHART. May I have the attention of the able chairman of the committee? Would the chairman be able to take the amendment to conference?

Mr. GEORGE. I regret that I cannot take the amendment to conference. The amendment was brought to the attention of the committee, but it came in late. There seems to be some merit to the amendment, but we did not have time to study it and explore it. If the Senator from Indiana would be good enough to withhold it until we have a chance to look at another tax bill, which may come all too soon, I can assure the Senator that we will be very glad to give it very careful consideration at that time.

Mr. CAPEHART. Mr. President, I withdraw the amendment.

The VICE PRESIDENT. The amendment is withdrawn.

Mr. ECTON. Mr. President, I call up my amendment 9-22-51-30, which I ask to have stated.

The VICE PRESIDENT. The clerk will state the amendment.

The CHIEF CLERK. On page 345, line 8, it is proposed to strike out "January 1, 1951" and insert in lieu thereof "the date of enactment of the Revenue Act of 1951."

Mr. ECTON. Mr. President, the amendment extends the date in this particular section to correspond to the passage and approval of the bill. The House bill has one date in it, and the committee bill has another date in it. Its purpose is to alleviate the extraordinary hardships in particular cases of estates. I believe it is completely fair and just, if we are to extend this date at all, to let it conform to the time of the enactment of the bill. I would appreciate it very much if the distinguished Senator from Georgia, the chairman of the Finance Committee, would give me his reaction to the amendment.

Mr. GEORGE. This is another amendment which has come in late. It was not brought to the attention of the committee at any time. It came too late

for the committee to give consideration to it. I would be very glad to give the amendment consideration, but to accept it in the bill would probably jeopardize what the committee regards as a very pertinent and proper amendment in the bill.

This is what happened. The amendment relates to estates in which the income is received for life by the donor. In 1949, I believe it was, the committee provided that those powers over the reserve estate may be released by December 31, 1949, or within 1 year thereafter.

In other words, we gave people who had an estate of that character an opportunity to release the life estate, and not include the trust.

It will be remembered that in the act which we passed, which was a highly controversial one, we gave until December 31, 1949, or within 1 year thereafter, which would have made it 1950, or until January 1, 1951. The amendment which the committee is now making is merely giving an opportunity to release the life estate during that same period, which power the donor or maker of the trust did have anyway, in which to release. In other words, it moved the date of death up to the end of the period in which the life estate could be released or should be released.

There are some important questions dependent upon the treatment which the committee has given in this section of the bill; and to move this period up 1 year, or until the time of the passage of the act, which would be almost a year now—10 months, at least—would probably jeopardize the other interests, which the committee thought were meritorious cases and which it desired to treat.

I hope the Senator from Montana will withhold the amendment until the committee has had opportunity to consider another tax measure, at which time the committee will give it full consideration.

Mr. ECTON. I appreciate the very thorough explanation of the amendment by the very able Senator from Georgia. I believe he hit the nail on the head as to the purpose of the amendment. The trouble has been that many old people, who had entered into a life-estate agreement previous to the change in the law, were aged and did not have legal counsel. Some of them were in hospitals. They did not know of the change in the law.

Secondly, it seems to me that we should give them all reasonable extension of time to learn of the fact that they can relinquish their life estate before it is too late. The amendment applies merely to the aged and ill and those in hospitals. It seems to me that since we gave relief to a few, it would not be unreasonable to ask that the date become effective coincidentally with the enactment of the bill. That was my only purpose in offering the amendment. I had hoped that the Senator from Georgia could take the amendment to conference.

Mr. GEORGE. I appreciate the fact that there may be hardships. There are always hardships connected with any

cut-off date. We are dealing with a very difficult problem.

Mr. ECTON. I realize that.

Mr. GEORGE. We said that if the life estate was released by December 31, 1949, or within a year following December 31, 1949, the property would not be lost to the estate. The only cases we are now dealing with are cases in which the property was not actually released but in which the person died during the year in which he was given the right to release the power. That is the situation. We have not gone beyond that.

It might be that, upon study, for the additional cases or the particular matters the Senator has in mind, the committee might be able to find some remedy. I can assure the Senator we shall be glad to consider it.

However, here we are dealing with a highly technical but very difficult and at the same time very practical problem. In order to prevent the inclusion of an estate of this kind in the estate of the donor or maker of the trust, we have provided that the owner of the life estate might release it by a certain date or within 1 year thereafter. Of course, there will always be some persons who will not execute such a release within any period of time that is allowed.

Mr. ECTON. Yes, that is true, because there are any number of cases which have been called to my attention since I submitted this amendment—cases not only in my own State, but in several other States, where the persons concerned were not aware of the fact that they could release their life estates, until after the cut-off date went into effect. It seemed grossly unfair that those who received legal advice that they could relinquish their life estates were able to do so 2 hours before midnight on the cut-off date, and thus were relieved, whereas others, who did not find out about that matter until after midnight on that date, were not able to take advantage of that provision of the law. They simply did not realize that they could take advantage of it.

Mr. GEORGE. Mr. President, as I have said, that always happens when a cut-off date is provided.

We passed the remedial statute late in the year. We said, in effect, that if a person released his estate by December 31, 1949, all well and good. Then we said that in order to be fair and equitable, if it was released within the following year, that would suffice. Some persons whose time for making the release had not expired, died; and we have extended the statute in order to meet those cases.

There may be adequate and sufficient reasons why we should make additional changes, but I certainly hope the Senator will not press the committee now to do so, because I would not be able to accept the amendment.

Mr. ECTON. Mr. President, let me state further to the distinguished Senator from Georgia that although I appreciate his offer to remedy the situation later on, yet we must realize that we are dealing with elderly persons and in some cases with sick persons who may not have an opportunity to relinquish

their life estate, for they may not be able to wait until Congress acts on this matter.

Mr. GEORGE. That is true. However, if we were to provide today that they would have until the effective date of this act, there still would be many persons who would not release their life estates.

Mr. ECTON. That may be; but there are many who have been caught under the act now, without relief; and there will be others who will be caught under the act. It seems to me that the Government is not keeping faith with either the living or the dead in this instance.

I am sorry the chairman of the committee does not feel that he can take the amendment to conference and possibly work out a solution which will take care of a problem which obviously is a serious one and has caused a great deal of hardship, not only to those who have passed on, but to elderly persons now living, who might now be able to relinquish their life estates before the time allowed.

Mr. GEORGE. Mr. President, I have explained to the Senator that I cannot accept the amendment, for I cannot jeopardize the remedial provision of the bill which should be enacted into law, and which in my judgment is clearly justified. We cannot extend it for an additional period and find any present justification, without having an opportunity to study the situation further.

Mr. MILLIKIN. Mr. President, will the Senator from Montana yield to me?

Mr. ECTON. I am glad to yield.

Mr. MILLIKIN. Let me ask the distinguished chairman of the committee whether in his opinion the matter is in conference at the present time. Could what the Senator from Montana desires be done in conference?

Mr. GEORGE. I do not believe it is in conference. At first I thought so, and at first I suggested to the distinguished Senator from Montana that the matter probably would be in conference. However, I have examined it, and I doubt that it will be in conference. We cannot go beyond the date of January 1, 1951—in other words, the first day of the present year.

Mr. MILLIKIN. Mr. President, will the Senator from Montana yield further to me?

Mr. ECTON. I am glad to yield.

Mr. MILLIKIN. Since the matter is not in conference, will the distinguished chairman of the committee be kind enough to advise me whether the adoption of this amendment would jeopardize our having in conference that which we wish to have remain in conference?

Mr. GEORGE. Mr. President, the Senator knows with what stubbornness—I do not use the word in an offensive sense—the conferees on the part of the House have been loath to accept the amendment we now have recommended. They resisted it strongly. They did not want to accept it. However, finally they accepted it; and we provided until the end of the year, and, beyond that, a full year of grace, in which the life estate might be released.

Now we are taking an additional step; we are saying that in the cases—they seem so meritorious to us—where within the year which was provided for the making of the release, the person died, the date will be moved up. However, we are limiting the provision. Very frankly, if we went beyond that at all at this time, without having an opportunity to go fully into any and all cases which might have merit in them—and I do not say this case may not have merit in it—I think we would jeopardize the matter.

Mr. ECTON. Mr. President, let me ask the Senator from Georgia a question. As I understand, one date is provided in the House version of the bill and another date is provided in the version of the bill which has been reported by the Senate Finance Committee. As a result, is not this provision placed before the conference?

Mr. GEORGE. No. At first I thought it would be before the conference; but upon inquiry I find that the House did not have this provision in its version of the bill. This is a Senate committee provision. The Senate committee put it into the committee's version of the bill. I can assure the Senator that we included it in order to meet some very distressing situations.

However, if now we were to undertake to extend the period in which the release of the life interest or life estate can be made, I believe we certainly would run into such difficulties in the House that we would jeopardize the provision we have inserted in the bill.

Mr. MILLIKIN. Mr. President, will the Senator from Montana yield further to me?

Mr. ECTON. I am glad to yield.

Mr. MILLIKIN. Mr. President, I was called out of the Chamber when this debate started. As I recall the case, it was one in which two things really happened: First, prior to the extended period, the lady was very ill. At all the times concerned she was very old, and second, she died before she had time really to do anything, and before her death she was perhaps too ill to have done anything. The case appealed strongly to my sense of justice.

Mr. GEORGE. That is correct; but she died within the period in which she could have obtained the relief had she been physically able to do it.

Mr. MILLIKIN. Yes; had she been physically able to do it.

Mr. President, I should like to ask the able chairman a question, if the Senator from Montana will permit me to do so.

Mr. ECTON. I am very glad to yield to the distinguished Senator from Colorado.

Mr. MILLIKIN. I should like to ask the distinguished Senator from Georgia again whether he feels that we could take this amendment to conference, without running the serious risk of jeopardizing the other things in the bill which it is important to preserve.

Mr. GEORGE. I do not think we could. If I felt that we could, I should be glad to do so. It would simply be necessary to have a vote, and if the Sen-

ate wants to vote for it under the circumstances, I of course would be bound by it. I know that if we were now to extend the period within which we were going to permit the releases of these life estates, we would be met with such opposition that the conferees on the part of the House would not give us full consideration on the basis of the matters we have considered. I am sure of it.

Mr. ECTON. Mr. President, I may say that it is my recollection that when the Senate passed the previous tax bill, the original intention of the Senate was not to include any limitation at all. It was recognized that old Father Time would iron out the situation before long, and that all those who had made trusts previous to 1931 would be passing on as the years rolled by, and that time would take care of the situation. But on account of the fact that certain Members from the House refused to go along, the cut-off date now contained in the law was accepted as a compromise.

In view of the past history of this situation, I felt it appropriate to offer the amendment, and that was my reason for doing so. But I may state that I have the greatest and deepest respect and affection for the very able and distinguished chairman of the Finance Committee of the Senate, and I personally do not want to urge this matter unduly. I do not wish to cause him any undue concern about taking it to conference, and I am most reluctant even to force it to a vote, because I realize the Senator's prestige in the Senate and his authority in these matters, and the record of the past few days shows that the Senate has stood behind his recommendations and his desires and wishes.

The VICE PRESIDENT. The time of the Senator from Montana has expired.

Mr. ECTON. Mr. President, I ask permission to include as part of my remarks a justification of this amendment.

The VICE PRESIDENT. Is there objection?

There being no objection, the statement was ordered to be printed in the RECORD, as follows:

STATEMENT BY SENATOR ECTON IN SUPPORT OF PROPOSED AMENDMENT TO SECTION 607 OF H. R. 4473, PAGE 345, LINE 8, BY STRIKING OUT "JANUARY 1, 1951" AND INSERTING IN LIEU THEREOF "THE DATE OF ENACTMENT OF THE REVENUE ACT OF 1951"

In enacting sections 7 and 8 of the Technical Changes Act of 1949 with respect to the taxation of the estates of persons who prior to March 4, 1931, had created trusts in which they retained a life interest, Congress expressly provided that the principals of such trusts should not be included in the estates of persons (1) who died prior to January 1, 1950, or (2) who prior to January 1, 1951, released such retained life estate.

Section 607 of H. R. 4473, as reported by the Senate Finance Committee proposes to amend the code so that the principal of such trust should not be included in the estate of persons, (1) who died prior to January 1, 1951, or (2) prior to January 1, 1951, released such life estate.

The thought back of such provision is that since the creator of such a trust had, by the provisions of the Technical Changes Act of 1949, been given the right to release said life estate tax free until January 1, 1951, the principal of such trusts should not be taxed if due to disability or advanced age they

were unable to release the life estate and had died prior to January 1, 1951.

It is submitted that equitably the estate of anyone, who because of disability or advanced years was unable to release said life estate, should certainly not be subjected to the tax if he or she died prior to the passage of the Revenue Act of 1951 (i. e., H. R. 4473).

The Senate in its version of the Technical Changes Act of 1949 would have exempted all trusts with retained life estates created prior to March 4, 1931, no matter when the death occurred and no matter whether there had prior to the death been a release of such life estate.

The conference on said act effected a compromise exempting such trusts only if (1) the death occurred prior to January 1, 1950, or (2) the decedent released the life estate prior to January 1, 1951.

It is submitted that this compromise overlooked the fact that since by hypothesis these trusts had to be created prior to March 4, 1931, many of the life tenants involved would be under disability or of advanced age, and thus unable to release life estates. Actually, it would be fairer to exempt all such persons no matter when they died and without any limitation of release of life estate. At the very least, however, the time should be extended for persons who died prior to the passage of the 1951 Revenue Act, and especially in the case where a person who, due to disability or advanced age, could not have secured the exemption by the release of the life estate prior to his or her death.

SPECIFIC CASE

Attention is directed to the case of a woman who died of cancer in July 1951 at the age of 81 years and who had been operated on for cancer in 1948 (which was before the decision in the Church case on January 17, 1949, and before the date of the passage of the Technical Changes Act of 1949 on October 25, 1949). This decedent had placed all her assets in trust in 1929 in reliance with the law that the retention of the life estate would not subject her estate to Federal estate tax. Not until the decision of the Supreme Court in the Church case in January 1949 was there any indication that such a trust would be subjected to tax. Congress itself felt that the situation was so inequitable that relief should be granted.

At the time the trust was created, the woman was 58 years of age. At the time of the operation for cancer in 1948 she was 78 years of age, and at the time of the decision in the Church case in January 1949 she was 79 years of age.

The trust consisted of all her assets, and she retained only a life estate, the remainder going to other members of her family upon her death. Some of the beneficiaries are minors with whom no arrangement could be made with respect to the disposition of the life estate, even if she had not been under a disability and of advanced age.

It is submitted in such a case that relief should be granted, and this could be accomplished by the proposed amendment to section 607 of H. R. 4473.

Mr. MILLIKIN. Mr. President, is there any time remaining to anyone on this amendment?

The VICE PRESIDENT. The Senator from Georgia has 9 minutes.

Mr. MILLIKIN. Will the Senator from Georgia let me have just a moment?

Mr. GEORGE. I am very glad to yield to the Senator.

Mr. MILLIKIN. There is but one point I wished to develop. I have not had a chance to consult with the Senator, and I do not know whether he is going ahead to put the amendment to a vote or not, but if the Senator from

Montana should accept the judgment of the distinguished Senator from Georgia might we assure the Senator from Montana that the matter will be carefully considered by our committee prior to the next tax bill, which is inevitable?

Mr. GEORGE. I certainly would be willing to do so. My reason for being so reluctant to take the amendment to conference is that once we have a commitment by the conferees from the House against us it will not be possible to look into many worthy cases which are going to be affected by this precise statute.

Mr. MILLIKIN. My impression is that there is a good deal of equity in the case of the Senator from Montana.

Mr. GEORGE. I think so, and there certainly will be an opportunity, and we shall be very glad to look into it. In fact, there are bills affecting the subject now pending before the committee, I think, which we could take time to look into during the remainder of this year or very early in January.

Mr. MILLIKIN. I think it would be very constructive and just if we gave the amendment attention in connection with some other bill to which we could appropriately attach it.

Mr. GEORGE. That could be done, and I should be very glad to do it, and I hope the Senator will put into the RECORD the full statement of fact so that we shall be able to study this case and arrive at a conclusion which we can justify.

The VICE PRESIDENT. The question is on agreeing to the amendment of the Senator from Montana [Mr. ECTON].

The amendment was rejected.

The VICE PRESIDENT. The bill is open to further amendment. If there be no further amendment to be offered, the question is on the engrossment of the amendments and the third reading of the bill.

The amendments were ordered to be engrossed, and the bill to be read a third time.

The bill was read the third time.

The VICE PRESIDENT. The question is, shall the bill pass? Under the limitation provided in the unanimous consent agreement, there are 2 hours of debate on the bill, the time to be controlled by the Senator from Georgia and the Senator from Massachusetts.

Mr. MALONE. Mr. President, I suggest the absence of a quorum.

The VICE PRESIDENT. The clerk will call the roll.

The legislative clerk called the roll, and the following Senators answered to their names:

Alken	Fulbright	Kerr
Benton	George	Knowland
Brewster	Gillette	Lehman
Bricker	Green	Lodge
Capehart	Hayden	Magnuson
Carlson	Hendrickson	Malone
Case	Hennings	Martin
Clements	Hill	Maybank
Connally	Hoey	McCarran
Cordon	Holland	McClellan
Dirksen	Humphrey	McFarland
Douglas	Hunt	McKellar
Duff	Ives	McMahon
Dworshak	Jenner	Millikin
Eaton	Johnson, Colo.	Monroney
Ellender	Johnson, Tex.	Moody
Ferguson	Johnston, S. C.	Morse
Frear	Kefauver	Mundt

Murray	Schoeppel	Underwood
Neely	Smathers	Watkins
Nixon	Smith, Maine	Welker
O'Connor	Smith, N. J.	Wiley
Pastore	Smith, N. C.	Williams
Robertson	Sparkman	Young
Russell	Stennis	
Saltonstall	Thye	

The PRESIDING OFFICER (Mr. Hill in the chair). A quorum is present.

Mr. SALTONSTALL. Mr. President, I ask for the yeas and nays on the passage of the bill.

The yeas and nays were ordered.

The PRESIDING OFFICER. The bill having been read the third time, the time is in control of the Senator from Georgia [Mr. GEORGE] and the Senator from Massachusetts [Mr. SALTONSTALL].

Mr. DOUGLAS. Mr. President, will the Senator from Massachusetts yield me 1 minute?

Mr. SALTONSTALL. I yield 1 minute to the Senator from Illinois.

Mr. DOUGLAS. Mr. President, I am going to vote against the bill, because I do not think it will raise sufficient revenue. I should like to read a quotation which I shall identify when I have finished:

It has been suggested by some that I should give my approval to this bill on the ground that having asked the Congress for a loaf of bread to take care of this war for the sake of this and succeeding generations, I should be content with a small piece of crust. I might have done so if I had not noted that the small piece of crust contained so many extraneous and inedible materials.

Mr. President, that was in the veto message of Franklin D. Roosevelt in connection with the Revenue Act of 1943 transmitted to the Congress on February 22, 1944, and it describes my feelings toward the pending bill.

Mr. LEHMAN. Mr. President, will the Senator from Massachusetts yield me 2 minutes?

Mr. SALTONSTALL. I yield the Senator from New York 2 minutes.

Mr. LEHMAN. Mr. President, after careful reflection, I have decided to vote against this bill. In association with some of my colleagues, with like motives, I should like to protest with my vote that this bill, in my opinion, is so inadequate and so inequitable that I cannot vote for it.

The Government needs large additional revenues in order to avoid a staggering deficit which might threaten our entire economic structure. I had hoped that the amount proposed to be raised under the tax bill would be more than doubled. The bill, whatever the motives of its architects, which, of course, I do not question, is, I believe, an inadequate measure. Great labors, for which I am grateful, have been devoted to it. The result of these labors, however, is a tax bill which creates a heavy burden, unequally distributed and shot through with special supports, special relief, and special privilege.

Since I consider the pending bill inadequate and inequitable, I feel compelled to vote against it.

Mr. CAPEHART. Mr. President, will the Senator from Massachusetts yield me a minute?

Mr. SALTONSTALL. I yield 2 minutes to the Senator from Indiana.

The PRESIDING OFFICER. The Senator from Indiana is recognized for 2 minutes.

Mr. CAPEHART. Mr. President, I congratulate the Senate Finance Committee for what I consider to be an excellent accomplishment under difficult circumstances, in reporting the bill upon which the Senate is about ready to vote. It is a good bill, but I shall vote against it because, in my honest opinion, what we should have done was what we should do before the session adjourns, namely, cut expenses by anywhere from \$10,000,000,000 to \$15,000,000,000, which would make tax increases unnecessary. I shall vote against the bill not because it is not a good tax bill, but because I think the proper thing to do, and what would be in the best interests of the Nation, is to cut expenditures, which would make it unnecessary to increase the tax load on the American people at this time.

Mr. HUMPHREY. Mr. President, will the Senator from Massachusetts yield me 4 minutes?

Mr. SALTONSTALL. I yield the Senator from Minnesota 4 minutes.

The PRESIDING OFFICER. The Senator from Minnesota is recognized for 4 minutes.

Mr. HUMPHREY. Mr. President, earlier this evening, during a period of limitation on debate, when I requested 15 minutes to a side on the so-called split-income amendment, there was some comment as to the surtax and the basis of the respective tax schedules for married individuals and for single individuals. I believe it was the senior Senator from Florida [Mr. HOLLAND] who made note of the fact that on incomes of \$4,000 to \$6,000, under the table as printed on page 2, the surtax would be \$720, and under the table on page 3, in the case of married couples with incomes over \$4,000 but not over \$5,000, the surtax would be \$860. I pointed out that the second table did not eliminate income splitting.

What I now desire to point out is that the \$4,000 to \$5,000 figure must be divided by 2, and thereby taken back to the second schedule in the table, namely, \$2,000 but not over \$3,000, with a surtax of \$360. Three hundred and sixty times two is 720, which is exactly what the surtax would be, under the table, for single people.

I was at that time chastised and very severely criticized for making a so-called ridiculous proposal, namely, that I was putting a penalty upon the married couple.

I have told the counsel for the Treasury Department to get the statement verified, because at the time I did not have an opportunity to reply. Regardless of the merits of the issue, I merely want the RECORD to be clear.

Mr. President, I wish to say a very few words with reference to the bill. I know this has been an extended debate, and I have certainly contributed to the extension of it, but I want my colleagues to know that never in my life have I tried to do a more sincere job on one piece of legislation than on this particular bill. I know of no bill which has been before the Senate that is more important than is this tax bill. We have had our honest

differences of opinion. I do not impute any evil motives to any Member of the Senate. There are Members of this body who have differences of opinion on many issues.

I felt very strongly about the bill, and I spent more than 2 months of hard labor analyzing, first, the House bill, and whatever I could get in terms of information from the Senate Finance Committee. During the period of that analysis I became convinced that there were certain things that should be done, one of which was to see to it that the retroactive date for corporation taxes must be January 1.

Mr. President, I congratulate the Senator from Michigan [Mr. MOODY] for what I think was a brilliant analysis of the bill before us.

I still feel that the capital-gains structure cannot remain at 25 percent and be called an equitable tax structure.

Regardless of what the depletion allowances may be in the present law, a further extension of them to noncritical and nonstrategic materials is uncalled for and unwarranted. Brilliant arguments have been made for the depletion allowance for gas and oil under existing rates, but no one can make a brilliant argument, in my opinion, for the increasing of the depletion allowance or the extension thereof.

I conclude by saying that I believe this bill has more loopholes in it than has any other bill that has ever been before the Senate. I feel that this bill does not fall fairly on all, based on the principle of the ability to pay.

I am compelled by a sense of deep sincerity, and, I may say, with some remorse and heartfelt regret, to say that I shall be obliged to vote "nay" on the passage of the bill.

The PRESIDING OFFICER. The time of the Senator from Minnesota has expired.

Mr. HUMPHREY. Mr. President, will the Senator from Massachusetts grant me 1 minute to conclude?

Mr. SALTONSTALL. I yield 1 minute to the Senator from Minnesota.

The PRESIDING OFFICER. The Senator from Minnesota is recognized for an additional minute.

Mr. HUMPHREY. As the chairman of the Finance Committee has said in this debate, I know there are certain items in conference. I know that when they go to conference the conferees on the part of the Senate are going to try to adjust those items. I plead with the chairman of the committee and the other conferees on the part of the Senate who go with him to try to adjust the effective date of the corporate tax, to try to adjust, if you please, along the House lines, the capital-gains provision, and try to adjust some of the other provisions in the bill that pertain to the excess-profits-tax schedule. On that basis I look forward to being able to support the conference report, but until then I must vote "nay" on the passage of the tax bill.

Mr. SALTONSTALL. Mr. President, I yield 3 minutes to the Senator from Michigan [Mr. FERGUSON].

The PRESIDING OFFICER. The Senator from Michigan is recognized for 3 minutes.

Mr. FERGUSON. Mr. President, the Senator from Michigan feels that he cannot vote for this bill. He feels that he cannot place a heavier tax burden on the people of this country, as would be done by the passage of the bill. That burden will be placed on the people because of the extravagance and wastefulness in the expenditure of moneys appropriated, extravagance and wastefulness on the part of the administration.

Mr. President, the Senator from Michigan is of the opinion that the surest way for this country to defeat itself is to overtax and overburden the people by extravagant expenditures. There is fear that the Soviets will win their victory over America and her allies by reason of the fact that America and her allies will spend themselves into bankruptcy. They are taking money from their people which the people cannot afford to pay.

The surest road to socialism is to overtax the people; to take the money that the people earn away from them on the theory that the Government can spend it better. And when the public trough runs dry, as it surely will, Government will say: "We are partners in your business. You are not able to give us enough money to run our Government. Therefore, it is necessary for us to take over the business."

Mr. President, all we have to do is to look at the British Empire, and to other socialist governments around the world, and we will discover that we have political royalists who are living on the fat of the land and taking from the people that which they cannot afford to pay.

Mr. President, I cannot tax the people to support the extravagant expenditures now being put upon them, and for which appropriations are being made. I believe an amount can be cut from the appropriations so that we will not have any deficit, even though we do not pass this tax bill.

Mr. MAGNUSON. Mr. President, will the Senator yield?

Mr. FERGUSON. I yield.

Mr. MAGNUSON. I merely wanted to ask the Senator a question, and I do not ask it facetiously or politically. We all know the reason for the tax bill is military appropriations. Only 17 percent of the tax dollar is taken up by the regular functions of government. I should like to cut the cost of Government, but I am wondering where the Senator would cut it. Are we against the military appropriations or are we for them? When the Senator speaks of extravagance I assume he speaks of the 17 percent for the regular expenditures of the Government.

Mr. FERGUSON. Mr. President, will the Senator from Massachusetts yield me sufficient time to answer the question?

Mr. SALTONSTALL. I yield the Senator from Michigan one more minute.

The PRESIDING OFFICER. The Senator from Michigan is recognized for an additional minute.

Mr. FERGUSON. Mr. President, the Senator from Michigan is not satisfied that at this time it is essential to increase the taxes in the amount carried

in the bill by \$5,000,000,000. The Senator from Michigan believes we can get along without that and be prepared as well as though we did not make this tax increase, because there are such bottlenecks in the machine-tool industry, for example, that we cannot spend all the money appropriated in the military appropriation bill which is now in conference even if we want to do so. There are several places in the military, as well as in other parts of the Government where we can cut down on spending. The Hoover Commission pointed out the way. So we do not need certain appropriations. For the present year, 1952, we can balance the budget if we desire to, not by raising taxes, but by cutting expenses.

Mr. MAGNUSON. But the Senator would agree that if we could stop the stupid business called war we would not have to worry about a tax bill or any other kind of taxation for the American people to meet the costs of Government. The appropriations have to be made because of the military situation. I agree that we may be able to cut at that point.

Mr. FERGUSON. The Senator from Michigan does not agree that it is all on the military. We have been brought to what is called this "stupid business of war" by the unwise policies of our Government.

The PRESIDING OFFICER. The time of the Senator from Michigan has again expired.

Mr. SALTONSTALL. Mr. President, I yield 4 minutes to the Senator from Florida [Mr. HOLLAND].

The PRESIDING OFFICER. The Senator from Florida is recognized for 4 minutes.

Mr. HOLLAND. Mr. President, I thank the Senator. I rise first to express my very deep appreciation to the distinguished chairman of the Finance Committee, the ranking minority Member, and every other Member for their hard, unremitting and effective work. I think the bill, while not a perfect bill, has very much to commend it. I shall vote for it. I think its going into effect will be a needed step to better supply our Government with financial strength in time of need, as well as a necessary part of the effective battle against inflation which we are all trying to wage at this time.

Mr. President, there are many good features in this bill which have not been commented upon. I am sorry that the time limitation prevents me from doing any more than to call attention to a provision which I have not heard mentioned and that is the change of the capital gains tax as it applies to a citrus grove, an apple orchard, or any other farming property in this Nation when it is sold, after ownership of more than 6 months, as a property with an unharvested crop on it.

Under the very unwise rulings, it seems to me, of the Internal Revenue Bureau, such a sale has been regarded as a double sale, and the tax authorities have forced a division which did not exist at all in the minds of those who

made the sale and the purchase—an artificial division of the sale of the real estate from the sale of the unharvested crop. Under the amendment which is placed in the bill, if the property has been held 6 months that result will no longer be permitted, but, instead, the sale will be treated just as it has actually existed, as a single sale of a developed property with a feature on it, an unharvested crop, which entered into that single sale without the artificial handling required in some jurisdictions under the present rule, which, by the way, is not uniformly approved by the courts. Some courts have approved the rule of the Internal Revenue Bureau and some have frowned upon it. The result of the amendment is to make uniform this matter and to give a fair deal to our agricultural people all over the Nation.

I call attention to the fact, Mr. President, that this is a matter which does not generally concern the very rich people. This is something that applies to the farmers, small and large, who will be permitted to sell their properties now with security, whereas they have been denied that security under the law as it is now mistakenly enforced.

I may say that I appreciate the fact that those Senators who have attacked all other changes in the capital gains law, or at least most of them, have by their failure to do so in this case shown their approval of this particular change in the law.

Mr. MILLIKIN. Mr. President, will the Senator yield?

Mr. HOLLAND. I yield, if I may be granted one more minute.

Mr. SALTONSTALL. I yield an additional minute to the Senator from Florida.

Mr. MILLIKIN. Mr. President, I merely want to say that I am sure all the members of the committee were impressed, as I was impressed, with the very able presentation of the subject by the distinguished Senator from Florida.

Mr. HOLLAND. I thank the distinguished Senator from Colorado.

Mr. President, my good friend the Senator from Minnesota [Mr. HUMPHREY] has made some reference to the comment which I made, which I believe to be completely true comment, this afternoon, and it was based on the advice theretofore given to me by the head of the staff of the Joint Committee on Taxation, with reference to the effect that would have been produced by the adoption of the two tables included in the amendment of the distinguished Senator, known as his amendment to take the benefits out of the split income provision. In order that those who read the RECORD may judge for themselves, I ask unanimous consent at this time that the entire portion of that amendment, beginning with section 101 on line 4 of the first page of the amendment, and extending through the second table, or down to section 102, may be at this time be printed in the RECORD as a part of my remarks.

The PRESIDING OFFICER. Without objection, it is so ordered.

The matter referred to is as follows:

SEC. 101. Increase in surtax of married persons.

Section 12 (b) (relating to rates of surtax) is hereby amended to read as follows:

"(b) Rates of surtax.

"(1) Taxable years beginning after December 31, 1951: In the case of taxable years beginning after December 31, 1951, there shall be levied, collected, and paid for each taxable year upon the surtax net income of every individual (other than an individual to whom paragraph (2) applies) the surtax shown in the following table:

"If the surtax net income is:		The surtax shall be:	
Not over \$2,000-----		17 percent of the surtax net income.	
Over \$2,000 but not over \$4,000.		\$340, plus 19 percent of excess over \$2,000.	
Over \$4,000 but not over \$6,000.		\$720, plus 23 percent of excess over \$4,000.	
Over \$6,000 but not over \$8,000.		\$1,180, plus 27 percent of excess over \$6,000.	
Over \$8,000 but not over \$10,000.		\$1,720, plus 31 percent of excess over \$8,000.	
Over \$10,000 but not over \$12,000.		\$2,340, plus 35 percent of excess over \$10,000.	
Over \$12,000 but not over \$14,000.		\$3,040, plus 40 percent of excess over \$12,000.	
Over \$14,000 but not over \$16,000.		\$3,840, plus 44 percent of excess over \$14,000.	
Over \$16,000 but not over \$18,000.		\$4,720, plus 47 percent of excess over \$16,000.	
Over \$18,000 but not over \$20,000.		\$5,660, plus 50 percent of excess over \$18,000.	
Over \$20,000 but not over \$22,000.		\$6,660, plus 53 percent of excess over \$20,000.	
Over \$22,000 but not over \$26,000.		\$7,720, plus 56 percent of excess over \$22,000.	
Over \$26,000 but not over \$32,000.		\$9,960, plus 59 percent of excess over \$26,000.	
Over \$32,000 but not over \$38,000.		\$13,500, plus 62 percent of excess over \$32,000.	
Over \$38,000 but not over \$44,000.		\$17,220, plus 66 percent of excess over \$38,000.	
Over \$44,000 but not over \$50,000.		\$21,180, plus 69 percent of excess over \$44,000.	
Over \$50,000 but not over \$60,000.		\$25,320, plus 72 percent of excess over \$50,000.	
Over \$60,000 but not over \$70,000.		\$32,520, plus 75 percent of excess over \$60,000.	
Over \$70,000 but not over \$80,000.		\$40,020, plus 78 percent of excess over \$70,000.	
Over \$80,000 but not over \$90,000.		\$47,820, plus 81 percent of excess over \$80,000.	
Over \$90,000 but not over \$100,000.		\$55,920, plus 84 percent of excess over \$90,000.	
Over \$100,000 but not over \$150,000.		\$64,320, plus 86 percent of excess over \$100,000.	
Over \$150,000 but not over \$200,000.		\$107,320, plus 87 percent of excess over \$150,000.	
Over \$200,000-----		\$150,820, plus 88 percent of excess over \$200,000.	

"(2) Taxable years beginning after December 31, 1951; individuals qualified to file

joint returns: In the case of taxable years beginning after December 31, 1951, there shall be levied, collected, and paid for each taxable year upon the surtax net income of every individual qualified to file a joint return under section 51 (b), whether or not such individual files a joint return with his spouse, the surtax shown in the following table:

"If the surtax net income is:		The surtax shall be:	
Not over \$1,000-----		17 percent of the surtax net income.	
Over \$1,000 but not over \$2,000.		\$170, plus 19 percent of excess over \$1,000.	
Over \$2,000 but not over \$3,000.		\$360, plus 23 percent of excess over \$2,000.	
Over \$3,000 but not over \$4,000.		\$590, plus 27 percent of excess over \$3,000.	
Over \$4,000 but not over \$5,000.		\$860, plus 31 percent of excess over \$4,000.	
Over \$5,000 but not over \$6,000.		\$1,170, plus 35 percent of excess over \$5,000.	
Over \$6,000 but not over \$7,000.		\$1,520, plus 40 percent of excess over \$6,000.	
Over \$7,000 but not over \$8,000.		\$1,920, plus 44 percent of excess over \$7,000.	
Over \$8,000 but not over \$9,000.		\$2,360, plus 47 percent of excess over \$8,000.	
Over \$9,000 but not over \$10,000.		\$2,830, plus 50 percent of excess over \$9,000.	
Over \$10,000 but not over \$11,000.		\$3,330, plus 53 percent of excess over \$10,000.	
Over \$11,000 but not over \$13,000.		\$3,860, plus 56 percent of excess over \$11,000.	
Over \$13,000 but not over \$16,000.		\$4,980, plus 59 percent of excess over \$13,000.	
Over \$16,000 but not over \$19,000.		\$6,750, plus 62 percent of excess over \$16,000.	
Over \$19,000 but not over \$22,000.		\$8,610, plus 66 percent of excess over \$19,000.	
Over \$22,000 but not over \$25,000.		\$10,590, plus 69 percent of excess over \$22,000.	
Over \$25,000 but not over \$30,000.		\$12,660, plus 72 percent of excess over \$25,000.	
Over \$30,000 but not over \$35,000.		\$16,260, plus 75 percent of excess over \$30,000.	
Over \$35,000 but not over \$40,000.		\$20,010, plus 78 percent of excess over \$35,000.	
Over \$40,000 but not over \$45,000.		\$23,910, plus 81 percent of excess over \$40,000.	
Over \$45,000 but not over \$50,000.		\$27,960, plus 84 percent of excess over \$45,000.	
Over \$50,000 but not over \$75,000.		\$32,160, plus 86 percent of excess over \$50,000.	
Over \$75,000 but not over \$100,000.		\$53,660, plus 87 percent of excess over \$75,000.	
Over \$100,000-----		\$75,410, plus 88 percent of excess over \$100,000."	

Mr. HOLLAND. In closing I repeat the statement I made this afternoon, which I believe to be a true statement, that that amendment, if it should become law, would create the following condition: Assume the case of two per-

sons, a man and a woman, each with an earning capacity or net income subject to surtax of \$4,000. Under this provision, if it had gone into effect, according to the first table on page 2, they would have paid a surtax of \$720 each, or a joint amount of \$1,440.

The VICE PRESIDENT. The time of the Senator from Florida has expired.

Mr. HOLLAND. Mr. President, if I may be allowed 20 seconds longer, if the same two individuals were wed, they would have to pay a surtax of \$860 each, or an added amount of \$140 each, or an added amount jointly of \$280, which, by whatever name we call it, is a penalty upon marriage.

Mr. SALTONSTALL. Mr. President, I yield 4 minutes to the junior Senator from Maine [Mrs. SMITH].

Mrs. SMITH of Maine. Mr. President, I wish to read to the Senate a news item from the Washington Evening Star of today. It makes me wonder just how much of the taxes we are voting to take from the little people, the small-income people of our country, to provide for the executive branch of our Government luxurious offices, offices which have such living facilities as shower baths and built-in clothes chests. I wonder how much of the \$60,000,000,000-plus defense appropriations goes for this type of thing rather than for provisions for our soldiers who are fighting, living, and dying in the mud of the hills of Korea.

I read a portion of the article referred to:

A new color motif has come to the Pentagon in the form of a blue room for Assistant Secretary of the Army Earle D. Johnson.

Workmen have just completed some 5 weeks of toil in carving out the spacious office suite.

The blue room actually consists of three large offices, plus an entrance lobby from which the Johnson entourage will be able to view an outer office through a beautiful archway, which is a rarity even in the Pentagon.

The main office is painted in what one painter called infantry blue, explaining that it is similar to the scarves worn by the famed ceremonial Third Infantry Regiment at Fort Meyer. The outer rooms are done in a lighter tone of blue.

To bring about this miracle workmen tore out several partitions and built new ones.

They have provided Mr. Johnson with a commodious dressing room, replete with built-in clothes chest and full-length hanging closet. Off this lies the bathroom with a full tile shower compartment.

Mr. President, I ask unanimous consent that the remainder of the article be printed in the RECORD at this point as a part of my remarks.

There being no objection, the remainder of the article was ordered to be printed in the RECORD, as follows:

Officials could not give an estimate of the cost of this operation, but the square footage is about the equivalent of that in a moderate two- or three-bedroom house. The main office dimensions are 30 to 22 feet.

It is located right off the Mall entrance, commanding a view of Memorial Bridge.

Said the Army, in answer to a reporter's query:

"The move is being made to bring Mr. Johnson physically closer to G-1 (personnel division) people with whom he does considerable work as Assistant Secretary in Charge of Army Manpower and Personnel.

Also it will make him more convenient to the Office of Secretary of Defense personnel people."

Mr. Johnson now is located some 175 paces down the hall on the same floor.

It also was explained that Mr. Johnson's new location would be directly below that of his superior, Army Secretary Pace, thus cutting in one-fifth the distance between those two offices.

The spokesman also maintained that the Assistant Secretary was not getting in his new offices a more elaborate lay-out than he was entitled to and added that others in similar positions had like suites.

Officials also disclosed that new offices soon will be provided for former Secretary of Defense George C. Marshall, who as a five-star general is entitled to office space along with several aides, and for Gen. Dwight D. Eisenhower when he makes trips here for conferences.

There are some thirty thousand workers in the Pentagon. An official said an average of 83 square feet per person is provided the workers, but in some cases it has been necessary to reduce this to 50 square feet.

The new Johnson office reminded observers of the thousands of dollars spent on the security-tight Pentagon offices once built for the Joint Chiefs of Staff. They were abandoned before they were even occupied when the then Secretary of Defense, Louis Johnson, decided it would be a better arrangement for the top military planners to be located directly below his office.

The original Joint Chiefs' offices were planned before Mr. Johnson himself moved his offices from the Mall entrance to the river entrance, previously occupied by the Army Secretary and containing a private elevator from the basement.

While the Earle D. Johnson suite is a pretty elaborate affair, it does not contain the private kitchen and dining room provided for the Secretary of Defense.

Mrs. SMITH of Maine. Mr. President, it is with a great deal of reluctance that I have decided to cast my vote for the pending bill. Time and time again I have cast my vote for economy amendments on appropriation bills, only to be on the losing side.

This news item confirms all the more my conviction that we must stop this wasteful spending at the sacrifice of the taxpayers.

Mr. THYE. Mr. President, will the Senator from Massachusetts yield 1 minute to me?

Mr. SALTONSTALL. Mr. President, I yield 1 minute to the Senator from Minnesota.

Mr. THYE. Mr. President, the report which has just been given to us by the junior Senator from Maine relative to an expensive alteration of rooms into what might be called de luxe living quarters is more evidence that we need a watch-dog committee, a committee which will examine the expenditures not only month by month, but day by day, so that we can put a stop to just such extravagances as have been referred to by the able and distinguished junior Senator from Maine.

Mr. SALTONSTALL. Mr. President, I yield 3 minutes to the Senator from Oregon [Mr. MORSE].

Mr. MORSE. Mr. President, on two occasions during the course of this debate I have spoken against this tax bill. At those times I was speaking when I thought there was still hope that the bill could be amended so that it would

apply the principle of equality of sacrifice among all groups of taxpayers.

In my opinion this bill falls so far short of applying the principle of equality of sacrifice to all groups of taxpayers in accordance with their ability to pay that I cannot in good conscience vote for the bill, and therefore I shall vote against it.

I am speaking as one who feels that he has only an honest and sincere difference of opinion with one of the great statesmen of this body, the Senator from Georgia [Mr. GEORGE]; but in voting against this bill I share the view expressed yesterday by the distinguished junior Senator from New York [Mr. LEHMAN], when he said:

I say that I believe the bill, as it now stands, favors men of high incomes, corporations, and others, and discriminates against the man of small and moderate income.

I am perfectly willing to let the voters of the State of Oregon decide whether or not the junior Senator from Oregon is worthy of the seat in the Senate which he holds, in the light of his views on what the tax structure of the country ought to be.

I wish to say that the responsibility for economy in Government rests with the Congress of the United States. It is no justification for this bill, Mr. President, to say that there are some uneconomic policies being followed by the administrative branch of the Government. Let the Congress assume its responsibility of cutting out waste; but at the same time let it not justify its failure to pass a tax bill which will raise the funds necessary to protect the economy of the Nation and give us the security we need in the critical years ahead by the alibi that there are wastes in some of the administrative branches of the Government.

I have spent most of the past 2 days in a careful study of the figures submitted to the Johnson Subcommittee on Military Preparedness of the Armed Services Committee, dealing with the profits of some 187 corporations. Those corporations are now exploiting the American people with profits in percentages ranging from one and one-half to three times the profits they made at the height of World War II. There is no equality of sacrifice in that kind of profit-taking out of the Korean war. There is no equality of sacrifice in that kind of corporate practice.

Mr. FERGUSON. Mr. President, will the Senator from Oregon yield?

The VICE PRESIDENT. Does the Senator from Oregon yield to the Senator from Michigan?

Mr. MORSE. Not at the moment.

The VICE PRESIDENT. The Senator from Oregon declines to yield.

Mr. MORSE. We had an opportunity when we came to revising the tax structure by this bill to adopt some amendments which I think would have forced the powerful corporations of America to pay their fair share of the cost of the Korean war.

Yes, Mr. President, not only do I stand for the principle that in times of great emergency we should draft profits as well as men, but I say that in this hour the Senate of the United States should

take to conference a tax bill which drafts profits just as we are drafting men to fight the war.

Mr. FERGUSON. Mr. President, will the Senator yield for a question?

The VICE PRESIDENT. The time of the Senator from Oregon has expired.

Mr. MORSE. I am glad to yield.

Mr. SALTONSTALL. I yield one additional minute to the Senator from Oregon.

The VICE PRESIDENT. The Senator cannot yield if his time has expired.

Mr. SALTONSTALL. I yield 1 minute more to the Senator from Oregon.

Mr. FERGUSON. Mr. President, the evidence which the Senator from Oregon has now presented to the Senate is that certain corporations have made enormous profits out of the Korean war. I assume, therefore, that the profits have been made on war orders. Does not that indicate that the services are paying exorbitant prices for the things they are buying, and that the people are being taxed for those enormous prices?

Mr. MORSE. I assure the Senator from Michigan that under the leadership of the Senator from Texas [Mr. JOHNSON] our subcommittee, before it gets through with this investigation, will have on the carpet those responsible in the procurement agencies, as well as the heads of the corporations.

Mr. FERGUSON. I thank the Senator. I hope that will be accomplished.

Mr. CAPEHART. Mr. President, may I have half a minute to ask a question?

Mr. SALTONSTALL. Mr. President, I yield 30 seconds to the Senator from Indiana.

Mr. CAPEHART. Is it not a fact that, regardless of how much profit the companies may be making at the moment, under the Renegotiation Act which this Congress passed the excessive profits will be taken away from them?

Mr. MORSE. That is one of the false assumptions and rationalizations which I have heard stated on the floor of the Senate for several months. The record will disclose that these corporations are adopting certain pyramiding tactics which permit them to get by with these profits. Some of us have tried by way of amendment to check the pyramiding tactics, but we have been defeated.

The VICE PRESIDENT. The time of the Senator from Oregon has expired.

Mr. SALTONSTALL. Mr. President, I yield 4 minutes to the Senator from Delaware.

Mr. WILLIAMS. Mr. President, I ask unanimous consent to have inserted at this point in the RECORD a letter which I addressed to Mr. Frederick J. Lawton, Director, Bureau of the Budget, together with his reply and memorandum attached thereto.

There being no objection, the letters were ordered to be printed in the RECORD, as follows:

JULY 10, 1951.

MR. FREDERICK J. LAWTON,
Director, Bureau of the Budget,
Washington, D. C.

DEAR MR. LAWTON: Will you please furnish me a breakdown by agencies of all savings as represented by budgetary requests or by reductions in personnel that have been achieved as a result of the adoption of the

different recommendations of the Hoover Commission.

I voted for these recommendations as embodied in the President's numerous reorganization proposals with the understanding that substantial savings and a substantial reduction in Government personnel would be accomplished. So far I have been unable to find where a single department has reduced personnel or its budgetary request after being reorganized. I am hoping that you will be able to point out some definite economies which I have overlooked.

Yours sincerely,

JOHN J. WILLIAMS.

EXECUTIVE OFFICE OF THE PRESIDENT,
BUREAU OF THE BUDGET,
Washington, D. C., August 1, 1951.

Hon. JOHN J. WILLIAMS,
United States Senate,

Washington, D. C.

MY DEAR SENATOR WILLIAMS: This is in reply to your letter of July 10, 1951 asking for a breakdown by agencies of all savings as represented by budgetary requests or by reductions in personnel that have been achieved as a result of the adoption of the different recommendations of the Hoover Commission.

Since this request covers the same ground as your questions at the hearings of the Senate Finance Committee on June 29, 1951, I am enclosing a copy of the statement supplied to that committee. This statement discusses the problems involved in attempting to establish definite savings and points to the reasons why it is not possible to supply you with the type of breakdown that you had in mind.

Sincerely yours,

F. J. LAWTON,
Director.

MATERIAL FOR SENATE FINANCE COMMITTEE

Although a substantial proportion of the recommendations of the Commission on Organization of the Executive Branch have been put into effect, it is not feasible to make a reliable estimate of the total dollar savings resulting from those recommendations. Because of the many factors involved, the Bureau of the Budget has not been able to calculate the precise savings resulting from Hoover Commission recommendations, nor has it felt justified in asking the departments and agencies to undertake the extensive and costly research that would be required to compile such an estimate. The Hoover Commission itself very wisely declined to make an estimate of the over-all savings that would result from its recommendations. Although its "task forces" did make such estimates in some of their reports, the Commission itself mentioned dollar figures for expected economies in only one instance. In spite of the fact that the Hoover Commission did not attempt to make an over-all estimate, various other organizations and individuals have made estimates of savings. However, we have not been able to find a single instance where such estimates are accompanied by information to support the claim of savings; nor have we, on our own investigation, been able to substantiate these claims. After careful analysis we conclude that while large sums of money can be saved by improved management in the executive branch, there is no valid basis for assertions that such amounts are readily measurable. To reduce Federal expenditures would require major reductions in, or elimination of, programs specifically prescribed by law.

The paragraphs below outline several of the reasons why it is not feasible to identify specific savings resulting from Hoover Commission recommendations:

1. The major recommendations of the Hoover Commission are aimed at more effective

direction, control, and coordination of Federal policies and programs. The basic purpose of such recommendations is to improve the quality of service to the taxpayer—not necessarily to reduce appropriations at all. For example, the Hoover Commission recommended a grouping in the Department of Commerce of major nonregulatory transportation activities of the Federal Government. The reorganization plans transferring the Bureau of Public Roads and the functions of the Maritime Commission to the Commerce Department, and the creation of an Under Secretary of Commerce for Transportation are all designed to achieve a unified and coordinated Federal program for transportation. Although administrative savings may result from such arrangements to coordinate transportation activities, the major benefit to the public will be in the more effective development of our transportation system to meet the needs of commerce, industry, agriculture, the general public, and national defense.

2. The basic recommendations of the Hoover Commission are concerned with establishing an organization structure that will permit the agency head to improve the effectiveness, efficiency, and economy of his programs. The Commission recommended that there be a clear line of authority from the President to agency heads and from agency heads to their subordinates. Similarly the Commission recommended that responsibility for internal administration of regulatory commissions be vested in the chairman. The adoption of these recommendations does not, as such, produce identifiable savings. It provides a framework within which improvements can be made. Where tangible dollar savings do result, they are likely to occur as a part of the day-to-day operations improvements that take place in any well-run organization. This continuing job of carrying out internal improvements within the Departments and Agencies has been given emphasis under the President's Management Program, which was initiated by Executive Order 10072 of July 29, 1949. The management improvement programs in the individual Departments and Agencies are constantly bringing about improvements in quality of service, in the effectiveness of operations, and in the cost of doing business. Where dollar savings can be identified, they are usually the result of a long period of effort, with many people contributing to the final product.

The Commerce Department is an example of such a management-improvement program. It recently was able to identify savings of over \$8,000,000 during an 18-month period, with an additional anticipated annual saving of nearly \$3,000,000. However, no estimate was made as to the proportion of this saving which was made possible by adoption of Hoover Commission recommendations.

In the Treasury Department examples of management-improvement-program savings include: (a) During 1950 the Fiscal Service, working through the Fiscal Service Management Committee, effected management savings totaling more than \$6,000,000, including savings resulting from improvements initiated during the period 1947-49. (b) In the Bureau of Public Debt the reduction of five regional offices to three resulted in an annual saving of \$250,000. (c) A depository-receipt procedure was developed by the Bureau of Internal Revenue, in cooperation with the Fiscal Service, to cover employment taxes, as well as income taxes. For the half year the new procedure was in operation savings from elimination of compensation to the commercial banks amounted to \$500,000. (d) Savings resulting from the modernization of the intaglio presses in the Bureau of Engraving and Printing, which will ultimately increase the output of currency by approximately 30 percent, are estimated at

over \$1,000,000 a year. (e) In the Bureau of Internal Revenue notable progress has been made in the utilization of time-saving operating equipment and in the development of more efficient procedures. Savings during fiscal year 1950 were estimated at 480 man-years.

It should be emphasized that it is extremely difficult, if not impossible to establish a direct relationship between Hoover Commission recommendations and the savings cited above.

3. Undoubtedly the greatest difficulty in identifying specific savings is caused by the changing nature of Federal programs and agencies. Since Federal programs are designed to meet the needs of the public, changes in economic conditions, international developments, and other factors produce a continuing series of changes in Federal programs. New programs, changes in the scope of existing programs, in amount of workload, in the quality of service, in price levels, and in the supply of manpower and materials are among the variables that can affect the amount of money required to perform a particular service for the public. For example, the program for unification of our Armed Forces has undoubtedly brought about great dollar savings. However, such savings are impossible to identify in a period when the demands of the defense emergency have increased military expenditures from \$11,900,000,000 in fiscal year 1950 to an estimated \$42,000,000,000 for 1952. In the process of formulating the military budget, estimates of requirements take into account anticipated savings due to improved organization, procedures, and methods. Similarly, in civilian agencies, each succeeding budget estimate takes into account the operating improvements that have been devised during the past year. Although the increased productivity from this continual tightening up of efficiency may not be apparent, the long-run effect is noticeable. For example, the Bureau of Internal Revenue from 1947 to 1951 experienced a 5-percent increase in taxpayers, a 37-percent increase in investigation work, and a 29-percent increase in revenue collections; yet through a series of operating improvements it was able to decrease its staff by 4.5 percent over the same period without impairing efficiency.

The difficulty of identifying savings because of the continual changes in Federal programs is also illustrated by the establishment of the General Services Administration. That agency, created pursuant to recommendations of the Hoover Commission, has initiated a number of programs to simplify or standardize Government procedures in the areas of procurement and property management. The scope of Federal procurement activities and hence the budget estimates, have greatly expanded to meet the needs of the defense mobilization program. Many savings have, nevertheless, been made by the new agency. For example, negotiations with carriers for freight-rate adjustments produced savings of over \$1,700,000 in 1950, use of long-term contracts and telephone engineering produced savings of \$385,400, and establishment of records centers in four cities is estimated to have saved over \$1,843,000.

Pursuant to Hoover Commission recommendations, several studies of the administration of Territories under United States jurisdiction in the Pacific have been made. Although those studies have pointed the way to more efficient ways of administering the Territories, it is an extremely difficult accounting problem to determine the actual extent of savings. The Department of Interior estimates that one study resulted in an annual saving to the Federal Government of over \$2,000,000 by replacing ships and planes manned by naval personnel with civilian transport facilities administered under contract. It is estimated that the an-

nual direct and indirect subsidies for operating costs were reduced by about \$1,000,000.

Where a program is relatively stable, a comparison of the size of its budget before and after a reorganization sometimes can provide a rough indication of savings. For example, Reorganization Plan 22 of 1950 transferred the Federal National Mortgage Association from the Reconstruction Finance Corporation to the Housing and Home Finance Agency. The primary purpose of that transfer was to assure that there would be close coordination between the secondary market operations of Federal National Mortgage Association and national housing policies. In addition, the administrative expense of that program has been reduced by about \$1,000,000 in a period when the portfolio of Government-held mortgages was increasing.

4. Many programs are under way to improve the management of the executive branch. Although in many cases these efforts are benefiting from the suggestions or the impetus of the Hoover Commission, it should be pointed out that most of the improvement efforts were initiated either prior to or independently of the Hoover Commission recommendations.

The joint accounting program, carried on by the General Accounting Office, the Treasury Department, and the Bureau of the Budget, in collaboration with all other executive agencies, is an example of one of these programs. Illustrations of economies under this program include: (a) Savings of nearly \$1,000,000 by elimination in the General Accounting Office of certain operations which were common to the General Accounting Office and the Treasury Department. (b) At least \$150,000 was saved by the revision of accounting for public debt coupon interest and related operating procedures in the Treasury Department. (c) In the Maritime Administration (Commerce Department), revisions in procedures, as well as various reorganizations within the Division of Accounts and the accounting branches of the district offices, permitted in 1 year a reduction in accounting personnel from 892 to 285 employees. (d) In the Bureau of Reclamation (Interior Department) a reduction was made of 35 percent in positions, about \$40,000 in payroll expense, in one operation alone in the Washington office of the bureau. (e) In the Department of Defense the adoption of a simplified method of scheduling disbursements and collections on electrical accounting machines and revision of related procedures should result in the elimination of more than 100 clerical positions in regional accounting offices in the Department of the Navy, with comparable savings possible in the field disbursing activities of the Department of the Army and Air Forces.

Mr. WILLIAMS. I wish to read briefly a few paragraphs from my letter:

DEAR MR. LAWTON: Will you please furnish me a breakdown by agencies of all savings as represented by budgetary requests or by reductions in personnel that have been achieved as a result of the adoption of the different recommendations of the Hoover Commission.

I voted for these recommendations as embodied in the President's numerous reorganization proposals with the understanding that substantial savings and a substantial reduction in Government personnel would be accomplished. So far I have been unable to find where a single department has reduced personnel or its budgetary request after being reorganized. I am hoping that you will be able to point out some definite economies which I have overlooked.

In reply I have received a breakdown showing that there has been a saving of

\$28,868,400. He said he believes that in the next year the savings may go up to \$30,000,000.

I quote a paragraph from his letter:

The Hoover Commission itself very wisely declined to make an estimate of the over-all savings that would result from its records. Although its "task forces" did make such estimates in some of their reports, the Commission itself mentioned dollar figures for expected economies in only one instance.

The letter goes on to say:

The major recommendations of the Hoover Commission are aimed at more effective direction, control, and coordination of Federal policies and programs. The basic purpose of such recommendations is to improve the quality of service to the taxpayer—not necessarily to reduce appropriations at all.

Mr. President, that statement is in direct contradiction to the spirit in which the reorganization plans were sent to the Senate. I quote from a letter which ex-President Herbert Hoover sent to the Senator from Massachusetts [Mr. LONGE], in which Mr. Hoover pointed out that the savings from the reorganizations should eventually approach \$2,000,000,000 annually, according to the estimates of the Commission's task force.

The citizens' committee which propagandized the reorganization plans to the American people claimed that Federal expenditures could be reduced by \$5,500,000,000 if the reforms were enacted. We have enacted over one-half of the recommendations. I voted for most of them. Now I am told that it was never the intention of the administration, when they sent the reorganization plans to the Senate, that they would embody any economies at all, but that they would only achieve a saving of \$33,000,000.

Mr. President, I am not voting for any tax increases for an administration which fools the American people like that.

LEGISLATIVE PROGRAM—ORDER FOR CALL OF THE CALENDAR ON MONDAY

Mr. McFARLAND. Mr. President, will the Senator from Georgia yield briefly to me?

Mr. GEORGE. I yield to the Senator from Arizona.

Mr. McFARLAND. First I desire to announce our program for next week if I may do so. On Monday we shall have a call of the calendar. I ask unanimous consent, Mr. President, that after the Senate convenes on Monday following the adjournment, and after the morning hour, the calendar of unobjected-to bills be called.

Mr. SALTONSTALL. With a quorum call prior to the call of the calendar?

The VICE PRESIDENT. Any Senator can make a point of no quorum. It is unnecessary to include the provision in a unanimous-consent agreement.

The Senator from Arizona asks unanimous consent that following the morning hour, assuming that the Senate will adjourn tonight, the legislative calendar be called for the consideration of unobjected-to bills. Is there objection?

Mr. HENDRICKSON. Mr. President, will the Senator yield?

Mr. McFARLAND. Yes.

Mr. HENDRICKSON. Does the majority leader plan to begin at the place in the calendar where we left off on the last call of the calendar?

Mr. McFARLAND. Yes; where we left off on the last call.

Mr. HENDRICKSON. I thank the Senator.

The VICE PRESIDENT. Is there objection? The Chair hears none, and it is so ordered.

Mr. McFARLAND. Following the completion of the call of the calendar on Monday, if time remains we shall take up Calendar No. 91, S. 337, a bill to amend the Public Health Service Act and the Vocational Educational Act of 1946. Following disposition of that bill, we intend to take up Calendar No. 752, S. 2170, a bill to amend the Defense Production Act.

Mr. SALTONSTALL. Mr. President, there has been submitted the conference report on House bill 5113, the mutual aid and assistance bill. I know that many Members of the Senate on this side of the aisle are very much interested in it and would like to know when it will be taken up. I see present the chairman of the Committee on Foreign Relations, and I would address my question to him through the majority leader.

Mr. McFARLAND. I may suggest that the conference report is a privileged matter, and if the distinguished Senator from Texas desires to call it up it may be considered at any time.

Mr. CONNALLY. I will confer with other members of the Committee on Foreign Relations. It is a privileged matter. I have refrained from taking it up until the tax bill has been disposed of. I suppose the tax bill will be disposed of tonight. It may be that we can take up the conference report on Monday.

Mr. SALTONSTALL. Would the Senator from Texas give assurance that he would probably take it up on Monday after the call of the legislative calendar, or approximately then?

Mr. CONNALLY. Somewhere around that time.

Mr. McCARRAN. Mr. President, will the Senator yield?

Mr. McFARLAND. Yes.

Mr. McCARRAN. Many Senators are exceedingly interested in Calendar 630, Senate bill 1203, to provide for the appointment of additional circuit and district judges, and for other purposes. The court calendars are overloaded, and the backlog of cases is growing day by day. The bill should be taken up as soon as possible so that it may be passed during this session of Congress.

Mr. McFARLAND. If the Senator from Nevada will let me answer that question on Monday or Tuesday, I would prefer to do so.

Mr. McCARRAN. What is the matter with answering it now?

Mr. McFARLAND. We have been very busy. We have had a busy week. I am now trying to schedule a few bills before the Senate so that we will have them up for consideration with adequate notice.

Mr. McCARRAN. The chairman of the Judiciary Committee is going to

continue to insist on getting this bill up and disposing of it.

Mr. McFARLAND. I realize that the Senator from Nevada will do so.

Mr. McKELLAR. I hope very much that the bill can be taken up. One of the judges to be appointed is from Tennessee. He is very badly needed. The present judge is ill. I hope the bill will be considered and passed.

Mr. McFARLAND. I hope Senators will not insist on my giving them this evening a complete schedule for the remainder of the session. All I want to do now is to let Members know what we will take up on Monday and Tuesday. Thereafter, we can dispose of these matters. I hope I will not have to make arrangements for all remaining bills tonight.

Mr. McCARRAN. Would the Senator from Arizona consent to take up the bill on Monday or Tuesday?

Mr. McFARLAND. I have already indicated—

Mr. McCARRAN. Would the Senator listen to my question, if I assure him that the bill can be disposed of in an hour?

Mr. McFARLAND. I would rather talk about it with the Senator from Nevada on Monday. I do not believe it can be disposed of in an hour.

Mr. McCARRAN. Would the Senator from Arizona take a chance on it?

Mr. McFARLAND. I will talk to the Senator about it.

Mr. McCARRAN. The Senator from Arizona has been talking to me about it for 2 or 3 months.

Mr. McFARLAND. Oh, my good friend from Nevada has not been talking about the bill for 2 or 3 months.

SEVERAL SENATORS. Vote! Vote!

The VICE PRESIDENT. The Senate will be in order.

Mr. McFARLAND. I believe we have a sufficient schedule for the Senate at this time. It was my intention to let Members know what we are going to do. I will confer with my friend from Nevada in good time.

Mr. McCARRAN. Mr. President, will the Senator yield?

Mr. McFARLAND. Yes.

Mr. McCARRAN. Am I to take the Senator's statement as notice that the bill is not going to come up?

Mr. McFARLAND. Of course not, I did not say that nor suggest it. If the Senator will confer with me—

Mr. McCARRAN. I have been conferring with the Senator from Arizona for weeks.

SEVERAL SENATORS. Vote! Vote!

The VICE PRESIDENT. The Senate will be in order.

Mr. McFARLAND subsequently said: Mr. President, will the Senator yield me a moment to make a modification of my legislative-program announcement for next week?

Mr. GEORGE. I yield to the Senator. I hope it is nothing controversial. I have been in this Chamber exactly 12 hours at this moment today.

Mr. McFARLAND. There will be no controversy.

Mr. GEORGE. Very well. I yield.

Mr. McFARLAND. All I want to announce, Mr. President, is that some Sen-

ators feel that possibly all day Monday will be taken up with the call of the calendar of unobjected-to bills, and therefore we shall not take up Senate bill 337, Calendar 91, until Tuesday. Following disposition of that bill, we shall take up Senate bill 2170, Calendar No. 752, the bill amending the Defense Production Act. There is the possibility, if the Senator from Texas [Mr. CONNALLY] so desires, that we shall also consider on Monday the conference report on the mutual security bill. That is a privileged matter and may be brought up whenever the Senator from Texas desires.

Mr. SALTONSTALL. Mr. President, will the Senator yield?

Mr. McFARLAND. I yield to the Senator from Massachusetts.

Mr. SALTONSTALL. Does that mean that the Senator does not intend to ask the chairman of the Committee on Foreign Relations to call the conference report on the mutual aid bill?

Mr. McFARLAND. If the chairman of the committee wishes to call it up, it will be all right with me.

Mr. SALTONSTALL. I ask the question because there are some Senators who are interested in it.

Mr. McFARLAND. It is up to the chairman of the Committee on Foreign Relations.

Mr. SALTONSTALL. So that if he wants to take it up Monday, that will be satisfactory, will it?

Mr. McFARLAND. That will be perfectly satisfactory.

REVENUE ACT OF 1951

The Senate resumed the consideration of the bill (H. R. 4473) to provide revenue, and for other purposes.

Mr. McFARLAND. Mr. President, I desire to comment briefly with respect to the pending tax bill. The Finance Committee has my sympathy. I have sat through all these long days of debate; and I want the members of the Finance Committee to know that although I would have much preferred that the tax bill had been written in such a way as to raise more revenue, and I may add that I voted accordingly on some amendments to achieve that objective I feel that the committee had a most difficult job to do. My distinguished friend, the Senator from Illinois [Mr. DOUGLAS] spoke accurately when he said that if one wishes to be a good politician, he should vote for all appropriations and vote against all taxes.

Mr. President, it is not a pleasant thing to vote for taxes, but I am willing to assume my responsibility and to vote for this bill. I voted against the committee in a few instances because I felt we should raise more revenue, but simply because my position was not sustained I am not going to vote against the passage of the bill this evening. I am willing to stand here and share my part of the responsibility with the committee.

I believe the Senate knows full well that the committee had a most difficult job. It is easy to criticize the committee; it is easy to criticize the Senate, but no one could write a tax bill which would win either the approval of all Members nor of all taxpayers.

So, Mr. President, I am going to support the committee. The bill before us now for final action raises urgently needed revenue; it does it as fairly as possible under all the circumstances and difficulties. We have no choice here now in these desperate times when we are attempting to quickly build up our defenses but to raise revenue for the maintenance of our Government. I hope that this bill will have the support of every Member.

Mr. AIKEN. Mr. President, will the Senator from Arizona yield to me?

Mr. McFARLAND. I yield.

Mr. AIKEN. Does not the distinguished majority leader feel that the Senate should be as concerned over the \$5,000,000,000 unbudgeted item which we insisted upon putting in the Armed Services appropriation bill, although it was not asked for, as we are over a \$5,000,000,000 tax bill?

Mr. McFARLAND. Mr. President, I wish to say to my good friend, the Senator from Vermont—and I have the utmost respect for him, because he is one of those who have been willing to stand on this floor and vote their convictions for appropriations which were needed for the running of this Government—that in passing this tax bill we are considering the defense of the United States. Appropriation items are properly considered when an appropriation bill is before us.

The Senator from Vermont is in favor of the development of the St. Lawrence Seaway.

Mr. AIKEN. That is correct.

Mr. McFARLAND. If we expect to keep the United States strong, I do not believe we can afford to refuse to develop our natural resources such as the waterway. If we do not plan intelligently for the future we can expect the future to hold for our Nation what history shows has been the fate of nations which in the past have refused to develop their natural resources.

Mr. AIKEN. Mr. President, I agree with the Senator from Arizona as to the necessity for the development of natural resources. However, after the Senate has voted into the Defense Establishment appropriation bill a \$5,000,000,000 item which neither the President nor the Armed Forces have requested at this time, I believe the Senate is hardly in a position to complain about a \$5,000,000,000 tax bill.

Mr. McFARLAND. Mr. President, I do not wish to get into a controversy about this matter.

Mr. AIKEN. Of course, not.

Mr. GEORGE. Mr. President, I yield 5 minutes to the junior Senator from Connecticut [Mr. BENTON], if he wishes to use that much time.

Mr. BENTON. Mr. President, I thank the chairman of the committee for yielding time to me.

Let me say that I disagree with the decisions just announced by my friends, the Senator from Oregon, the Senator from Illinois, the Senator from New York, and the Senator from Minnesota; and I should like to take a few minutes to explain why I disagree.

In voting against this bill they will be voting, of course, with the Senator from

Indiana, who opposes the increase in taxes because he wants expenses cut. I am sure that every Member of this body wants expenses cut if that can be done without jeopardizing the national security. However, Mr. President, manifestly any major cut in expenses, such as is envisaged in the suggestion of the Senator from Indiana, will mean a cut of great depth and of major impact to the defense program.

At the present time we have in our budget only \$9,500,000,000 for items outside of the defense program, the interest on the public debt, and the veterans' program. Even with the passage of this tax bill, present forecasts indicate a deficit of approximately \$9,500,000,000 or \$10,000,000,000.

Thus, we would have to do two things in order to achieve a balance between expenditures and income: We would have to pass this tax bill, and then we would have to abolish every department and agency of the Federal Government apart from veterans' activities, interest on the public debt, and our defense budget. Therefore, Mr. President, I cannot agree to go along with the Senator from Indiana on a decision today against this tax bill.

Mr. MORSE. Mr. President, will the Senator yield?

Mr. BENTON. If I may finish, then I will yield, if the distinguished Senator from Georgia will yield to me the additional time.

Mr. President, as we know, the President has asked for \$10,000,000,000 in extra revenue to be raised through taxes. I agree with the distinguished majority leader and with previous expressions by the Senator from Minnesota and other Senators, that this bill will not raise sufficient revenue, even though I also agree with the distinguished chairman of the Finance Committee that there are other ways to control inflation besides taxation.

I voted for many amendments to the bill which were rejected, and these votes indicate criticisms against the bill, which I feel are warranted. But the Federal Government needs the money which is to be raised by the bill, and I do not think we should reject it because it does not raise sufficient revenue, and the fact that it could be improved, even greatly improved, is no reason, in my judgment, for voting against it. I am sure the distinguished Senator from Georgia and every other member of the Finance Committee know there never has been a tax bill which could not be improved.

Tax legislation, Mr. President, seems to me the most complex legislation on which we must pass, and that is why the work of the Finance Committee is so onerous and difficult as well as so important. Every change in a tax bill affects many other provisions in the bill. Many men spend years and years of their lives in an effort to comprehend the complex problems surrounding tax legislation without arriving at an understanding of them.

I suggest that the proper vote for my esteemed friends from New York, Minnesota, Illinois, and Oregon, in line with their feelings expressed on the floor, if

they cannot support the bill as I think they should support it, would be to vote "present." The Senator from New York will recall our experience with that kind of a vote on the Defense Production Act. We knew an act was urgently needed, and we did not wish to associate ourselves with those who for reasons of their own were voting against it. We did not like the bill being voted on because we knew it would not do the job.

The VICE PRESIDENT. The time of the Senator from Connecticut has expired.

Mr. BENTON. Mr. President, will the Senator from Georgia yield me 30 seconds more in which to conclude my remarks?

Mr. GEORGE. I extend the time of the Senator.

The VICE PRESIDENT. The Senator from Connecticut is recognized for an additional 30 seconds.

Mr. BENTON. Similarly, Mr. President, my good friends from New York, Minnesota, Illinois, and Oregon must know tonight that we definitely need a bill raising taxes. They do not think the pending bill raises enough, or in ways most fair and advantageous to the taxpayer. I agree with them on both counts. I suggest, therefore, in line with these views, that they vote "present" instead of opposing the bill.

Mr. MORSE. Mr. President, will the Senator yield?

The VICE PRESIDENT. The time of the Senator from Connecticut has expired.

Mr. MORSE. Mr. President, will the Senator yield?

Mr. GEORGE. I promised to yield to the junior Senator from Michigan.

The VICE PRESIDENT. How much time does the Senator yield?

Mr. GEORGE. One minute.

Mr. MOODY. Mr. President, I should like to say that this bill will not balance the budget, it will not pay our expenditures for national defense, nor do I believe that the spread of taxes in the bill is equitable. We cannot stop inflation in America, and we must have more revenue. Therefore I intend to vote "yea."

Mr. MORSE. Mr. President, will the Senator from Georgia yield 1 minute?

Mr. GEORGE. I yield.

Mr. MORSE. I should like to say to my good friend the gentleman from Connecticut [Mr. BENTON] that I appreciated the advice as to how the junior Senator from Oregon should vote. However, the junior Senator from Oregon does not have a conscience of the neuter gender. He has very deep convictions which make up his conscience. With the convictions he entertains he could not go along, as did the Senator from Connecticut, with a series of amendments seeking to eliminate what he thought the Senator from Connecticut recognized were discriminatory principles in the bill, and then subsequently vote for the bill, to which the Senator from Oregon sought to correct in order to make it a fair bill.

I say to the Senator from Connecticut that I thought he recognized that the principle of equality of sacrifice was not encompassed in the bill. He can

now at the last moment change his mind, if he desires, and vote for a bill which violates the very principles of amendments to which he affixed his name.

The VICE PRESIDENT. The time of the Senator from Oregon has expired.

Mr. GEORGE. Mr. President, I have two unanimous-consent requests to submit, one to follow the vote, the other to precede it. I shall yield no more time, but I pause merely to say that I am beginning to think pretty well of this bill because of the enemies it has made.

Mr. President, I ask unanimous consent that a statement correcting certain clerical errors in the Finance Committee report be inserted in the RECORD.

The VICE PRESIDENT. Is there objection?

There being no objection, the statement was ordered to be printed in the RECORD, as follows:

1. On page 1 of the report in the last line of the first paragraph the figure "\$64,700,000,000" should read "\$63,600,000,000."

2. On page 2 in table 1 in the blank space beside footnote 2 in the last column, second line of the table, there should be the figure "870."

3. On page 2 in table 1 the footnote numbered 3 beside the figure 823 in the second column, last line before the total, should be numbered 4 and the footnote numbered 3 should be beside the figure "705" in the second column.

4. On page 47, at the end of the second paragraph of subject 2, "Sales of land with unharvested crops," the words "capital gain" should be substituted for the words "ordinary income."

5. On page 63 the figure "\$2,000,000" should be in the blank space in the sixth line from the bottom of the page.

6. On page 72 on the fifth line of the third paragraph of the page, the sentence beginning on that line should read "As indicated on page 15 of this."

Mr. GEORGE. Mr. President, we are ready for the vote.

The VICE PRESIDENT. The question is, Shall the bill pass? On this question the yeas and nays have been ordered, and the clerk will call the roll.

The legislative clerk proceeded to call the roll.

Mr. JOHNSON of Texas (when the name of Mr. EASTLAND was called). On this vote the Senator from Mississippi [Mr. EASTLAND] has a pair with the Senator from North Dakota [Mr. LANGER]. If the Senator from Mississippi were present, he would vote "yea," and if the Senator from North Dakota were present, he would vote "nay."

The roll call was concluded.

Mr. JOHNSON of Texas. I announce that the Senator from New Mexico [Mr. ANDERSON] is absent by leave of the Senate.

The Senator from Virginia [Mr. BYRD] is absent because of illness in his family.

The Senator from New Mexico [Mr. CHAVEZ], the Senator from Mississippi [Mr. EASTLAND], the Senator from West Virginia [Mr. KILGORE], the Senator from Louisiana [Mr. LONG], the Senator from Wyoming [Mr. O'MAHONEY] are absent on official business.

I announce further that if present and voting, the Senator from Virginia [Mr. BYRD], the Senator from New Mexico [Mr. CHAVEZ], the Senator from West

Virginia [Mr. KILGORE], and the Senator from Wyoming [Mr. O'MAHONEY] would vote "yea."

Mr. SALTONSTALL. I announce that the Senator from Utah [Mr. BENNETT], the Senator from Maryland [Mr. BUTLER], the Senator from Nebraska [Mr. BUTLER], the Senator from New Hampshire [Mr. BRIDGES], the Senator from Washington [Mr. CAIN], the Senator from Vermont [Mr. FLANDERS], the Senator from Missouri [Mr. KEM], the Senator from North Dakota [Mr. LANGER], and the Senator from Ohio [Mr. TAFT] are absent on official business.

The Senator from Wisconsin [Mr. MCCARTHY] is absent by leave of the Senate.

The Senator from New Hampshire [Mr. TOBEY] is absent because of illness.

The Senator from Nebraska [Mr. WHERRY] is necessarily absent.

The Senator from Iowa [Mr. HICKENLOOPER] is detained on official business.

If present and voting, the Senator from Vermont [Mr. FLANDERS] would vote "yea."

On the vote, the Senator from Ohio [Mr. TAFT] is paired with the Senator from Wisconsin [Mr. MCCARTHY]. If present and voting, the Senator from Ohio would vote "yea," and the Senator from Wisconsin would vote "nay."

On the vote, the Senator from Nebraska [Mr. BUTLER] is paired with the Senator from Utah [Mr. BENNETT]. If present and voting, the Senator from Nebraska would vote "yea," and the Senator from Utah would vote "nay."

On the vote, the Senator from Washington [Mr. CAIN] is paired with the Senator from Missouri [Mr. KEM]. If present and voting, the Senator from Washington would vote "yea," and the Senator from Missouri would vote "nay."

On the vote, the Senator from North Dakota [Mr. LANGER] is paired with the Senator from Mississippi [Mr. EASTLAND]. If present and voting, the Senator from North Dakota would vote "nay," and the Senator from Mississippi would vote "yea."

On the vote, the Senator from Maryland [Mr. BUTLER] is paired with the Senator from Iowa [Mr. HICKENLOOPER]. If present and voting, the Senator from Maryland would vote "yea," and the Senator from Iowa would vote "nay."

The result was announced—yeas 57, nays 19, as follows:

YEAS—57

Aiken	Hunt	Mundt
Benton	Johnson, Colo.	Neely
Brewster	Johnson, Tex.	Nixon
Carlson	Johnston, S. C.	O'Connor
Case	Kefauver	Pastore
Clements	Kerr	Robertson
Connally	Knowland	Russell
Cordon	Lodge	Saltonstall
Duff	Magnuson	Smathers
Ellender	Martin	Smith, Maine
Frear	Maybank	Smith, N. J.
Fulbright	McCarran	Smith, N. C.
George	McClellan	Sparkman
Gillette	McFarland	Stennis
Hayden	McKellar	Thye
Hennings	McMahon	Underwood
Hill	Millikin	Watkins
Hoey	Monroney	Wiley
Holland	Moody	Young

NAYS—19

Bricker	Green	Morse
Capehart	Hendrickson	Murray
Dirksen	Humphrey	Schoeppel
Douglas	Ives	Welker
Dworshak	Jenner	Williams
Eaton	Lehman	
Ferguson	Malone	

NOT VOTING—20

Anderson	Chavez	Long
Bennett	Eastland	McCarthy
Bridges	Flinders	O'Mahoney
Butler, Md.	Hickenlooper	Taft
Butler, Nebr.	Kem	Tobey
Byrd	Kilgore	Wherry
Cain	Langer	

So the bill (H. R. 4473) was passed.

Mr. GEORGE. Mr. President, I move that the Senate insist upon its amendments, request a conference with the House thereon, and that the Chair appoint conferees on the part of the Senate.

The motion was agreed to; and the Vice President appointed Mr. GEORGE, Mr. CONNALLY, Mr. JOHNSON of Colorado, Mr. MILLIKIN, and Mr. TAFT, conferees on the part of the Senate.

Mr. GEORGE. Mr. President, I send forward an order, which I ask to have read by the clerk, and agreed to.

The VICE PRESIDENT. The clerk will read the order.

The legislative clerk read as follows:

Ordered, That the bill (H. R. 4473) be printed with the Senate amendments numbered.

(2) That in the engrossment of the amendments of the Senate to the bill the Secretary of the Senate be authorized to make such changes in section, subsection, paragraph, etc., numbers and letters and cross-references thereto as may be necessary to the proper numbering and lettering of the bill.

(3) That the Secretary of the Senate make proper amendments to the table of contents to make the table conform to the bill and that all changes in the table of contents be treated as the last numbered amendment.

The VICE PRESIDENT. Without objection, the order is entered.

LEAVE OF ABSENCE

Mrs. SMITH of Maine. Mr. President, I ask unanimous consent for leave from the Senate for all of next week, so that I may keep commitments of long standing in my State of Maine.

The VICE PRESIDENT. Without objection, leave is granted.

Mr. McFARLAND. Mr. President, I think we should object to granting a leave of absence to the only lady we have in the Senate. She is deserting us for a week, but I will not object.

ADDRESS, EDITORIALS, ARTICLES, ETC., PRINTED IN THE APPENDIX

On request, and by unanimous consent, addresses, editorials, articles, and so forth, were ordered to be printed in the Appendix, as follows:

By Mr. HUMPHREY:

Statement prepared by him regarding a gathering on September 29, 1951, of about 1,500 rank-and-file leaders of the New England local of the Textile Workers Union of America to do honor to their president, Emil Rieve.

By Mr. SPARKMAN:

Article in the Birmingham News telling the story of two blind World War II veterans;

article entitled "The Handicapped" published in the September 15, 1951, issue of Modern Industry; article entitled "State To Honor Handicapped," regarding the proclamation of Gov. Gordon Persons of Alabama, designating October 7-13 as National Employ the Physically Handicapped Week in Alabama.

By Mr. ECTON:

Article entitled "Workers Have Most To Lose," written by David Lawrence and published in the Evening Star of September 27, 1951, referring to the provisions of the tax bill before the Senate.

NOMINATIONS TO THE RENEGOTIATION BOARD

Mr. McFARLAND. Mr. President, I desire to give further notice in regard to the program. I thought the distinguished Senator from North Dakota had withdrawn his objection with reference to the nominations to the Renegotiation Board. It is very important that the nominations be confirmed. So I give notice that on Monday, after the call of the calendar, the Senate will go into executive session and dispose of the nominations.

Mr. SALTONSTALL. Mr. President, will the Senator yield?

Mr. McFARLAND. I yield.

Mr. SALTONSTALL. So far as I know, we shall be ready at that time.

EXTENSION OF TIME FOR USE OF CONSTRUCTION RESERVE FUNDS UNDER MERCHANT MARINE ACT OF 1936

Mr. McFARLAND. Mr. President, the Senator from Washington [Mr. MAGNUSON] has a joint resolution which it is very important to have considered tonight.

Mr. MAGNUSON. Mr. President, there is at the desk House Joint Resolution 333.

The VICE PRESIDENT laid before the Senate the resolution (H. J. Res. 333) to extend the time for use of construction reserve funds established under section 511 of the Merchant Marine Act, 1936, as amended, which was read twice by its title.

Mr. MAGNUSON. I ask unanimous consent for the immediate consideration of the House joint resolution.

Mr. SALTONSTALL. Mr. President, am I correct in understanding that the joint resolution extends for 1 year the construction reserve funds relating to the merchant marine?

Mr. MAGNUSON. That is correct.

Mr. SALTONSTALL. Are these funds being set up by the companies and put into the reserve of the Government?

Mr. MAGNUSON. Certain unsubsidized lines have been depositing in the construction reserve fund certain amounts of money. There is now in the fund approximately \$12,000,000, set aside out of their profits for construction. The Senate, in a long-range bill, has provided for the extension, but the House, not being able to take up a long-range bill at this time, has passed the pending joint resolution so that the time may be extended until the House may have time to pass a bill on the subject. At midnight the time within which the funds may be used will expire, and the

Calendar No. 737

82^D CONGRESS
1ST SESSION

H. R. 4473

IN THE SENATE OF THE UNITED STATES

SEPTEMBER 24 (legislative day, SEPTEMBER 19), 1951

Ordered to lie on the table and to be printed

AMENDMENTS

Intended to be proposed by Mr. MOODY to the bill (H. R. 4473)
to provide revenue, and for other purposes, viz:

1 On page 268, line 21, after "sleds" insert the following:
2 "(measuring more than 60 inches over all in length)".

3 On page 269, line 4, before "10 per centum" insert the
4 following: "snow toboggans and sleds (measuring 60 inches
5 or less over all in length) ;".

9-24-51—G

82D CONGRESS
1ST SESSION

H. R. 4473

AMENDMENTS

Intended to be proposed by Mr. Moody to the bill (H. R. 4473) to provide revenue, and for other purposes.

SEPTEMBER 24 (legislative day, SEPTEMBER 19), 1951

Ordered to lie on the table and to be printed

Calendar No. 737

82^D CONGRESS
1ST SESSION

H. R. 4473

IN THE SENATE OF THE UNITED STATES

SEPTEMBER 26 (legislative day, SEPTEMBER 19), 1951

Ordered to lie on the table and to be printed

AMENDMENTS

Intended to be proposed by Mr. JOHNSON of Colorado to the bill (H. R. 4473) to provide revenue, and for other purposes, viz:

1 On page 346, line 11, before "Notwithstanding" insert
2 “(a)”.

3 On page 347, after line 6, insert the following:

4 “(b) Section 292 (relating to interest on deficiencies)
5 is hereby amended by adding at the end thereof the follow-
6 ing new subsection:

7 ““(d) With respect to any corporation entitled to re-
8 ceive payment for the transportation of United States mail,
9 if an award is retroactively received for the transportation
10 of United States mail, and if such award is required to be
11 treated as income in the year or years in which the mail
12 was carried, then, notwithstanding the provisions of subsec-

1 tion (a) of this section, no interest shall be due, with re-
2 spect to any period prior to thirty days after such award
3 is granted, for tax deficiencies resulting from the inclusion
4 of such additional mail payments retroactively.' ”

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1ST SESSION

H. R. 4473

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AMENDMENTS

Intended to be proposed by Mr. JOHNSON of
Colorado to the bill (H. R. 4473) to provide
revenue, and for other purposes.

SEPTEMBER 26 (legislative day, SEPTEMBER 19), 1951
Ordered to lie on the table and to be printed

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82^d CONGRESS
1ST SESSION

H. R. 4473

IN THE SENATE OF THE UNITED STATES

SEPTEMBER 20 (legislative day, SEPTEMBER 19), 1951

Ordered to lie on the table and to be printed

AMENDMENT

Intended to be proposed by Mr. McKELLAR to the bill (H. R. 4473) to provide revenue, and for other purposes, viz:

- 1 On page 162, line 10, insert "calcium and magnesium
- 2 carbonates," after "asphalt,".

9-20-51—H

82^d CONGRESS
1ST SESSION

H. R. 4473

AMENDMENT

Intended to be proposed by Mr. McKEELAR to
the bill (H. R. 4473) to provide revenue, and
for other purposes.

SEPTEMBER 20 (legislative day, SEPTEMBER 19), 1951

Ordered to lie on the table and to be printed

Calendar No. 737

82D CONGRESS
1ST SESSION

H. R. 4473

IN THE SENATE OF THE UNITED STATES

SEPTEMBER 25 (legislative day, SEPTEMBER 19), 1951

Ordered to lie on the table and to be printed

AMENDMENT

Intended to be proposed by Mr. MOODY (for himself, Mr. MON-
RONEY, Mr. MORSE, Mr. DUFF, Mr. HUMPHREY, Mr.
KNOWLAND, Mr. HILL, Mr. SMATHERS, Mr. HENDRICKSON,
Mr. NEELY, Mr. SPARKMAN, Mr. HENNINGS, Mr. IVES,
Mr. PASTORE, Mr. HUNT, and Mr. LEHMAN) to the bill
(H. R. 4473) to provide revenue, and for other purposes,
viz:

- 1 On page 270, lines 2 and 3, strike out "electric vacuum
- 2 cleaners; electric washing machines;".

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1ST SESSION

H. R. 4473

AMENDMENT

Intended to be proposed by Mr. Moody (for himself, Mr. MONRONEY, Mr. MORSE, Mr. DUFF, Mr. HUMPHREY, Mr. KNOWLAND, Mr. HULL, Mr. SMATHERS, Mr. HENDRICKSON, Mr. NEELY, Mr. SPARKMAN, Mr. HENNING, Mr. IVES, Mr. PASTORE, Mr. HUNT, and Mr. LEHMAN) to the bill (H. R. 4473) to provide revenue, and for other purposes.

SEPTEMBER 25 (legislative day, SEPTEMBER 19), 1951

Ordered to lie on the table and to be printed

H. R. 4473

IN THE SENATE OF THE UNITED STATES

SEPTEMBER 22 (legislative day, SEPTEMBER 19), 1951

Ordered to lie on the table and to be printed

AMENDMENT

Intended to be proposed by Mr. McMAHON (for himself, Mr. BENTON, and Mr. MILLIKIN) to the bill (H. R. 4473) to provide revenue, and for other purposes, viz: On page 221, insert after line 23:

1 SEC. 344. PUBLISHING BUSINESS CARRIED ON BY TAX-

2 EXEMPT ORGANIZATION.

3 (a) TREATMENT AS RELATED TRADE OR BUSINESS.—

4 Section 422 (b) (relating to definition of unrelated trade
5 or business) is hereby amended by adding at the end thereof
6 the following: "If a publishing business carried on by an
7 organization during the taxable year is, without regard to
8 this sentence, an unrelated trade or business, but before the
9 beginning of the third succeeding taxable year the business
10 is carried on by it (or by a successor who acquired such
11 business in a liquidation which would constitute a tax-free

1 exchange under section 112 (b) (6)) in such manner that
2 the conduct thereof is substantially related to the exercise or
3 performance by such organization (or such successor) of its
4 educational or other purpose or function described in sec-
5 tion 101 (6), such publishing business shall not be con-
6 sidered, for the taxable year, as an unrelated trade or
7 business.”

8 (b) EFFECTIVE DATE.—The amendment made by this
9 section shall be applicable with respect to taxable years be-
10 ginning after December 31, 1950, and prior to January 1,
11 1953.

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1st Session

H. R. 4473

AMENDMENT

Intended to be proposed by Mr. McMAHON (for himself, Mr. BENTON, and Mr. MULLIKIN) to the bill (H. R. 4473) to provide revenue, and for other purposes.

SEPTEMBER 22 (legislative day, SEPTEMBER 19), 1951
Ordered to lie on the table and to be printed

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82^D CONGRESS
1ST SESSION

H. R. 4473

IN THE SENATE OF THE UNITED STATES

SEPTEMBER 22 (legislative day, SEPTEMBER 19), 1951

Ordered to lie on the table and to be printed

AMENDMENT

Intended to be proposed by Mr. KEFAUVER (for himself, Mr. O'CONOR, Mr. WILEY, Mr. HUNT, and Mr. TOBEY) to the bill (H. R. 4473) to provide revenue, and for other purposes, viz: At the proper place insert the following:

1 SEC. . NET WORTH STATEMENTS BY INDIVIDUALS EN-
2 GAGED IN ILLEGAL BUSINESSES.

3 (a) INDIVIDUALS ENGAGED IN ILLEGAL BUSI-
4 NESSES.—Section 54 (relating to records and special re-
5 turns) is further amended by adding at the end thereof a
6 new subsection as follows:

7 “(h) NET WORTH STATEMENTS BY CERTAIN INDI-
8 VIDUALS.—Every individual who has, during the taxable
9 year or during any of the five years preceding the taxable
10 year, received gross income in excess of \$2,500 from one or
11 more unlawful trades or businesses, shall file with his return

1 for the taxable year, in such form and in such detail as the
2 Secretary may by regulations prescribe, a statement of net
3 worth showing, as of the close of the taxable year, each asset
4 and liability of such individual, of such individual and his
5 spouse jointly, and, in the case of a joint return by an
6 individual and his spouse, each asset and liability of such
7 spouse. Such statement shall contain or be verified by a
8 written declaration that it is made under the penalties of
9 perjury.”

10 (b) EFFECTIVE DATE.—The amendment made by this
11 section shall be applicable only with respect to taxable
12 years ending after the date of enactment of this Act.

82D CONGRESS
1ST SESSION

H. R. 4473

AMENDMENT

Intended to be proposed by Mr. KEFAUVER (for himself, Mr. O'CONNOR, Mr. WILEY, Mr. HUNT, and Mr. TOBEY) to the bill (H. R. 4473) to provide revenue, and for other purposes.

SEPTEMBER 22 (legislative day, SEPTEMBER 19), 1951

Ordered to lie on the table and to be printed

Calendar No. 737

82D CONGRESS
1ST SESSION

H. R. 4473

IN THE SENATE OF THE UNITED STATES

SEPTEMBER 27 (legislative day, SEPTEMBER 19), 1951

Ordered to lie on the table and to be printed

AMENDMENT

Intended to be proposed by Mr. HENNINGS to the bill (H. R. 4473) to provide revenue, and for other purposes, viz: At the proper place insert the following:

1 SEC. . TAX REFUNDS ON SPIRITS LOST IN FLOODS OF 1951.

2 (a) AUTHORIZATION.—The Secretary of the Treasury
3 is authorized and directed to make refund or allow credit in
4 the case of a distiller or rectifier if he so elects, in the amount
5 of the internal-revenue tax and customs duties paid on spirits
6 previously withdrawn, and lost, or rendered unmarketable,
7 by reason of the floods of 1951 while such spirits were in the
8 possession of (1) the person originally paying such tax or
9 such tax and duty on such spirits, (2) a rectifier for rectifica-
10 tion or for bottling, or which have been used in the process
11 of rectification, under Government supervision as provided by
12 law and regulations, or (3) a wholesale or retail liquor dealer,

1 all hereafter referred to as the possessor or possessors. The
2 refunds and credits authorized by this section may be made
3 to (1) any of the possessors, except a retail liquor dealer,
4 or (2) to any distiller, rectifier, importer, or wholesale liquor
5 dealer who replaced for the possessor the full equivalent of
6 the distilled spirits so destroyed or rendered unmarketable,
7 without compensation, remuneration, payment, or credit of
8 any kind in respect of the tax, or tax and duty on such
9 distilled spirits. A claim for the amount of such tax, or such
10 tax and duty, shall be filed with the Secretary of the Treas-
11 ury within ninety days from the date of enactment of this
12 Act. The claimant shall furnish proof to the Secretary's
13 satisfaction that (1) the internal-revenue tax on such spirits,
14 or the tax and duty if imported, was fully paid, (2) such
15 spirits were lost, or rendered unmarketable, by reason of
16 damage sustained as the result of the aforesaid flood condi-
17 tions, (3) claimant was not indemnified by any valid claim
18 of insurance or otherwise against loss of the tax (or tax and
19 duty if imported) paid on the spirits, and (4) in those cases
20 where applicable, that the claimant has replaced for the
21 possessor the full equivalent of the distilled spirits so de-
22 stroyed or rendered unmarketable, without compensation,
23 remuneration, payment, or credit of any kind in respect of
24 the tax, or tax and duty, on such distilled spirits.

1 (b) DESTRUCTION OF SPIRITS.—When the Secretary,
2 pursuant to this section, makes refund, or allows credit, in
3 the amount of the tax, or tax and duty, on spirits rendered
4 unmarketable, such spirits shall be destroyed under the
5 supervision of the Secretary.

6 (c) CREDIT.—Where credit is allowed to a distiller or
7 rectifier for the internal-revenue tax previously paid as afore-
8 said, the Secretary is authorized and directed to provide for
9 the issuance of stamps to cover the tax on spirits subsequently
10 withdrawn or rectified to the extent of the credit so allowed.

11 (d) REGULATIONS.—The Secretary is authorized to
12 make such rules and regulations as may be necessary to carry
13 out the provisions of this section.

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1ST SESSION

H. R. 4473

AMENDMENT

Intended to be proposed by Mr. HENNING to
the bill (H. R. 4473) to provide revenue,
and for other purposes.

SEPTEMBER 27 (legislative day, SEPTEMBER 19), 1951
Ordered to lie on the table and to be printed

Calendar No. 737

82^D CONGRESS
1ST SESSION

H. R. 4473

IN THE SENATE OF THE UNITED STATES

SEPTEMBER 25 (legislative day, SEPTEMBER 19), 1951

Ordered to lie on the table and to be printed

AMENDMENT

Intended to be proposed by Mr. McCLELLAN to the bill (H. R. 4473) to provide revenue and for other purposes, viz:

On page 331, after line 12, insert the following:

1 SEC. 522. STRATEGIC MINERALS.

2 Section 450 (b) (1) (relating to corporations engaged
3 in mining of strategic minerals) is hereby amended by insert-
4 ing after the word "chromite" the following: "bauxite".

9-25-51—B

82D CONGRESS
1ST SESSION

H. R. 4473

AMENDMENT

Intended to be proposed by Mr. McClellan to
the bill (H. R. 4473) to provide revenue, and
for other purposes.

SEPTEMBER 25 (legislative day, SEPTEMBER 19), 1951

Ordered to lie on the table and to be printed

House of Representatives

MONDAY, OCTOBER 1, 1951

The House met at 12 o'clock noon.

The Chaplain, Rev. Bernard Braskamp, D. D., offered the following prayer: Almighty God, our Father, may we begin this new week with confidence and courage, ready to accept life's duties and demands without reservation or retreat.

Grant that in these days of high and holy remembrance in the lives of many of our fellow citizens, who are reverently linking themselves to the glorious traditions of their God-fearing fathers, there may be born within the hearts and minds of all the people of our beloved country a finer appreciation of religion as a great law and principle of our being. May we never interpret freedom of religion as freedom from religion.

God forbid that we should ever set up dogmas and rites and orders that limit and exclude and divide the members of the human family, but may we help them to cultivate a more magnanimous, tolerant, and sympathetic spirit and the will to fellowship and a sense of universal community.

May we be eager to join hearts and hands in doing whatever is necessary and whatever lies within our power to make the spirit of brotherhood prevail for we know that only a social order that is brotherly can meet the needs of these stupendous times.

Hear us for the sake of the Prince of Peace who came in the name of our blessed Lord. Amen.

THE JOURNAL

The Journal of the proceedings of Thursday, September 27, 1951, was read and approved.

MESSAGE FROM THE SENATE

A message from the Senate, by Mr. Landers, its enrolling clerk, announced that the Senate had passed without amendment a joint resolution of the House of the following title:

H. J. Res. 333. Joint resolution to extend the time for use of construction reserve funds established under section 511 of the Merchant Marine Act, 1936, as amended.

The message also announced that the Senate had passed, with amendments in which the concurrence of the House is requested, a bill of the House of the following title:

H. R. 4473. An act to provide revenue and for other purposes.

The message also announced that the Senate insists upon its amendments to the foregoing bill, requests a conference with the House on the disagreeing votes of the two Houses thereon, and appoints Mr. GEORGE, Mr. CONNALLY, Mr. JOHNSON of Colorado, Mr. MILLIKIN, and Mr. TAFT to be the conferees on the part of the Senate.

RESIGNATION OF MEMBER

The SPEAKER laid before the House the following communication from a Member of the House which was read:

JUNE 27, 1951.

HON. SAM RAYBURN,
Speaker, House of Representatives,
Washington, D. C.

DEAR MR. SPEAKER: Because of a continuing blood ailment and upon the advice of my personal physician, I am compelled to tender my resignation from the office of Congressman for the Third Ohio District.

I should like my retirement to become effective as of October 1, 1951.

Needless to say I regret the necessity for taking this action.

With best personal greetings, I am

Very sincerely,

EDWARD BREEN,
Member of Congress, Third Ohio
District.

COMMITTEE ON WAYS AND MEANS

Mr. DOUGHTON. Mr. Speaker, I ask unanimous consent that the Committee on Ways and Means may have until midnight tonight to file a committee report on the bill H. R. 5505, the customs simplification bill.

The SPEAKER. Is there objection to the request of the gentleman from North Carolina?

There was no objection.

REVENUE ACT OF 1951

Mr. DOUGHTON. Mr. Speaker, I ask unanimous consent to take from the Speaker's desk the bill (H. R. 4473) to provide revenue, and for other purposes, with Senate amendments thereto, disagree to the Senate amendments, and agree to the conference asked by the Senate.

The SPEAKER. Is there objection to the request of the gentleman from North Carolina? [After a pause.] The Chair hears none and appoints the following conferees: Messrs. DOUGHTON, COOPER, DINGELL, MILLS, REED of New York, JENKINS, and SIMPSON of Pennsylvania.

SPECIAL ORDERS GRANTED

Mr. BRYSON asked and was given permission to address the House for 30 minutes on Wednesday next, following the legislative program and any special orders heretofore entered.

Mr. WHEELER asked and was given permission to address the House for 30 minutes on Wednesday next, following the legislative program and any special orders heretofore entered.

Mr. BLATNIK asked and was given permission to address the House for 5 minutes today, following any special orders heretofore entered.

NATIONAL NEWSPAPER WEEK

(Mr. TALLE asked and was given permission to address the House for 1 min-

ute and to revise and extend his remarks.)

Mr. TALLE. Mr. Speaker, today marks the opening of National Newspaper Week; and every tyrant-hating, freedom-loving American should pause to salute the vigilant men and women of our free press who are truly the guardians of our liberties.

Three centuries ago, one of the great men of English letters, John Milton, penned his Areopagitica in immortal defense of freedom of the press. He closed his classic pamphlet with this impassioned plea:

Give me the liberty to know, to utter, and to argue freely according to conscience, above all liberties.

In the following 200 years the concepts of free speech and a free press became so integral a part of government in the English-speaking world that John Stuart Mill, perhaps the foremost liberal of the nineteenth century, could write as follows in his political treatise On Liberty:

The time, it is hoped, is gone by, when any defense would be necessary of the "liberty of the press" as one of the securities against corrupt or tyrannical government.

But here in the United States, 100 years later, events have recently come to pass proving that we dare not take for granted the priceless heritage of free speech and a free press simply because they are guaranteed in the Constitution. There are men in high places, powerful men, dangerous men, who even today seek to destroy these precious freedoms.

For example, Mr. Speaker, just last week the President of the United States issued his infamous Executive Order 10290, establishing censorship in all the agencies and departments of the Federal Government. It is significant that this lid of secrecy is being clamped down even as congressional committees are sifting charges of corruption in the Truman administration unearthed by alert, enterprising news reporters. This Presidential gag means that the public will be furnished only such information concerning governmental activities as the apologists and hatchetmen of the Truman administration believe will serve their own selfish political purposes. It is grim irony that this news black-out was imposed on the eve of National Newspaper Week.

Mr. Truman's cynical disregard for our constitutional freedoms is but further proof of his unfitness for the office he holds. A few shorts weeks ago, on Constitution Day, in fact, he had the temerity to suggest in a public address here in the Nation's Capital that the publishers and editors of publications with second-class mail permits would do well to refrain from criticizing the policies of his administration. This was

nothing but a bare-faced attempt at intimidation. On the very same day, in ceremonies at the Library of Congress resealing the Declaration of Independence and the Constitution, he had the effrontery to call on the American people to be "faithful to the spirit" of these hallowed documents.

Mr. Speaker, if more proof is needed as to the unholy efforts now directed toward strangling freedom of speech and freedom of the press, witness the castigation that is heaped on any individual who dares to protest against the extravagance, the corruption, or the stupidity of the Truman administration. Anyone who so speaks out is immediately accused of smear tactics, and the wheels are set in motion to silence him or to discredit him. Some of Mr. Truman's self-styled "liberal" followers have actually gone so far as to propose striking from the Constitution the section which guarantees that Members of the House and of the Senate shall not be questioned in any other place for their speeches in the Congress. Our founding fathers, in their great wisdom, expressly wrote this congressional immunity of speech into the Constitution to prevent any ruthless administration from silencing the voice of the minority.

These attacks on our free institutions are the acts of desperate men who will stop at nothing to win a political election. But they cannot succeed; they will not succeed so long as the American press—the eyes and ears of freedom—is kept unshackled.

Mr. Speaker, during the recess of the House last month it was my privilege to revisit the Parthenon in Athens and the Colosseum in Rome, crumbled monuments of earlier civilizations that flourished proudly for a day, then withered because their peoples did not bestir themselves to promote individual liberty and freedom. As I stood among those haunted ruins, my thoughts turned naturally to our own beloved Capitol here in Washington, symbol of the greatest civilization in the history of the world—greatest because we have attained under our sacred Constitution the highest degree of freedom ever known to man; and there came to my mind Daniel Webster's stirring warning in an earlier hour of national peril:

It were but a trifle even if the walls of yonder Capitol were to crumble, if its lofty pillars should fall, and its gorgeous decorations be all covered by the dust of the valley. All these may be rebuilt.

But who shall reconstruct the fabric of demolished government?

Who shall rear again the well-proportioned columns of constitutional liberty?

No, if these columns fall, they will be raised not again. Like the Colosseum and the Parthenon, they will be destined to a mournful and a melancholy immortality. Bitterer tears, however, will flow over them than were ever shed over the monuments of Roman or Grecian art; for they will be the monuments of a more glorious edifice than Greece or Rome ever saw, the edifice of constitutional American liberty.

WILMINGTON VETERANS HOSPITAL,
WILMINGTON, DEL.

(Mr. HAND asked and was given permission to address the House for 1 minute and to revise and extend his remarks and include a letter.)

Mr. HAND. Mr. Speaker, it is so often that we have to criticize the various bureaus and agencies of the Government that on this occasion it is a great pleasure for me to include in the RECORD at this point a letter from a service officer of one of the counties of my district, speaking in the highest terms of the facilities, the efficiency, and the kindness of the Wilmington Veterans Hospital at Wilmington, Del.:

CAPE MAY COUNTY VETERANS' BUREAU,
Cape May Court House, N. J.,
September 28, 1951.

Hon. T. MILLET HAND,
Congressman, Second District, State of
New Jersey, House of Representatives,
Washington, D. C.

DEAR MR. HAND: Attached hereto is a copy of my communication to the Director of Medical Services of headquarters, Veterans' Administration, Washington, D. C.

I personally feel that a facility of the Veterans' Administration which renders such care and excellent treatment and consideration of veterans should be applauded publicly and officially. I also extend to you the opportunity of visiting the Wilmington Veterans Hospital with the undersigned at any time you may so desire.

Kindest personal regards,
ANTHONY J. VOLPE,
County Service Officer.

SEPTEMBER 28, 1951.

Director of MEDICAL SERVICES,
Veterans' Administration,
Central Office, Washington, D. C.

DEAR SIR: The undersigned on behalf of the 20 veterans' organizations of Cape May County, N. J., and the veterans of all wars of Cape May County hereby make the following report for your information and record.

In the past several years, and especially in the past year since November 1950, the undersigned as an official representative of veterans' of Cape May County has processed hundreds of veterans of all wars and obtained admission for same to the Veterans' Administration hospital, Wilmington, Del. Of all these men hospitalized and treated and cared for by the Wilmington veterans' hospital not one man has, to this date, had anything to say but sincere praise for the services they have obtained at said veterans' hospital.

Through personal observation and official visitations the undersigned, with all sincerity, can state that the entire staff and personnel at the veterans' hospital, Wilmington, Del., are a very efficient group, very courteous, and of a caliber to be envied by any other hospital of its type. Besides the excellent medical and surgical care our veterans of Cape May County have received and continue to receive, they have fine recreational, religious, and social facilities. Another nice feature observed at the Wilmington Veterans' Hospital by the undersigned is the immaculate cleanliness of the wards, the rooms, the offices, and especially the mess hall and dining areas of this installation. The religious services offered there is an inspiration to men of all faiths. Not only does the chaplain and his staff take a personal interest in all the patients along with religious services; but religion and religious services are also offered to the hospitalized veterans by radio over the hospital's own radio station.

The general medical and general surgical facilities of the Wilmington Veterans' Hospital has excelled in these two services and beyond that their referral policy, such as social service or the transfer of patients requiring other than medical and surgical care of a specialized nature, is one that operates smoothly, speedily, and efficiently.

The undersigned, being a combat amputee with many other wounds, has been a patient

in many Government and civilian hospitals and with sincerity I can definitely state that had I known that such excellent services were available at the Wilmington hospital 2 or 3 years ago, I would have been a contented patient there. In fact, I have made tentative arrangements presently to be a patient for service-connected revision of a left amputation at the Wilmington Veterans' Hospital this year.

The undersigned on behalf of the 7,500 veterans and their dependents of Cape May County, N. J., congratulates the Medical Department of the Veterans' Administration for keeping the Wilmington Veterans' Hospital available to the veterans of this area.

Very sincerely yours,
ANTHONY J. VOLPE,
County Service Officer.

SPECIAL ORDERS GRANTED

Mr. ARMSTRONG asked and was given permission to address the House on Thursday, October 4, for 15 minutes, following the legislative program and any special orders heretofore entered.

Mr. CURTIS of Missouri asked and was given permission to address the House for 15 minutes today, following any special orders heretofore entered.

RAILROAD RETIREMENT FUND

(Mr. VURSELL asked and was given permission to address the House for 1 minute and to revise and extend his remarks.)

Mr. VURSELL. Mr. Speaker, we are now going into the tenth month of this session. During all this time the cost of living has continued to advance and advance. During all this time bills have been before the committee and before the Congress to give to the railroad pensioners and annuitants an increase for which they have paid and for which over \$2,000,000,000 is now available in the railroad retirement trust fund. If it is the intention of the administration to pass this legislation during this session of Congress I think it is time we took action, because these people have been kept waiting too long now, fenced off from the benefit of their own funds.

Mr. Speaker, time and again I have urged the necessity of the earliest possible passage of such legislation. It should have been passed months ago. I cannot understand why more interest has not been shown by the majority party in control of this Congress who have the responsibility of laying out the legislative program, encouraging its consideration by the proper committees, and bringing same before this body for consideration.

It is getting late in the session and unless acted upon quickly by the House and the Senate, the railroad men and their survivors will fail to get the relief to which they are entitled, and which many of them badly need, because of the present high cost of living.

WOMEN IN THE DEFENSE DECADE

(Mrs. BOLTON asked and was given permission to address the House for 1 minute and to revise and extend her remarks and include an address delivered by her.)

Mrs. BOLTON. Mr. Speaker, an inspiring conference of men and women was held in New York City on September 27 and 28 at Hotel Commodore. It was called by the American Council on Education, under the able leadership of Dr. Arthur S. Adams, president of the coun-

Also may act on H. Res. 447, to extend the authority of the Select Committee To Investigate the Use of Chemicals in Food Products into the field of cosmetics; and H. R. 2574, providing that contracts negotiated without advertising under the Federal Property and Administrative Services Act and the Armed Services Procurement Act shall stipulate that the Comptroller General shall have the right to examine pertinent data of contractors and subcontractors.

Committee Meetings

PAY INCREASE, UNIFORMED SERVICES

Committee on Armed Services: Kilday subcommittee opened hearings on H. R. 5664, to provide for an increase in the pay and certain allowances of members of the uniformed services. Witnesses testifying were Robert A. Lovett, Secretary of Defense; Anna M. Rosenberg, Assistant Secretary of Defense; Gen. John E. Hull, Vice Chief of Staff, Department of the Army; Admiral William A. Fechteler, Chief of Naval Operations; and Gen. Hoyt S. Vandenberg, Chief of Staff, Department of the Air Force. Adjourned until tomorrow morning.

DPA—PRICE CEILINGS

Committee on Banking and Currency: Ordered reported to the House S. 2170, to amend the Defense Production Act of 1950, regarding price ceilings for manufacturers and processors. The bill was amended to change the period which reflects the highest level of prices prevailing during a representative base from 6 months to a year (July 1, 1949, to June 24, 1950, inclusive).

STEEL

Committee on Expenditures in the Executive Departments: Subcommittee on Intergovernmental Relations resumed hearings regarding steel allocations. At today's session Robert H. Winn, Associate General Counsel for Compliance and Enforcement, NPA, was cross-examined by Chairman Lantaff regarding the possibility of a steel company estimating its quarterly production to be lower than the actual tonnage. Mr. Winn said that such a circumstance was unlikely. He further stated that if such were the case it was doubtful that the difference could be allocated to a subsidiary company, and that his agency would check reports that such possible violations were being committed. He was followed by Dwight Brantley, Deputy Assistant Director for Enforcement, OPS, who testified briefly. Adjourned subject to call of the Chair.

NATURALIZATION, ARMED FORCES

Committee on the Judiciary: Ordered reported to the House, as amended, H. R. 401, providing that any person not a citizen and regardless of age, who serves with the Armed Forces on or after June 25, 1950, and not later than June 30, 1955, may be naturalized after compliance with the naturalization laws.

Also ordered reported to the House 32 private immigration bills (18 of the House and 14 of the Senate) and tabled 11 others (9 of the House and 2 of the Senate).

ST. LAWRENCE SEAWAY

Committee on Public Works: Chairman Buckley informed committee members today that no meeting on the St. Lawrence seaway legislation will be called until after January 1, 1952. Witnesses testified at hearings held this week on the Blatnik resolution (H. J. Res. 337), approving U. S.-Canadian agreement relating to the development of the resources of the Great Lakes-St. Lawrence Basin for security purposes.

FLOOD CONTROL

Committee on Public Works: Davis Subcommittee on Flood Control approved the following bills for reporting to the full committee: H. R. 4450, to include the White River backwater area as part of the Lower Mississippi River project, requiring local levee maintenance; S. 1020, preliminary examination and survey for flood control at Las Vegas Wash, Nev.; and S. J. Res. 13, changing to Lake Thompson the name of the reservoir to be formed above Garrison Dam on the Missouri River. Also considered, but postponed action to a later date, H. R. 2334, amending the Flood Control Act relating to the apportionment of moneys received by States on account of the leasing of lands acquired by the United States for flood-control purposes to permit the expenditure of said moneys for defraying general expenses of county government, and H. R. 5512, to authorize the Secretary of Agriculture to install measures for run-off and water-flow retardation and soil-erosion prevention.

Also approved the following flood-control resolutions for reporting to the full committee (favorable reports having been submitted by the Chief of Engineers on all of the resolutions):

Losshatchie River and tributaries, Tennessee (by Mr. Davis of Tennessee). Corps of Engineers reports a favorable finding on the preliminary examination review and requests authority to proceed with the survey at an estimated cost of \$35,000.

Marsh Creek, N. Y. (by Mr. Taber). Corps of Engineers reports a favorable finding on the preliminary examination review and requests authority to proceed with the survey at an estimated cost of \$11,000.

Cayuga Inlet, New York (by Mr. Cole of New York). Estimated cost, \$17,500 for a review of survey scope.

Improvements for flood control in eastern Rapides and south-central Avoyelles Parishes, La. (by Mr. Allen of Louisiana). Estimated cost, \$20,000 for a review of survey scope.

Big Black River, Miss. (by Mr. Smith of Mississippi). Estimated cost, \$15,000 for a review of preliminary examination scope.

Flood-protection work in Allegany County, N. Y. (by Mr. Reed of New York). No additional cost involved.

Walnut River and other rivers in southeastern Kansas (by Mr. George). No additional cost involved.

The subcommittee deferred action on a resolution regarding Brazos River, Tex., regarding access road and bridge at Blum, Tex. (by Mr. Teague). Adverse report submitted by Chief of Engineers.

COMMUNISM

Committee on Un-American Activities: Continued its hearings regarding the investigation of communistic activities in defense areas. The following members of the United Electrical, Radio, and Machine Workers of America were questioned today in connection with such activities in Greater Boston: Donald Tormey, Beverly, Mass.; Nathaniel Mills, Lynn, Mass.; and Robert Goodwin, Lynn, Mass. All refused to answer pertinent questions regarding membership or association with the Communist Party. These witnesses were named, after being identified with the Communist Party, by Herbert A. Philbrick. Philbrick, it will be recalled, was the principal witness in the trial of the 11 top leaders of the Communist Party, and became associated with the party in 1942 as an undercover agent for the FBI. Meeting was adjourned subject to call of the Chair.

Joint Committee Meetings

TAX REVISION

Conferees, in executive session, concluded their work and agreed to file a conference report on the differences between the House- and Senate-passed versions of H. R. 4473, tax revision, announcing the following agreements reached today:

They reached an accord to increase individual income taxes by 11.75 percent of the present tax burden, or by 9 percent of the income remaining after taxes; however, the first-bracket tax is to be increased by only 11.5 percent. The maximum effective rate limitation for 1952 and subsequent years is to be 88 percent. As previously announced, these increases are to be effective as of November 1, 1951, and to terminate as of January 1, 1954.

Conferees further agreed not to increase the 25-percent alternative tax on capital gains.

House conferees receded and concurred in the following Senate amendments: Amendment No. 45, on tax treatment of mutual savings banks, building and loan associations, with an amendment allowing an optional reserve not to exceed 12 percent of deposits; amendment No. 99, on tax treatment of life-insurance departments of mutual savings banks; amendment No. 36, on deduction of medical expense, not limited to excess over 5 percent of adjusted gross income, for persons aged 65 and over; amendment No. 46, on cooperatives; and amendment No. 246, on excess-profits credit, with an amendment providing a reduction in excess-profits credit to 83 percent as of January 1, 1952.

POSTAL RATES

Conferees met again in executive session to work out differences between the House- and Senate-passed versions of S. 1046, to readjust certain postal rates, but made no announcement. They meet again Monday, October 15.

BILLS SIGNED BY THE PRESIDENT

New Laws

(For last listing of Public Laws, see Digest, p. D934)

S. 1349, to establish a Department of Food Services in the Public Schools of the District of Columbia. Signed October 8, 1951 (P. L. 159).

S. 1183, permitting Secretary of Commerce to lease real estate, under certain conditions, in Alaska for airport purposes. Signed October 10, 1951 (P. L. 160).

H. R. 2745, to amend Internal Revenue Code (sec. 2801) regarding tax exemptions on cordials and liqueurs. Signed October 10, 1951 (P. L. 161).

H. R. 3436, authorizing vessels of Canadian registry to transport grain between U. S. ports on the Great Lakes during 1951. Signed October 10, 1951 (P. L. 162).

H. R. 3585, authorizing General Services Administrator to transfer to the Department of the Navy certain property located at Decatur, Ill. Signed October 10, 1951 (P. L. 163).

H. J. Res. 290, providing for the recognition and endorsement of the World Metallurgical Congress. Signed October 10, 1951 (P. L. 164).

H. R. 5113, to maintain the security and promote the foreign policy and provide for the welfare of the U. S. by furnishing assistance to friendly nations in the interest of international peace and security. Signed October 10, 1951 (P. L. 165).

H. R. 2562, to require that a marine insurance company subject to excess-profits tax shall consider 50 percent of its reserves as equity capital in computing the tax under the equity capital method. Signed October 10, 1951 (P. L. 166).

H. R. 1203, to permit Air Force officers designated by the Secretary of the Air Force to take action upon any reports of destruction, etc., of Government property. Signed October 11, 1951 (P. L. 167).

H. R. 4496, legislative appropriations for 1952. Signed October 10, 1951 (P. L. 168).

REVENUE ACT OF 1951

OCTOBER 15, 1951.—Ordered to be printed

Mr. DOUGHTON, from the committee of conference, submitted the following

CONFERENCE REPORT

[To accompany H. R. 4473]

The committee of conference on the disagreeing votes of the two Houses on the amendments of the Senate to the bill (H. R. 4473), to provide revenue, and for other purposes, having met, after full and free conference, have agreed to recommend and do recommend to their respective Houses as follows:

That the Senate recede from its amendments numbered 2, 3, 5, 94, 98, 119, 120, 123, 124, 125, 126, 130, 132, 133, 134, 135, 136, 138, 139, 140, 144, 145, 146, 147, 148, 149, 150, 152, 155, 157, 158, 159, 160, 161, 162, 164, 165, 170, 177, 182, 183, 201, 202, and 203.

That the House recede from its disagreement to the amendments of the Senate numbered 9, 10, 11, 12, 14, 15, 16, 17, 18, 19, 20, 21, 22, 23, 24, 25, 26, 27, 29, 30, 31, 32, 33, 34, 35, 36, 37, 38, 39, 40, 41, 42, 44, 47, 48, 49, 50, 51, 52, 56, 57, 58, 59, 60, 61, 62, 63, 65, 66, 68, 69, 70, 71, 72, 73, 74, 75, 76, 87, 95, 103, 105, 106, 108, 109, 112, 113, 114, 115, 116, 117, 153, 169, 171, 176, 180, 186, 187, 189, 190, 192, 195, 196, 204, 205, 206, 207, 208, 209, 212, 218, 223, 229, 230, 232, 233, 242, 243, and 244 and agree to the same.

Amendment numbered 1:

That the House recede from its disagreement to the amendment of the Senate numbered 1, and agree to the same with the following amendments:

Strike out the surtax table beginning on page 1 of the Senate engrossed amendments and insert the following:

"If the surtax net income is:***The surtax shall be:***

Not over \$2,000-----	17.4% of the surtax net income.
Over \$2,000 but not over \$4,000-----	\$348, plus 19.4% of excess over \$2,000.
Over \$4,000 but not over \$6,000-----	\$736, plus 24% of excess over \$4,000.
Over \$6,000 but not over \$8,000-----	\$1,216, plus 27% of excess over \$6,000.
Over \$8,000 but not over \$10,000-----	\$1,756, plus 32% of excess over \$8,000.
Over \$10,000 but not over \$12,000-----	\$2,396, plus 36% of excess over \$10,000.
Over \$12,000 but not over \$14,000-----	\$3,116, plus 40% of excess over \$12,000.
Over \$14,000 but not over \$16,000-----	\$3,916, plus 45% of excess over \$14,000.
Over \$16,000 but not over \$18,000-----	\$4,816, plus 48% of excess over \$16,000.
Over \$18,000 but not over \$20,000-----	\$5,776, plus 51% of excess over \$18,000.
Over \$20,000 but not over \$22,000-----	\$6,796, plus 54% of excess over \$20,000.
Over \$22,000 but not over \$26,000-----	\$7,876, plus 57% of excess over \$22,000.
Over \$26,000 but not over \$32,000-----	\$10,156, plus 60% of excess over \$26,000.
Over \$32,000 but not over \$38,000-----	\$13,756, plus 63% of excess over \$32,000.
Over \$38,000 but not over \$44,000-----	\$17,536, plus 66% of excess over \$38,000.
Over \$44,000 but not over \$50,000-----	\$21,496, plus 70% of excess over \$44,000.
Over \$50,000 but not over \$60,000-----	\$25,696, plus 72% of excess over \$50,000.
Over \$60,000 but not over \$70,000-----	\$32,896, plus 75% of excess over \$60,000.
Over \$70,000 but not over \$80,000-----	\$40,396, plus 79% of excess over \$70,000.
Over \$80,000 but not over \$90,000-----	\$48,296, plus 81% of excess over \$80,000.
Over \$90,000 but not over \$100,000-----	\$56,396, plus 84% of excess over \$90,000.
Over \$100,000 but not over \$150,000--	\$64,796, plus 86% of excess over \$100,000.
Over \$150,000 but not over \$200,000--	\$107,796, plus 87% of excess over \$150,000.
Over \$200,000-----	\$151,296, plus 88% of excess over \$200,000.

Strike out the surtax table on page 3 of the Senate engrossed amendments and insert the following:

"If the surtax net income is:

The surtax shall be:

<i>Not over \$2,000-----</i>	<i>19.3% of the surtax net income.</i>
<i>Over \$2,000 but not over \$4,000-----</i>	<i>\$386, plus 21.6% of excess over \$2,000.</i>
<i>Over \$4,000 but not over \$6,000-----</i>	<i>\$818, plus 26% of excess over \$4,000.</i>
<i>Over \$6,000 but not over \$8,000-----</i>	<i>\$1,338, plus 31% of excess over \$6,000.</i>
<i>Over \$8,000 but not over \$10,000-----</i>	<i>\$1,958, plus 35% of excess over \$8,000.</i>
<i>Over \$10,000 but not over \$12,000-----</i>	<i>\$2,658, plus 39% of excess over \$10,000.</i>
<i>Over \$12,000 but not over \$14,000-----</i>	<i>\$3,438, plus 45% of excess over \$12,000.</i>
<i>Over \$14,000 but not over \$16,000-----</i>	<i>\$4,338, plus 50% of excess over \$14,000.</i>
<i>Over \$16,000 but not over \$18,000-----</i>	<i>\$5,338, plus 53% of excess over \$16,000.</i>
<i>Over \$18,000 but not over \$20,000-----</i>	<i>\$6,398, plus 56% of excess over \$18,000.</i>
<i>Over \$20,000 but not over \$22,000-----</i>	<i>\$7,518, plus 59% of excess over \$20,000.</i>
<i>Over \$22,000 but not over \$26,000-----</i>	<i>\$8,698, plus 63% of excess over \$22,000.</i>
<i>Over \$26,000 but not over \$32,000-----</i>	<i>\$11,218, plus 64% of excess over \$26,000.</i>
<i>Over \$32,000 but not over \$38,000----</i>	<i>\$15,058, plus 65% of excess over \$32,000.</i>
<i>Over \$38,000 but not over \$44,000----</i>	<i>\$18,958, plus 69% of excess over \$38,000.</i>
<i>Over \$44,000 but not over \$50,000----</i>	<i>\$23,098, plus 72% of excess over \$44,000.</i>
<i>Over \$50,000 but not over \$60,000----</i>	<i>\$27,418, plus 74% of excess over \$50,000.</i>
<i>Over \$60,000 but not over \$70,000----</i>	<i>\$34,818, plus 77% of excess over \$60,000.</i>
<i>Over \$70,000 but not over \$80,000----</i>	<i>\$42,518, plus 80% of excess over \$70,000.</i>
<i>Over \$80,000 but not over \$90,000----</i>	<i>\$50,518, plus 82% of excess over \$80,000.</i>
<i>Over \$90,000 but not over \$100,000---</i>	<i>\$58,718, plus 85% of excess over \$90,000.</i>
<i>Over \$100,000 but not over \$150,000--</i>	<i>\$67,218, plus 87% of excess over \$100,000.</i>
<i>Over \$150,000 but not over \$200,000--</i>	<i>\$110,718, plus 88% of excess over \$150,000.</i>
<i>Over \$200,000-----</i>	<i>\$154,718, plus 89% of excess over \$200,000.</i>

Strike out the tables on pages 7 and 8 of the Senate engrossed amendments and insert the following:

"Table II

"Taxable years beginning after October 31, 1951, and before January 1, 1954"

If adjusted gross income is—		And the number of exemptions is—				If adjusted gross income is—		And the number of exemptions is—													
At least	But less than	1	2	3	4 or more	At least	But less than	1		2		3				4	5	6	7	8 or more	
								And tax-payer is single or married filing separately	And tax-payer is head of household	And tax-payer is single or married filing separately	And tax-payer is head of household	And a joint return is filed	And tax-payer is single or married filing separately	And tax-payer is head of household	And a joint return is filed						
The tax shall be—								The tax shall be—													
\$0	\$675	\$0	\$0	\$0	\$0	\$2,325	\$2,350	\$335	\$335	\$202	\$202	\$202	\$68	\$68	\$68	\$0	\$0	\$0	\$0		
675	700	4	0	0	0	2,350	2,375	340	340	207	207	207	73	73	73	0	0	0	0		
700	725	9	0	0	0	2,375	2,400	345	345	212	212	212	78	78	78	0	0	0	0		
725	750	14	0	0	0	2,400	2,425	350	350	217	217	217	83	83	83	0	0	0	0		
750	775	19	0	0	0	2,425	2,450	355	355	222	222	222	88	88	88	0	0	0	0		
775	800	24	0	0	0	2,450	2,475	360	360	227	227	227	93	93	93	0	0	0	0		
800	825	29	0	0	0	2,475	2,500	365	365	232	232	232	98	98	98	0	0	0	0		
825	850	34	0	0	0	2,500	2,525	370	370	237	237	237	103	103	103	0	0	0	0		
850	875	39	0	0	0	2,525	2,550	375	375	242	242	242	108	108	108	0	0	0	0		
875	900	44	0	0	0	2,550	2,575	380	380	247	247	247	113	113	113	0	0	0	0		
900	925	49	0	0	0	2,575	2,600	386	386	252	252	252	118	118	118	0	0	0	0		
925	950	54	0	0	0	2,600	2,625	391	391	257	257	257	123	123	123	0	0	0	0		
950	975	59	0	0	0	2,625	2,650	396	396	262	262	262	128	128	128	0	0	0	0		
975	1,000	64	0	0	0	2,650	2,675	401	401	267	267	267	133	133	133	0	0	0	0		
1,000	1,025	69	0	0	0	2,675	2,700	406	406	272	272	272	138	138	138	4	0	0	0		
1,025	1,050	74	0	0	0	2,700	2,725	411	411	277	277	277	143	143	143	9	0	0	0		
1,050	1,075	79	0	0	0	2,725	2,750	416	416	282	282	282	148	148	148	14	0	0	0		
1,075	1,100	84	0	0	0	2,750	2,775	421	421	287	287	287	153	153	153	19	0	0	0		
1,100	1,125	89	0	0	0	2,775	2,800	426	426	292	292	292	158	158	158	24	0	0	0		
1,125	1,150	94	0	0	0	2,800	2,825	431	431	297	297	297	163	163	163	29	0	0	0		
1,150	1,175	100	0	0	0	2,825	2,850	436	436	302	302	302	168	168	168	34	0	0	0		
1,175	1,200	105	0	0	0	2,850	2,875	441	441	307	307	307	173	173	173	39	0	0	0		
1,200	1,225	110	0	0	0	2,875	2,900	446	446	312	312	312	178	178	178	44	0	0	0		
1,225	1,250	115	0	0	0	2,900	2,925	451	451	317	317	317	183	183	183	49	0	0	0		
1,250	1,275	120	0	0	0	2,925	2,950	457	456	322	322	322	188	188	188	54	0	0	0		
1,275	1,300	125	0	0	0	2,950	2,975	462	461	327	327	327	193	193	193	59	0	0	0		
1,300	1,325	130	0	0	0	2,975	3,000	468	467	332	332	332	198	198	198	64	0	0	0		
1,325	1,350	135	1	0	0	3,000	3,050	476	475	340	340	340	206	206	206	72	0	0	0		
1,350	1,375	140	6	0	0	3,050	3,100	487	485	350	350	350	216	216	216	82	0	0	0		
1,375	1,400	145	11	0	0	3,100	3,150	498	496	360	360	360	226	226	226	92	0	0	0		
1,400	1,425	150	16	0	0	3,150	3,200	509	506	370	370	370	236	236	236	102	0	0	0		
1,425	1,450	155	21	0	0	3,200	3,250	520	517	380	380	380	246	246	246	112	0	0	0		
1,450	1,475	160	26	0	0	3,250	3,300	531	527	390	390	390	256	256	256	122	0	0	0		
1,475	1,500	165	31	0	0	3,300	3,350	543	538	400	400	400	266	266	266	132	0	0	0		
1,500	1,525	170	36	0	0	3,350	3,400	554	548	410	410	410	276	276	276	142	8	0	0		
1,525	1,550	175	41	0	0	3,400	3,450	565	559	420	420	420	286	286	286	152	18	0	0		
1,550	1,575	180	46	0	0	3,450	3,500	576	569	430	430	430	296	296	296	162	28	0	0		
1,575	1,600	185	51	0	0	3,500	3,550	587	580	440	440	440	306	306	306	172	38	0	0		
1,600	1,625	190	56	0	0	3,550	3,600	598	590	450	450	450	316	316	316	182	49	0	0		
1,625	1,650	195	61	0	0	3,600	3,650	609	601	461	461	460	326	326	326	192	59	0	0		
1,650	1,675	200	66	0	0	3,650	3,700	620	612	472	471	470	336	336	336	202	69	0	0		
1,675	1,700	205	71	0	0	3,700	3,750	631	622	484	482	480	346	346	346	212	79	0	0		
1,700	1,725	210	76	0	0	3,750	3,800	642	633	495	492	490	356	356	356	222	89	0	0		
1,725	1,750	215	81	0	0	3,800	3,850	653	643	506	503	500	366	366	366	232	99	0	0		
1,750	1,775	220	86	0	0	3,850	3,900	664	654	517	513	510	376	376	376	243	109	0	0		
1,775	1,800	225	91	0	0	3,900	3,950	675	664	528	524	520	386	386	386	253	119	0	0		
1,800	1,825	230	96	0	0	3,950	4,000	686	675	539	534	530	396	396	396	263	129	0	0		
1,825	1,850	235	101	0	0	4,000	4,050	698	686	550	545	540	406	406	406	273	139	5	0		
1,850	1,875	240	106	0	0	4,050	4,100	709	696	561	555	550	416	416	416	283	149	15	0		
1,875	1,900	245	111	0	0	4,100	4,150	720	706	572	566	560	426	426	426	293	159	25	0		
1,900	1,925	250	116	0	0	4,150	4,200	731	717	583	576	570	437	437	437	303	169	35	0		
1,925	1,950	255	121	0	0	4,200	4,250	742	727	594	587	580	447	447	447	313	179	45	0		
1,950	1,975	260	126	0	0	4,250	4,300	753	738	605	598	590	458	457	457	323	189	55	0		
1,975	2,000	265	131	0	0	4,300	4,350	764	748	616	608	600	469	468	467	333	199	65	0		
2,000	2,025	270	136	3	0	4,350	4,400	775	759	627	619	610	480	478	477	343	209	75	0		
2,025	2,050	275	141	8	0	4,400	4,450	786	770	638	629	620	491	489	487	353	219	85	0		
2,050	2,075	280	146	13	0	4,450	4,500	797	780	650	640	631	502	499	497	363	229	95	0		
2,075	2,100	285	151	18	0	4,500	4,550	808	791	661	650	641	513	510	507	373	239	105	0		
2,100	2,125	290	156	23	0	4,550	4,600	819	801	672	661	651	524	520	517	383	249	115	0		
2,125	2,150	295	161	28	0	4,600	4,650	830	812	683	671	661	535	531	527	393	259	125	0		
2,150	2,175	300	166	33	0	4,650	4,700	841	822	694	682	671	546	541	537	403	269	135	2		
2,175	2,200	305	171	38	0	4,700	4,750	853	833	705	692	681	557	552	547	413	279	146	12		
2,200	2,225	310	176	43	0	4,750	4,800	864	843	716	703	691	568	562	557	423	289	156	22		
2,225	2,250	315	181	48	0	4,800	4,850	875	854	727	713	701	579	573	567	433	299	166	32		
2,250	2,275	320	186	53	0	4,850	4,900	886	864	738	724	711	591	583	577	443	309	176	42		
2,275	2,300	325	192	58	0	4,900	4,950	897	875	749	734	721	602	594	587	453	319	186	52		

"Table III

"Taxable years beginning after December 31, 1953

If adjusted gross income is—		And the number of exemptions is—				If adjusted gross income is—		And the number of exemptions is—												
At least	But less than	1	2	3	4 or more	At least	But less than	1		2		3			4	5	6	7	8 or more	
								And tax-payer is single or married filing separately	And tax-payer is head of household	And tax-payer is single or married filing separately	And tax-payer is head of household	And a joint return is filed	And tax-payer is single or married filing separately	And tax-payer is head of household						And a joint return is filed
								The tax shall be—												The tax shall be—
\$0	\$675	\$0	\$0	\$0	\$0	\$2,325	\$2,350	\$301	\$301	\$181	\$181	\$181	\$61	\$61	\$61	\$0	\$0	\$0	\$0	\$0
675	700	4	0	0	0	2,350	2,375	305	305	185	185	185	65	65	65	0	0	0	0	0
700	725	8	0	0	0	2,375	2,400	310	310	190	190	190	70	70	70	0	0	0	0	0
725	750	13	0	0	0	2,400	2,425	314	314	194	194	194	74	74	74	0	0	0	0	0
750	775	17	0	0	0	2,425	2,450	319	319	199	199	199	79	79	79	0	0	0	0	0
775	800	22	0	0	0	2,450	2,475	323	323	203	203	203	83	83	83	0	0	0	0	0
800	825	26	0	0	0	2,475	2,500	328	328	208	208	208	88	88	88	0	0	0	0	0
825	850	31	0	0	0	2,500	2,525	332	332	212	212	212	92	92	92	0	0	0	0	0
850	875	35	0	0	0	2,525	2,550	337	337	217	217	217	97	97	97	0	0	0	0	0
875	900	40	0	0	0	2,550	2,575	341	341	221	221	221	101	101	101	0	0	0	0	0
900	925	44	0	0	0	2,575	2,600	346	346	226	226	226	106	106	106	0	0	0	0	0
925	950	49	0	0	0	2,600	2,625	350	350	230	230	230	110	110	110	0	0	0	0	0
950	975	53	0	0	0	2,625	2,650	355	355	235	235	235	115	115	115	0	0	0	0	0
975	1,000	58	0	0	0	2,650	2,675	359	359	239	239	239	119	119	119	0	0	0	0	0
1,000	1,025	62	0	0	0	2,675	2,700	364	364	244	244	244	124	124	124	4	0	0	0	0
1,025	1,050	67	0	0	0	2,700	2,725	368	368	248	248	248	128	128	128	8	0	0	0	0
1,050	1,075	71	0	0	0	2,725	2,750	373	373	253	253	253	133	133	133	13	0	0	0	0
1,075	1,100	76	0	0	0	2,750	2,775	377	377	257	257	257	137	137	137	17	0	0	0	0
1,100	1,125	80	0	0	0	2,775	2,800	382	382	262	262	262	142	142	142	22	0	0	0	0
1,125	1,150	85	0	0	0	2,800	2,825	386	386	266	266	266	146	146	146	26	0	0	0	0
1,150	1,175	89	0	0	0	2,825	2,850	391	391	271	271	271	151	151	151	31	0	0	0	0
1,175	1,200	94	0	0	0	2,850	2,875	395	395	275	275	275	155	155	155	35	0	0	0	0
1,200	1,225	98	0	0	0	2,875	2,900	400	400	280	280	280	160	160	160	40	0	0	0	0
1,225	1,250	103	0	0	0	2,900	2,925	405	404	284	284	284	164	164	164	44	0	0	0	0
1,250	1,275	107	0	0	0	2,925	2,950	410	409	289	289	289	169	169	169	49	0	0	0	0
1,275	1,300	112	0	0	0	2,950	2,975	415	414	293	293	293	173	173	173	53	0	0	0	0
1,300	1,325	116	0	0	0	2,975	3,000	420	419	298	298	298	178	178	178	58	0	0	0	0
1,325	1,350	121	1	0	0	3,000	3,050	427	426	305	305	305	185	185	185	65	0	0	0	0
1,350	1,375	125	5	0	0	3,050	3,100	437	435	314	314	314	194	194	194	74	0	0	0	0
1,375	1,400	130	10	0	0	3,100	3,150	447	445	323	323	323	203	203	203	83	0	0	0	0
1,400	1,425	134	14	0	0	3,150	3,200	457	454	332	332	332	212	212	212	92	0	0	0	0
1,425	1,450	139	19	0	0	3,200	3,250	467	464	341	341	341	221	221	221	101	0	0	0	0
1,450	1,475	143	23	0	0	3,250	3,300	476	473	350	350	350	230	230	230	110	0	0	0	0
1,475	1,500	148	28	0	0	3,300	3,350	486	482	359	359	359	239	239	239	119	0	0	0	0
1,500	1,525	152	32	0	0	3,350	3,400	496	492	368	368	368	248	248	248	128	8	0	0	0
1,525	1,550	157	37	0	0	3,400	3,450	506	501	377	377	377	257	257	257	137	17	0	0	0
1,550	1,575	161	41	0	0	3,450	3,500	516	511	386	386	386	266	266	266	146	26	0	0	0
1,575	1,600	166	46	0	0	3,500	3,550	526	520	395	395	395	275	275	275	155	35	0	0	0
1,600	1,625	170	50	0	0	3,550	3,600	536	530	404	404	404	284	284	284	164	44	0	0	0
1,625	1,650	175	55	0	0	3,600	3,650	546	539	414	413	413	293	293	293	173	53	0	0	0
1,650	1,675	179	59	0	0	3,650	3,700	556	549	424	423	422	302	302	302	182	62	0	0	0
1,675	1,700	184	64	0	0	3,700	3,750	566	558	434	432	431	311	311	311	191	71	0	0	0
1,700	1,725	188	68	0	0	3,750	3,800	575	567	443	441	440	320	320	320	200	80	0	0	0
1,725	1,750	193	73	0	0	3,800	3,850	585	577	453	451	449	329	329	329	209	89	0	0	0
1,750	1,775	197	77	0	0	3,850	3,900	595	586	463	460	458	338	338	338	218	98	0	0	0
1,775	1,800	202	82	0	0	3,900	3,950	605	596	473	470	467	347	347	347	227	107	0	0	0
1,800	1,825	206	86	0	0	3,950	4,000	615	605	483	479	476	356	356	356	236	116	0	0	0
1,825	1,850	211	91	0	0	4,000	4,050	625	615	493	489	485	365	365	365	245	125	5	0	0
1,850	1,875	215	95	0	0	4,050	4,100	635	624	503	498	494	374	374	374	254	134	14	0	0
1,875	1,900	220	100	0	0	4,100	4,150	645	634	513	508	503	383	383	383	263	143	25	0	0
1,900	1,925	224	104	0	0	4,150	4,200	655	643	523	517	512	392	392	392	272	152	32	0	0
1,925	1,950	229	109	0	0	4,200	4,250	665	653	533	527	521	401	401	401	281	161	41	0	0
1,950	1,975	233	113	0	0	4,250	4,300	674	662	542	536	530	410	410	410	290	170	50	0	0
1,975	2,000	238	118	0	0	4,300	4,350	684	671	552	545	539	420	419	419	299	179	59	0	0
2,000	2,025	242	122	2	0	4,350	4,400	694	681	562	555	548	430	429	429	308	188	68	0	0
2,025	2,050	247	127	7	0	4,400	4,450	704	690	572	564	557	440	438	437	317	197	77	0	0
2,050	2,075	251	131	11	0	4,450	4,500	714	700	582	574	566	450	448	446	326	206	86	0	0
2,075	2,100	256	136	16	0	4,500	4,550	724	709	592	583	575	460	457	455	335	215	95	0	0
2,100	2,125	260	140	20	0	4,550	4,600	734	719	602	593	584	470	467	464	344	224	104	0	0
2,125	2,150	265	145	25	0	4,600	4,650	744	728	612	602	593	480	476	473	353	233	113	0	0
2,150	2,175	269	149	29	0	4,650	4,700	754	738	622	612	602	490	486	482	362	242	122	2	0
2,175	2,200	274	154	34	0	4,700	4,750	764	747	632	621	611	500	495	491	371	251	131	11	0
2,200	2,225	278	158	38	0	4,750	4,800	773	756	641	630	620	509	504	500	380	260	140	20	0
2,225	2,250	283	163	43	0	4,800	4,850	783	766	651	640	629	519	514	509	389				

And the Senate agree to the same.

Amendment numbered 4:

That the House recede from its disagreement to the amendment of the Senate numbered 4, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

“(b) *IMPOSITION OF TAX.*—*There shall be levied, collected, and paid for each taxable year upon the normal-tax net income of every corporation (except a corporation subject to a tax imposed by section 231 (a), Supplement G, or Supplement I)—*

“(1) *CALENDAR YEAR 1951.*—*In the case of a taxable year beginning on January 1, 1951, and ending on December 31, 1951, a tax of 28¾ per centum of the normal-tax net income.*

“(2) *TAXABLE YEARS BEGINNING AFTER MARCH 31, 1951, AND BEFORE APRIL 1, 1954.*—*In the case of taxable years beginning after March 31, 1951, and before April 1, 1954, a tax of 30 per centum of the normal-tax income.*

“(3) *TAXABLE YEARS BEGINNING AFTER MARCH 31, 1954.*—*In the case of taxable years beginning after March 31, 1954, a tax of 25 per centum of the normal-tax net income.”*

And the Senate agree to the same.

Amendment numbered 6:

That the House recede from its disagreement to the amendment of the Senate numbered 6, and agreed to the same with the following amendments:

On page 13, line 13, of the Senate engrossed amendments, strike out our “(c)” and insert (b).

On page 13, line 24, of the Senate engrossed amendments strike out “16½” and insert 17¼.

On page 14, line 12, of the Senate engrossed amendments strike out “17” and insert 18.

And the Senate agree to the same.

Amendment numbered 7:

That the House recede from its disagreement to the amendment of the Senate numbered 7, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

(c) *MUTUAL INSURANCE COMPANIES OTHER THAN LIFE OR MARINE.*—

(1) *Section 207 (a) (1) (relating to normal tax and surtax on mutual insurance companies, other than life or marine) is hereby amended by striking out subparagraphs (A) and (B) and inserting in lieu thereof the following:*

“(A) *Taxable Years Beginning After December 31, 1950, and Before April 1, 1951.*—*In the case of taxable years beginning after December 31, 1950, and before April 1, 1951, and ending after March 31, 1951—*

“(i) *Normal tax.*—*A normal tax of 28¾ per centum of the normal-tax net income, or 57½ per centum of the amount*

by which the normal-tax net income exceeds \$3,000, whichever is the lesser; plus

“(ii) Surtax.—A surtax of 22 per centum of the corporation surtax net income in excess of \$25,000.

“(B) Taxable Years Beginning After March 31, 1951, and Before April 1, 1954.—In the case of taxable years beginning after March 31, 1951, and before April 1, 1954—

“(i) Normal tax.—A normal tax of 30 per centum of the normal-tax net income, or 60 per centum of the amount by which the normal-tax net income exceeds \$3,000, whichever is the lesser; plus

“(ii) Surtax.—A surtax of 22 per centum of the corporation surtax net income in excess of \$25,000.

“(C) Taxable Years Beginning After March 31, 1954.—In the case of a taxable year beginning after March 31, 1954—

“(i) Normal tax.—A normal tax of 25 per centum of the normal-tax net income, or 50 per centum of the amount by which the normal-tax net income exceeds \$3,000, whichever is the lesser; plus

“(ii) Surtax.—A surtax of 22 per centum of the corporation surtax net income in excess of \$25,000.”

(2) Section 207 (a) (3) (relating to a normal tax and surtax on interinsurers and reciprocal underwriters) is hereby amended by striking out subparagraphs (A) and (B) and inserting in lieu thereof the following:

“(A) Taxable Years Beginning After December 31, 1950, and before April 1, 1951.—In the case of taxable years beginning after December 31, 1950, and before April 1, 1951, and ending after March 31, 1951—

“(i) Normal tax.—A normal tax of 28¾ per centum of the normal-tax net income, or 57½ per centum of the amount by which the normal-tax net income exceeds \$50,000, whichever is the lesser; plus

“(ii) Surtax.—A surtax of 22 per centum of the corporation surtax net income in excess of \$25,000, or 33 per centum of the amount by which the corporation surtax net income exceeds \$50,000, whichever is the lesser.

“(B) Taxable Years Beginning After March 31, 1951, and Before April 1, 1954.—In the case of taxable years beginning after March 31, 1951, and before April 1, 1954—

“(i) Normal tax.—A normal tax of 30 per centum of the normal-tax net income, or 60 per centum of the amount by which the normal-tax net income exceeds \$50,000, whichever is the lesser; plus

“(ii) Surtax.—A surtax of 22 per centum of the corporation surtax net income in excess of \$25,000, or 33 per centum of the amount by which the corporation surtax net income exceeds \$50,000, whichever is the lesser.

“(C) Taxable Years Beginning After March 31, 1954.—In the case of a taxable year beginning after March 31, 1954—

“(i) Normal tax.—A normal tax of 25 per centum of the normal-tax net income, or 50 per centum of the amount by which the normal-tax net income exceeds \$50,000, whichever is the lesser; plus

“(ii) *Surtax*.—A surtax of 22 per centum of the corporation surtax net income in excess of \$25,000, or 33 per centum of the amount by which the corporation surtax net income exceeds \$50,000, whichever is the lesser.”

(d) *REGULATED INVESTMENT COMPANIES*.—Section 362 (b) (relating to tax on regulated investment companies) is hereby amended by striking out paragraphs (3) and (4) and inserting in lieu thereof the following:

“(3) In the case of taxable years beginning after December 31, 1950, and before April 1, 1951, and ending after March 31, 1951, there shall be levied, collected, and paid for each taxable year upon its Supplement Q net income a tax equal to 28¾ per centum of the amount thereof. In the case of taxable years beginning after March 31, 1951, and before April 1, 1954, there shall be levied, collected, and paid for each taxable year upon its Supplement Q net income a tax equal to 30 per centum of the amount thereof. In the case of taxable years beginning after March 31, 1954, there shall be levied, collected, and paid for each taxable year upon its Supplement Q net income a tax equal to 25 per centum of the amount thereof.

“(4) In the case of taxable years beginning after December 31, 1950, there shall be levied, collected, and paid for each taxable year upon its Supplement Q surtax net income a tax equal to 22 per centum of the amount thereof in excess of \$25,000.”

(e) *BUSINESS INCOME OF CERTAIN SECTION 101 ORGANIZATIONS*.—Section 421 (a) (1) (relating to imposition of tax on business income of certain section 101 organizations) is hereby amended by inserting before the period at the end thereof the following: “; except that (A) in the case of taxable years beginning before April 1, 1951, and ending after March 31, 1951, the normal tax shall be 28¾ per centum of the Supplement U net income, and (B) in the case of taxable years beginning after March 31, 1951, and before April 1, 1954, the normal tax shall be 30 per centum of the Supplement U net income”.

(f) *AMENDMENT OF SECTION 15*.—Section 15 (relating to surtax on corporations) is hereby amended to read as follows:

“SEC. 15. SURTAX ON CORPORATIONS.

“(a) *CORPORATION SURTAX NET INCOME*.—For the purposes of this chapter, the term ‘corporation surtax net income’ means the net income minus the sum of the following credits:

“(1) The credit for dividends received provided in section 26 (b);

“(2) In the case of a public utility, the credit for dividends paid on its preferred stock provided in section 26 (h);

“(3) In the case of a western hemisphere trade corporation (as defined in section 109), the credit provided in section 26 (i).

“(b) *IMPOSITION OF TAX*.—There shall be levied, collected, and paid for each taxable year upon the corporation surtax net income of every corporation (except a corporation subject to a tax imposed by section 231 (a), Supplement G, or Supplement Q) a surtax of 22 per centum of the amount of the corporation surtax net income in excess of \$25,000.

“(c) *DISALLOWANCE OF SURTAX EXEMPTION AND MINIMUM EXCESS PROFITS CREDIT*.—If any corporation transfers, on or after January 1, 1951, all or part of its property (other than money) to another corporation which was created for the purpose of acquiring such property or which was not actively engaged in business at the time of such acquisition, and if after such transfer the transferor corporation or its stockholders,

or both, are in control of such transferee corporation during any part of the taxable year of such transferee corporation, then such transferee corporation shall not for such taxable year (except as may be otherwise determined under section 129 (b)) be allowed either the \$25,000 exemption from surtax provided in subsection (b) or the \$25,000 minimum excess profits credit provided in the last sentence of section 431, unless such transferee corporation shall establish by the clear preponderance of the evidence that the securing of such exemption or credit was not a major purpose of such transfer. For the purposes of this subsection, control means the ownership of stock possessing at least 80 per centum of the total combined voting power of all classes of stock entitled to vote or at least 80 per centum of the total value of shares of all classes of stock of the corporation. In determining the ownership of stock for the purpose of this subsection, the ownership of stock shall be determined in accordance with the provisions of section 503, except that constructive ownership under section 503 (a) (2) shall be determined only with respect to the individual's spouse and minor children. The provisions of section 129 (b), and the authority of the Secretary under such section, shall, to the extent not inconsistent with the provisions of this subsection, be applicable to this subsection. This subsection shall not apply to any taxable year with respect to which the tax imposed by subchapter D of this chapter is not in effect."

(g) **TECHNICAL AMENDMENT.**—Section 14 (relating to normal tax on special classes of corporations in the case of taxable years beginning before July 1, 1950) is hereby repealed.

And the Senate agree to the same.

Amendment numbered 8:

That the House recede from its disagreement to the amendment of the Senate numbered 8, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

SEC. 122. CREDITS OF CORPORATIONS.

(a) **DIVIDENDS RECEIVED CREDIT.**—Paragraphs (1) and (2) of section 26 (b) (relating to credit for dividends received) are hereby amended to read as follows:

"(1) **IN GENERAL.**—85 per centum of the amount received as dividends (other than dividends described in paragraph (2) on the preferred stock of a public utility) from a domestic corporation which is subject to taxation under this chapter.

"(2) **CERTAIN PREFERRED STOCK.**—

"(A) **Calendar Year 1951.**—In the case of a taxable year beginning on January 1, 1951, and ending on December 31, 1951, 61 per centum of the amount received as dividends on the preferred stock of a public utility which is subject to taxation

under this chapter and with respect to which the credit provided in section 26 (h) for dividends paid is allowable.

“(B) *Taxable Years Beginning After March 31, 1951, and Before April 1, 1954.*—In the case of taxable years beginning after March 31, 1951, and before April 1, 1954, 62 per centum of the amount received as dividends on the preferred stock of a public utility which is subject to taxation under this chapter and with respect to which the credit provided in section 26 (h) for dividends paid is allowable.

“(C) *Taxable Years Beginning After March 31, 1954.*—In the case of taxable years beginning after March 31, 1954, 59 per centum of the amount received as dividends on the preferred stock of a public utility which is subject to taxation under this chapter and with respect to which the credit provided in section 26 (h) for dividends paid is allowable.”

(b) *CREDIT FOR DIVIDENDS PAID ON CERTAIN PREFERRED STOCK.*—The first sentence of section 26 (h) (1) (relating to amount of credit for dividends paid on certain preferred stock) is hereby amended to read as follows: “In the case of a public utility, (A) for a taxable year beginning on January 1, 1951, and ending on December 31, 1951, an amount equal to 28 per centum of the lesser of (i) the amount of dividends paid during the taxable year on its preferred stock or (ii) the adjusted net income for such taxable year minus the credit for dividends received provided in subsection (b) for such year, (B) for a taxable year beginning after March 31, 1951, and before April 1, 1954, an amount equal to 27 per centum of the lesser of (i) the amount of dividends paid during the taxable year on its preferred stock or (ii) the adjusted net income for such taxable year minus the credit for dividends received provided in subsection (b) for such year, and (C) for a taxable year beginning after March 31, 1954, an amount equal to 30 per centum of the lower of (i) the amount of dividends paid during the taxable year on its preferred stock or (ii) the adjusted net income for such taxable year minus the credit for dividends received provided in subsection (b) for such year.”

(c) *WESTERN HEMISPHERE TRADE CORPORATIONS.*—Section 26 (i) (relating to credit of a western hemisphere trade corporation) is hereby amended to read as follows:

“(i) *WESTERN HEMISPHERE TRADE CORPORATIONS.*—In the case of a western hemisphere trade corporation (as defined in section 109)—

“(1) *CALENDAR YEAR 1951.*—In the case of a taxable year beginning on January 1, 1951, and ending on December 31, 1951, an amount equal to 28 per centum of its normal-tax net income computed without regard to the credit provided in this subsection.

“(2) *TAXABLE YEARS BEGINNING AFTER MARCH 31, 1951, AND BEFORE APRIL 1, 1954.*—In the case of a taxable year beginning after March 31, 1951, and before April 1, 1954, an amount equal to 27 per centum of its normal-tax net income computed without regard to the credit provided in this subsection.

“(3) *TAXABLE YEARS BEGINNING AFTER MARCH 31, 1954.*—In the case of a taxable year beginning after March 31, 1954, an amount equal to 30 per centum of its normal-tax net income computed without regard to the credit provided in this subsection.”

And the Senate agree to the same.

Amendment numbered 13:

That the House recede from its disagreement to the amendment of the Senate numbered 13, and agree to the same with the following amendments:

On page 27 of the Senate engrossed amendments strike out lines 1 to 5, inclusive, and insert in lieu thereof the following:

“(3) that portion of a tentative tax consisting of—

“(A) a tentative normal tax of 30 per centum of the normal-tax net income, plus

“(B) a tentative surtax of 20 per centum of the surtax net income in excess of \$25,000,

On page 31 of the Senate engrossed amendments strike out subsection (k) and insert in lieu thereof the following:

“(k) *TAXABLE YEARS OF CORPORATIONS BEGINNING BEFORE APRIL 1, 1954, AND ENDING AFTER MARCH 31, 1954.*—In the case of a taxable year of a corporation beginning before April 1, 1954, and ending after March 31, 1954, the tax imposed by sections 13 and 15, or section 421 (a) (1), shall be an amount equal to the sum of—

“(1) that portion of a tentative tax, computed under the provisions of sections 13 and 15, or section 421 (a) (1), applicable to years beginning on January 1, 1953, which the number of days in such taxable year prior to April 1, 1954, bears to the total number of days in such taxable year, plus

“(2) that portion of a tentative tax, computed under the provisions of sections 13 and 15, or section 421 (a) (1), applicable to years beginning on April 1, 1954, as if such provisions were applicable to such taxable year, which the number of days in such taxable year after March 31, 1954, bears to the total number of days in such taxable year.”

And the Senate agree to the same.

Amendment numbered 28:

That the House recede from its disagreement to the amendment of the Senate numbered 28, and agree to the same with the following amendments:

Strike out the surtax table beginning on page 39 of the Senate engrossed amendments and insert the following:

"If the surtax net income is:**The surtax shall be:**

Not over \$2,000-----	19.3% of the surtax net income.
Over \$2,000 but not over \$4,000-----	\$386, plus 20.4% of excess over \$2,000.
Over \$4,000 but not over \$6,000-----	\$794, plus 24% of excess over \$4,000.
Over \$6,000 but not over \$8,000-----	\$1,274, plus 26% of excess over \$6,000.
Over \$8,000 but not over \$10,000-----	\$1,794, plus 31% of excess over \$8,000.
Over \$10,000 but not over \$12,000----	\$2,414, plus 32% of excess over \$10,000.
Over \$12,000 but not over \$14,000-----	\$3,054, plus 38% of excess over \$12,000.
Over \$14,000 but not over \$16,000-----	\$3,814, plus 41% of excess over \$14,000.
Over \$16,000 but not over \$18,000-----	\$4,634, plus 44% of excess over \$16,000.
Over \$18,000 but not over \$20,000-----	\$5,514, plus 45% of excess over \$18,000.
Over \$20,000 but not over \$22,000-----	\$6,414, plus 49% of excess over \$20,000.
Over \$22,000 but not over \$24,000-----	\$7,394, plus 51% of excess over \$22,000.
Over \$24,000 but not over \$28,000-----	\$8,414, plus 54% of excess over \$24,000.
Over \$28,000 but not over \$32,000-----	\$10,574, plus 57% of excess over \$28,000.
Over \$32,000 but not over \$38,000-----	\$12,854, plus 60% of excess over \$32,000.
Over \$38,000 but not over \$44,000-----	\$16,454, plus 63% of excess over \$38,000.
Over \$44,000 but not over \$50,000-----	\$20,234, plus 68% of excess over \$44,000.
Over \$50,000 but not over \$60,000-----	\$24,314, plus 69% of excess over \$50,000.
Over \$60,000 but not over \$70,000-----	\$31,214, plus 70% of excess over \$60,000.
Over \$70,000 but not over \$80,000-----	\$38,214, plus 74% of excess over \$70,000.
Over \$80,000 but not over \$90,000-----	\$45,614, plus 76% of excess over \$80,000.
Over \$90,000 but not over \$100,000----	\$53,214, plus 78% of excess over \$90,000.
Over \$100,000 but not over \$150,000--	\$61,014, plus 82% of excess over \$100,000.
Over \$150,000 but not over \$200,000--	\$102,014, plus 85% of excess over \$150,000.
Over \$200,000 but not over \$300,000--	\$144,514, plus 88% of excess over \$200,000.
Over \$300,000-----	\$232,514, plus 89% of excess over \$300,000.

Strike out the surtax table beginning on page 41 of the Senate engrossed amendments and insert the following:

“If the surtax net income is:

The surtax shall be:

Not over \$2,000-----	17% of the surtax net income.
Over \$2,000 but not over \$4,000-----	\$340, plus 18% of excess over \$2,000.
Over \$4,000 but not over \$6,000-----	\$700, plus 21% of excess over \$4,000.
Over \$6,000 but not over \$8,000-----	\$1,120, plus 23% of excess over \$6,000.
Over \$8,000 but not over \$10,000-----	\$1,580, plus 27% of excess over \$8,000.
Over \$10,000 but not over \$12,000-----	\$2,120, plus 29% of excess over \$10,000.
Over \$12,000 but not over \$14,000-----	\$2,700, plus 33% of excess over \$12,000.
Over \$14,000 but not over \$16,000-----	\$3,360, plus 36% of excess over \$14,000.
Over \$16,000 but not over \$18,000-----	\$4,080, plus 39% of excess over \$16,000.
Over \$18,000 but not over \$20,000-----	\$4,860, plus 40% of excess over \$18,000.
Over \$20,000 but not over \$22,000-----	\$5,660, plus 44% of excess over \$20,000.
Over \$22,000 but not over \$24,000-----	\$6,540, plus 46% of excess over \$22,000.
Over \$24,000 but not over \$28,000-----	\$7,460, plus 49% of excess over \$24,000.
Over \$28,000 but not over \$32,000-----	\$9,420, plus 51% of excess over \$28,000.
Over \$32,000 but not over \$38,000-----	\$11,460, plus 55% of excess over \$32,000.
Over \$38,000 but not over \$44,000-----	\$14,760, plus 59% of excess over \$38,000.
Over \$44,000 but not over \$50,000-----	\$18,300, plus 63% of excess over \$44,000.
Over \$50,000 but not over \$60,000-----	\$22,080, plus 65% of excess over \$50,000.
Over \$60,000 but not over \$70,000-----	\$28,580, plus 68% of excess over \$60,000.
Over \$70,000 but not over \$80,000-----	\$35,380, plus 71% of excess over \$70,000.
Over \$80,000 but not over \$90,000-----	\$42,480, plus 73% of excess over \$80,000.
Over \$90,000 but not over \$100,000---	\$49,780, plus 77% of excess over \$90,000.
Over \$100,000 but not over \$150,000--	\$57,480, plus 80% of excess over \$100,000.
Over \$150,000 but not over \$200,000--	\$97,480, plus 84% of excess over \$150,000.
Over \$200,000 but not over \$300,000--	\$139,480, plus 87% of excess over \$200,000.
Over \$300,000-----	\$226,480, plus 88% of excess over \$300,000.

And the Senate agree to the same.

Amendment numbered 43:

That the House recede from its disagreement to the amendment of the Senate numbered 43, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

SEC. 311. CREDIT FOR DIVIDENDS RECEIVED.

(a) *DIVIDENDS FROM FOREIGN CORPORATION ENGAGED IN TRADE OR BUSINESS IN THE UNITED STATES.*—Section 26 (b) (relating to dividends received credit) is hereby amended by inserting after paragraph (2) the following new paragraph:

“(3) *DIVIDENDS RECEIVED FROM CERTAIN FOREIGN CORPORATIONS.*—In the case of dividends received from a foreign corporation (other than a foreign personal holding company) which is subject to taxation under this chapter, if, for an uninterrupted period of not less than 36 months ending with the close of such foreign corporation’s taxable year in which such dividends are paid (or, if the corporation has not been in existence for 36 months at the close of such taxable year, for the period the foreign corporation has been in existence as of the close of such taxable year) such foreign corporation has been engaged in trade or business within the United States and has derived 50 per centum or more of its gross income from sources within the United States—

“(A) an amount equal to 85 per centum of the dividends received out of its earnings or profits specified in clause (2) of the first sentence of section 115 (a), but such amount shall not exceed an amount which bears the same ratio to 85 per centum of such dividends received out of such earnings or profits as the gross income of such foreign corporation for the taxable year from sources within the United States bears to its gross income from all sources for such taxable year, and

“(B) an amount equal to 85 per centum of the dividends received out of that part of its earnings or profits specified in clause (1) of the first sentence of section 115 (a) accumulated after the beginning of such uninterrupted period, but such amount shall not exceed an amount which bears the same ratio to 85 per centum of such dividends received out of such accumulated earnings or profits as the gross income of such foreign corporation from sources within the United States for the portion of such uninterrupted period ending at the beginning of such taxable year bears to its gross income from all sources for such portion of such uninterrupted period.

For determination of earnings or profits distributed in any taxable year, see section 115 (b).”

(b) *TECHNICAL AMENDMENT.*—Section 119 (a) (2) (B) (relating to rules as to source of income in the case of dividends) is hereby amended by inserting before the semicolon at the end thereof the following: “to the extent exceeding the amount which is 100/85ths of the amount of the credit allowable under section 26 (b) in respect of such dividends”.

(c) *EFFECTIVE DATE.*—The amendments made by this section shall be applicable only with respect to taxable years beginning after December 31, 1950.

And the Senate agree to the same.

Amendment numbered 45:

That the House recede from its disagreement to the amendment of the Senate numbered 45, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

SEC. 313. MUTUAL SAVINGS BANKS, BUILDING AND LOAN ASSOCIATIONS, COOPERATIVE BANKS.

(a) *MUTUAL SAVINGS BANKS.*—Section 101 (2) (relating to exemption from tax of mutual savings banks) is hereby repealed.

(b) *BUILDING AND LOAN ASSOCIATIONS AND COOPERATIVE BANKS.*—Section 101 (4) (relating to exemption from tax of building and loan associations and cooperative banks) is hereby amended to read as follows:

“(4) Credit unions without capital stock organized and operated for mutual purposes and without profit; and corporations or associations without capital stock organized prior to September 1, 1951, and operated for mutual purposes and without profit for the purpose of providing reserve funds for, and insurance of, shares or deposits in—

“(A) domestic building and loan associations,

“(B) cooperative banks without capital stock organized and operated for mutual purposes and without profit, or

“(C) mutual savings banks not having capital stock represented by shares;”.

(c) *EXEMPTIONS FROM EXCESS PROFITS TAX.*—Section 454 (corporations exempt from the excess profits tax) is hereby amended by adding at the end thereof the following:

“(h) Any mutual savings bank not having capital stock represented by shares, any domestic building and loan association (as defined in section 3797 (a) (19)), and any cooperative bank without capital stock organized and operated for mutual purposes and without profit.”

(d) *FEDERAL SAVINGS AND LOAN ASSOCIATIONS.*—Section 5 (h) of the Home Owners' Loan Act of 1933, as amended (12 U. S. C. 1464 (h)), is hereby amended by striking out “date)” and inserting in lieu thereof the following: “date, and except, in the case of taxable years beginning after December 31, 1951, income, war-profits, and excess-profits taxes)”.

(e) *BAD DEBT RESERVES.*—Section 23 (k) (1) (relating to deduction from gross income of bad debts) is hereby amended by adding at the end thereof the following: “In the case of a mutual savings bank not having capital stock represented by shares, a domestic building and loan association, and a cooperative bank without capital stock organized and operated for mutual purposes and without profit, the reasonable addition to a reserve for bad debts shall be determined with due regard to the amount of the taxpayer's surplus or bad debt reserves existing at the close of December 31, 1951. In the case of a taxpayer described in the preceding sentence, the reasonable addition to a reserve for bad debts for any taxable year shall in no case be less than the amount determined by the taxpayer as the reasonable addition for such year; except that the amount determined by the taxpayer under this sentence shall not be greater than the lesser of (A) the amount of its net income for the taxable year, computed without regard to this subsection, or (B) the amount by which 12 per centum of the total deposits or withdrawable accounts of its depositors

at the close of such year exceeds the sum of its surplus, undivided profits, and reserves at the beginning of the taxable year."

(f) *DIVIDENDS PAID TO DEPOSITORS*.—Section 23 (r) (relating to the deduction from gross income of certain dividends paid by banking corporations) is hereby amended to read as follows:

"(r) *DIVIDENDS PAID BY BANKING CORPORATIONS*.—

"(1) In the case of mutual savings banks, cooperative banks, and domestic building and loan associations, amounts paid to, or credited to the accounts of, depositors or holders of accounts as dividends on their deposits or withdrawable accounts, if such amounts paid or credited are withdrawable on demand subject only to customary notice of intention to withdraw.

"(2) For deduction of dividends paid by certain other banking corporations, see section 121."

(g) *DEDUCTION FOR REPAYMENT OF CERTAIN LOANS*.—Section 23 (relating to deductions from gross income) is hereby amended by adding at the end thereof the following:

"(dd) *REPAYMENT BY MUTUAL SAVINGS BANKS, ETC., OF CERTAIN LOANS*.—In the case of a mutual savings bank not having capital stock represented by shares, a domestic building and loan association, or a cooperative bank without capital stock organized and operated for mutual purposes and without profit, amounts paid by the taxpayer during the taxable year in repayment of loans made prior to September 1, 1951, by (1) the United States or any agency or instrumentality thereof which is wholly owned by the United States, or (2) any mutual fund established under the authority of the laws of any State."

(h) *DEFINITION OF BANK*.—Section 104 (a) (relating to definition of bank) is hereby amended by inserting at the end thereof the following: "Such term also means a domestic building and loan association."

(i) *DEFINITION OF DOMESTIC BUILDING AND LOAN ASSOCIATION*.—Section 3797 (a) (relating to definitions for the purposes of the Internal Revenue Code) is hereby amended by adding at the end thereof the following new paragraph:

"(19) *DOMESTIC BUILDING AND LOAN ASSOCIATION*.—The term 'domestic building and loan association' means a domestic building and loan association, a domestic savings and loan association, and a Federal savings and loan association, substantially all the business of which is confined to making loans to members."

(j) *EFFECTIVE DATE*.—The amendments made by this section shall be applicable only with respect to taxable years beginning after December 31, 1951.

And the Senate agree to the same.

Amendment numbered 46:

That the House recede from its disagreement to the amendment of the Senate numbered 46, and agree to the same with the following amendments:

On page 67, line 8, of the Senate engrossed amendments, insert after the period the following: *Allocations made after the close of the taxable year and on or before the fifteenth day of the ninth month following the close of such year shall be considered as made on the last day of such taxable year to the extent the allocations are attributable to income derived before the close of such year.*

On page 67, line 10, of the Senate engrossed amendments, insert after "patronage" the following: *in the same or preceding years*

On page 69 of the Senate engrossed amendments strike out line 1 and all that follows through line 9.

On page 69, line 10, of the Senate engrossed amendments, strike out "(e)" and insert (d)

And the Senate agree to the same.

Amendment numbered 53:

That the House recede from its disagreement to the amendment of the Senate numbered 53, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

"(i) *in the case of sand, gravel, slate, stone (including pumice and scoria), brick and tile clay, shale, oyster shell, clam shell, granite, marble, sodium chloride, and, if from brine wells, calcium chloride, magnesium chloride, and bromine, 5 per centum,*

"(ii) *in the case of coal, asbestos, brucite, dolomite, magnesite, perlite, wollastonite, calcium carbonates, and magnesium carbonates, 10 per centum,*

"(iii) *in the case of metal mines, aplite, bauxite, fluorspar, flake graphite, vermiculite, beryl, garnet, feldspar, mica, talc (including pyrophyllite), lepidolite, spodumene, barite, ball clay, sagger clay, china clay, phosphate rock, rock asphalt, irona, bentonite, gilsonite, thenardite, borax, fuller's earth, tripoli, refractory and fire clay, quartzite, diatomaceous earth, metallurgical grade limestone, chemical grade limestone, and potash, 15 per centum, and*

And the Senate agree to the same.

Amendment numbered 54:

That the House recede from its disagreement to the amendment of the Senate numbered 54, and agree to the same with an amendment as follows:

On page 74 of the Senate engrossed amendments strike out lines 12 and 13 and insert the following: *taxes) is hereby amended by striking out "50 per centum of the value of the net estate" and inserting in lieu thereof "35 per centum of the value of the gross estate".;* and the Senate agree to the same.

Amendment numbered 55:

That the House recede from its disagreement to the amendment of the Senate numbered 55, and agree to the same with an amendment as follows:

On page 74, line 21, of the Senate engrossed amendments strike out "EXCLUSIVE" and insert *EXCLUSION*; and the Senate agree to the same.

Amendment numbered 64:

That the House recede from its disagreement to the amendment of the Senate numbered 64, and agree to the same with an amendment as follows:

On page 79 of the Senate engrossed amendments strike out all after "poultry" in line 14 to and including "acquisition" in line 17; and the Senate agree to the same.

Amendment numbered 67:

That the House recede from its disagreement to the amendment of the Senate numbered 67, and agree to the same with an amendment as follows:

On page 80, lines 7 and 8, of the Senate engrossed amendments, strike out the following: "in the cutting of such timber or"; and the Senate agree to the same.

Amendment numbered 77:

That the House recede from its disagreement to the amendment of the Senate numbered 77, and agree to the same with an amendment as follows:

Strike out the matter proposed to be stricken out by the Senate amendment and insert the following:

SEC. 328. TREATMENT OF GAIN ON SALES OF CERTAIN PROPERTY BETWEEN SPOUSES AND BETWEEN AN INDIVIDUAL AND A CONTROLLED CORPORATION.

(a) *DISALLOWANCE OF CAPITAL GAIN TREATMENT.*—Section 117 (relating to capital gains and losses) is hereby amended by adding at the end thereof the following new subsection:

"(o) *GAIN FROM SALE OF CERTAIN PROPERTY BETWEEN SPOUSES OR BETWEEN AN INDIVIDUAL AND A CONTROLLED CORPORATION.*—

"(1) *TREATMENT OF GAIN AS ORDINARY INCOME.*—In the case of a sale or exchange, directly or indirectly, of property described in paragraph (2)—

"(A) between a husband and wife; or

"(B) between an individual and a corporation more than 80 per centum in value of the outstanding stock of which is owned by such individual, his spouse, and his minor children and minor grandchildren;

any gain recognized to the transferor from the sale or exchange of such property shall be considered as gain from the sale or exchange of property which is neither a capital asset nor property described in subsection (j).

"(2) *SUBSECTION APPLICABLE ONLY TO SALES OR EXCHANGES OF DEPRECIABLE PROPERTY.*—This subsection shall apply only in the case of a sale or exchange of property by a transferor which in the hands of the transferee is property of a character which is subject to the allowance for depreciation provided in section 23 (l)."

(b) *EFFECTIVE DATE.*—The amendment made by subsection (a) shall be applicable with respect to taxable years ending after April 30, 1951, but shall apply only with respect to sales or exchanges made after May 3, 1951.

And the Senate agree to the same.

Amendment numbered 78:

That the House recede from its disagreement to the amendment of the Senate numbered 78, and agree to the same with the following amendments:

On page 83, line 4, of the Senate engrossed amendments, strike out "328" and insert 329

On page 83, line 10, of the Senate engrossed amendments, strike out "(o)" and insert (p)

And the Senate agree to the same.

Amendment numbered 79:

That the House recede from its disagreement to the amendment of the Senate numbered 79, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

SEC. 330. NET OPERATING LOSS CARRY-OVER.

(a) *LOSS FOR TAXABLE YEAR BEGINNING BEFORE 1948.*—Section 122 (b) (2) (A) (relating to the amount of carry-overs) is hereby amended by striking out "1950", wherever it appears therein, and inserting in lieu thereof "1948".

(b) *ALLOWANCE OF THREE-YEAR LOSS CARRY-OVER FROM TAXABLE YEARS 1948-1949.*—Section 122 (b) (2) (relating to the amount of carry-over) is hereby amended by adding after subparagraph (B) the following new subparagraph:

"(C) *Loss for Taxable Year Beginning After December 31, 1947, and Before January 1, 1950.*—If for any taxable year beginning after December 31, 1947, and before January 1, 1950, the taxpayer has a net operating loss, such net operating loss shall be a net operating loss carry-over for each of the three succeeding taxable years, except that the carry-over in the case of each such succeeding taxable year (other than the first succeeding taxable year) shall be the excess, if any, of the amount of such net operating loss over the sum of the net income for each of the intervening years computed—

"(i) with the exceptions, additions, and limitations provided in subsection (d) (1), (2), (4), and (6), and

"(ii) by determining the net operating loss deduction for each intervening taxable year without regard to such net operating loss or to the net operating loss for any succeeding taxable year and without regard to any reduction specified in subsection (c).

For the purpose of the preceding sentence, the net operating loss for any taxable year beginning after December 31, 1947, and before January 1, 1950, shall be reduced by the sum of the net income for each of the two preceding taxable years computed—

"(iii) with the exceptions, additions, and limitations provided in subsection (d) (1), (2), (4), and (6), and

"(iv) by determining the net operating loss deduction without regard to such net operating loss or to the net operating loss for the succeeding taxable year, and without regard to any reduction specified in subsection (c)."

(c) *EFFECTIVE DATE.*—The amendments made by this section shall be applicable in computing the net operating loss deduction for taxable years beginning after December 31, 1948.

And the Senate agree to the same.

Amendment numbered 80:

That the House recede from its disagreement to the amendment of the Senate numbered 80, and agree to the same with an amendment as follows:

On page 87, line 17, of the Senate engrossed amendments, strike out "330" and insert 331; and the Senate agree to the same.

Amendment numbered 81:

That the House recede from its disagreement to the amendment of the Senate numbered 81, and agree to the same with the following amendments:

On page 88, line 7, of the Senate engrossed amendments, strike out "331" and insert 332

On page 88, line 21, of the Senate engrossed amendments, strike out "a majority" and insert the following: *50 per centum or more*

And the Senate agree to the same.

Amendment numbered 82:

That the House recede from its disagreement to the amendment of the Senate numbered 82, and agree to the same with an amendment as follows:

On page 89, line 5, of the Senate engrossed amendments, strike out "332" and insert 333; and the Senate agree to the same.

Amendment numbered 83:

That the House recede from its disagreement to the amendment of the Senate numbered 83, and agree to the same with an amendment as follows:

On page 89, line 19, of the Senate engrossed amendments, strike out "333" and insert 334; and the Senate agree to the same.

Amendment numbered 84:

That the House recede from its disagreement to the amendment of the Senate numbered 84, and agree to the same with the following amendments:

On page 90, line 22, of the Senate engrossed amendments, strike out "334" and insert 335

On page 91 of the Senate engrossed amendments strike out line 14 and insert the following: *coupons or in registered form, and the term 'securities of the employer corporation' includes securities of a parent or subsidiary corporation (as defined in section 130A (d) (2) and (3)) of the employer corporation.*"; and the Senate agree to the same.

Amendment numbered 85:

That the House recede from its disagreement to the amendment of the Senate numbered 85, and agree to the same with an amendment as follows:

On page 91, line 20, of the Senate engrossed amendments, strike out "335" and insert 336; and the Senate agree to the same.

Amendment numbered 86:

That the House recede from its disagreement to the amendment of the Senate numbered 86, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following: 337; and the Senate agree to the same.

Amendment numbered 88:

That the House recede from its disagreement to the amendment of the Senate numbered 88, and agree to the same with an amendment as follows:

On page 97, line 4, of the Senate engrossed amendments, strike out "337" and insert 338; and the Senate agree to the same.

Amendment numbered 89:

That the House recede from its disagreement to the amendment of the Senate numbered 89, and agree to the same with an amendment as follows:

On page 98, line 4, of the Senate engrossed amendments, strike out "338" and insert 339; and the Senate agree to the same.

Amendment numbered 90:

That the House recede from its disagreement to the amendment of the Senate numbered 90, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following: 340; and the Senate agree to the same.

Amendment numbered 91:

That the House recede from its disagreement to the amendment of the Senate numbered 91, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

(c) *EFFECTIVE DATE.*—*The amendments made by this section shall be applicable with respect to taxable years beginning after December 31, 1950. The determination as to whether a person shall be recognized as a partner for income tax purposes for any taxable year beginning before January 1, 1951, shall be made as if this section had not been enacted and without inferences drawn from the fact that this section is not expressly made applicable with respect to taxable years beginning before January 1, 1951. In applying this subsection where the taxable year of any family partner is different from the taxable year of the partnership—*

(1) if a taxable year of the partnership beginning in 1950 ends within or with, as to all of the family partners, taxable years which begin in 1951, then the amendments made by this section shall be applicable with respect to all distributive shares of income derived by the family partners from such taxable year of the partnership beginning in 1950, and

(2) if a taxable year of the partnership ending in 1951 ends within or with a taxable year of any family partner which began in 1950, then the amendments made by this section shall not be applicable with respect to any of the distributive shares of income derived by the family partners from such taxable year of the partnership.

And the Senate agree to the same.

Amendment numbered 92:

That the House recede from its disagreement to the amendment of the Senate numbered 92, and agree to the same with the following amendments:

On page 103, line 5, of the Senate engrossed amendments, strike out "340" and insert 341.

On page 106 of the Senate engrossed amendments, strike out all after line 3 over to and including line 23 on page 110 and insert:

"(3) TAX ADJUSTMENT MEASURED BY PRIOR BENEFITS.—If the provisions of this paragraph are applicable to the taxable year

pursuant to an election made by the taxpayer under the provisions of paragraph (5)—

“(A) Amount of Recovery.—The amount of the recovery in the taxable year of any money or property in respect of property considered under subsection (a) as destroyed or seized in any prior taxable year shall be an amount equal to the aggregate of such money and the fair market value of such property, determined as of the date of the recovery. For the purpose of this paragraph, in the case of the recovery of the same property or interest considered under subsection (a) as destroyed or seized, the fair market value of such property or interest shall, at the option of the taxpayer, be considered an amount equal to the adjusted basis (for determining loss) of such property or interest in the hands of the taxpayer on the date such property or interest was considered under subsection (a) as destroyed or seized. The amount of the recovery determined under this subparagraph shall be reduced for the purposes of subparagraphs (B) and (C) by the amount of the obligations or liabilities with respect to the property considered under subsection (a) as destroyed or seized in respect of which the recovery was received, if the taxpayer for any previous taxable year chose under subsection (b) (2) to treat such obligations or liabilities as discharged or satisfied out of such property, and such obligations or liabilities were not so discharged or satisfied prior to the date of the recovery.

“(B) Adjustment for Prior Tax Benefits.—That part of the amount of the recovery, in respect of any property considered under subsection (a) as destroyed or seized, which is not in excess of the allowable deductions in prior taxable years on account of such destruction or seizure of the property (the amount of such allowable deductions being first reduced by the aggregate amount of any prior recoveries in respect of the same property) shall be excluded from gross income for the taxable year of the recovery for the purpose of computing the tax under this chapter and chapter 2; but there shall be added to, and assessed and collected as a part of, the tax under this chapter for the taxable year of the recovery the total increase in the tax under this chapter and chapter 2 for all taxable years which would result by decreasing, in an amount equal to such part of the recovery so excluded, such deductions allowable in the prior taxable years with respect to the destruction or seizure of the property. Such increase in the tax for each such year so resulting shall be computed in accordance with regulations prescribed by the Secretary. Such regulations shall give effect to previous recoveries of any kind (including recoveries described in section 22 (b) (12)) with respect to any prior year, and shall provide for the case where there was no tax for the prior year, but shall otherwise treat the tax previously determined for any year in accordance with the principles set forth in section 3801 (d). All credits allowable against the tax for any year and all carry-overs and carry-backs affected by so decreasing the allowable deductions shall be taken into account in computing the increase in the tax, except that the computation of

the excess profits credit under chapter 2 E for any taxable year shall not be affected.

“(C) *Gain Upon Recovery.*—The amount of any recovery or part thereof, in respect of property considered under subsection (a) as destroyed or seized, which is not excluded from gross income under the provisions of subparagraph (B) shall be considered for the taxable year of the recovery as gain on the involuntary conversion of property as a result of its destruction or seizure and shall be recognized or not recognized as provided in section 112 (f).

“(D) *Recoveries Treated as Gross Income for Certain Purposes.*—For the purposes of sections 51, 52, and 3801 (b) the recovery in the taxable year of any money or property in respect of property considered under subsection (a) as destroyed or seized in any prior taxable year shall be deemed to be an item includible in gross income for the taxable year in which the recovery is made.

“(4) *RESTORATION OF VALUE OF INVESTMENTS REFERABLE TO DESTROYED OR SEIZED PROPERTY.*—For the purpose of this subsection the restoration in whole or in part of the value of any interest described in subsection (a) (3) by reason of any recovery of money or property in respect of property to which such interest related and which was considered under subsection (a) (1) or (2) as destroyed or seized shall be deemed a recovery of property in respect of property considered under subsection (a) as destroyed or seized. In applying paragraph (3) of this subsection such restoration shall be treated as the recovery of the same interest considered under subsection (a) as destroyed or seized.

“(5) *ELECTION BY TAXPAYER FOR APPLICATION OF PARAGRAPH (3).*—If the taxpayer elects to have the provisions of paragraph (3) applicable to any taxable year in which he recovered any money or property in respect of property considered under subsection (a) as destroyed or seized, the provisions of paragraph (3) shall be applicable to all taxable years of the taxpayer beginning after December 31, 1941, and such election, once made, shall be irrevocable. The election shall be made in such manner and at such time as the Secretary may by regulations prescribe, except that no election under this paragraph may be made after December 31, 1952, unless the taxpayer recovers money or property (in respect of property considered under subsection (a) as destroyed or seized) during a taxable year ending after the date of the enactment of the Revenue Act of 1951. If pursuant to such election the provisions of paragraph (3) are applicable to any taxable year—

“(A) the period of limitations provided in sections 275 and 276 on the making of assessments and the beginning of distraint or a proceeding in court for collection shall not, with respect to—

“(i) the amount to be added to the tax for such taxable year under the provisions of paragraph (3), and

“(ii) any deficiency for such taxable year or for any other taxable year, to the extent attributable to the basis of the recovered property being determined under the provisions of subsection (d) (2),

expire prior to the expiration of two years following the date of the making of such election, and such amount and such deficiency may be assessed at any time prior to the expiration of such period notwithstanding any law or rule of law which would otherwise prevent such assessment and collection, and

“(B) in case refund or credit of any overpayment resulting from the application of the provisions of paragraph (3) to such taxable year is prevented on the date of the making of such election, or within one year from such date, by the operation of any law or rule of law (other than section 3761, relating to compromises), refund or credit of such overpayment may, nevertheless, be made or allowed if claim therefor is filed within one year from such date.

In the case of any taxable year ending before the date of the making by the taxpayer of an election under this paragraph, no interest shall be paid on any overpayment resulting from the application of the provisions of paragraph (3) to such taxable year, and no interest shall be assessed or collected with respect to any amount or any deficiency specified in clause (A), for any period prior to the expiration of six months following the date of the making of such election by the taxpayer.”

On page 112 of the Senate engrossed amendments strike out line 6 and all that follows through line 17 and insert:

“(2) *PROPERTY RECOVERED IN TAXABLE YEAR TO WHICH SUBSECTION (c) (3) IS APPLICABLE.*—*In the case of a taxpayer who has made an election under the provisions of subsection (c) (5), the basis of property recovered shall be an amount equal to the value at which such property is included in the amount of the recovery under subsection (c) (3) (A) (determined without regard to the last sentence thereof), reduced by such part of the gain under subsection (c) (3) (C) which is not recognized as provided in section 112 (f).”*

On page 113, line 2, of the Senate engrossed amendments, strike out “1940” and insert 1941

And the Senate agree to the same.

Amendment numbered 93:

That the House recede from its disagreement to the amendment of the Senate numbered 93, and agree to the same with an amendment as follows:

On page 113, line 4, of the Senate engrossed amendments, strike out “341” and insert 342; and the Senate agree to the same.

Amendment numbered 96:

That the House recede from its disagreement to the amendment of the Senate numbered 96, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

SEC. 344. NONBUSINESS CASUALTY LOSSES.

(a) *REMOVAL OF LIMITATION.*—Section 122 (d) (5) (relating to net operating loss deduction) is hereby amended by inserting at the end thereof the following new sentence: “This paragraph shall not apply with respect to deductions allowable for losses sustained after December 31, 1950,

in respect of property, if the losses arise from fire, storm, shipwreck, or other casualty, or from theft."

(b) *EFFECTIVE DATE.*—The amendment made by this section shall be applicable in computing the net operating loss deduction for taxable years ending after December 31, 1948.

And the Senate agree to the same.

Amendment numbered 97:

That the House recede from its disagreement to the amendment of the Senate numbered 97, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

SEC. 345. ABATEMENT OF TAX ON CERTAIN TRUSTS FOR MEMBERS OF ARMED FORCES DYING IN SERVICE.

In the case of a trust which accumulated income for a beneficiary who died on or after December 7, 1941, and before January 1, 1948, while in active service as a member of the military or naval forces of the United States or of any of the other United Nations, there shall be allowed as a deduction in computing the net income of such trust (in addition to other deductions allowable under sections 23 and 162 of the Internal Revenue Code) income of the trust for any taxable year (before diminution for income tax) which was accumulated for such beneficiary if—

(1) *the income accumulated was for a taxable year of the trust which ended with or within a taxable year (ending on or after December 7, 1941) of such beneficiary during any part of which he was a member of such military or naval forces, or, in the case of the taxable year of the trust during which such beneficiary died, the income accumulated was for the period in such taxable year prior to the death of such beneficiary; and*

(2) *the amount of such accumulated income was, without regard to this section, taxable to the trust, and*

(3) *the income for such taxable year accumulated for the beneficiary, if not distributed to him prior to his death, was payable by the trust at or after his death only to his estate, spouse, or lineal ancestors or descendants.*

And the Senate agree to the same.

Amendment numbered 99:

That the House recede from its disagreement to the amendment of the Senate numbered 99, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

SEC. 346. LIFE INSURANCE DEPARTMENTS OF MUTUAL SAVINGS BANKS.

(a) *COMPUTATION OF TAX.*—Supplement A of chapter 1 is hereby amended by adding at the end thereof the following new section:

"SEC. 110. MUTUAL SAVINGS BANKS CONDUCTING LIFE INSURANCE BUSINESS.

"(a) ALTERNATIVE TAX.—In the case of a mutual savings bank not having capital stock represented by shares, authorized under State law to

engage in the business of issuing life insurance contracts, and which conducts a life insurance business in a separate department the accounts of which are maintained separately from the other accounts of the mutual savings bank, there shall be levied, collected, and paid, in lieu of the taxes imposed by sections 13 and 15, or section 117 (c) (1), a tax consisting of the sum of the partial taxes determined under paragraphs (1) and (2):

“(1) A partial tax computed upon the net income determined without regard to any items of gross income or deductions properly allocable to the business of the life insurance department, at the rates and in the manner as if this section has not been enacted; and

“(2) a partial tax computed upon the net income (as defined in section 201 (c) (7)) of the life insurance department determined without regard to any items of gross income or deductions not properly allocable to such department, at the rates and in the manner provided in Supplement G with respect to life insurance companies.

“(b) *LIMITATIONS OF SECTION.*—The provisions of subsection (a) shall be applicable only if the life insurance department would, if it were treated as a separate corporation, qualify as a life insurance company under section 201 (b).”

(b) *TECHNICAL AMENDMENT.*—Section 13 (relating to normal tax on corporations) is hereby amended by adding at the end thereof the following new subsection:

“(f) *MUTUAL SAVINGS BANKS CONDUCTING LIFE INSURANCE BUSINESS.*—For special tax, in lieu of the taxes imposed by this section and section 15, in the case of a mutual savings bank conducting a life insurance business, see section 110.”

(c) *EFFECTIVE DATE.*—The amendments made by this section shall be applicable only with respect to taxable years beginning after December 31, 1951.

And the Senate agree to the same.

Amendment numbered 100:

That the House recede from its disagreement to the amendment of the Senate numbered 100, and agree to the same with the following amendments:

On page 120, line 17, of the Senate engrossed amendments, strike out “348” and insert 347.

On page 120, line 23, of the Senate engrossed amendments, strike out “the taxable year” and insert *a taxable year beginning before January 1, 1953*

And the Senate agree to the same.

Amendment numbered 101:

That the House recede from its disagreement to the amendment of the Senate numbered 101, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

SEC. 348. DEDUCTION WITH RESPECT TO CERTAIN UN-RELATED BUSINESS NET INCOME.

(a) *UNRELATED BUSINESS NET INCOME.*—Section 422 (a) (relating to unrelated business net income) is hereby amended by adding at the end thereof the following: “In the case of an organization described in section 3813 (a) (2) which is a member of a partnership all of whose

members are organizations described in section 3813 (a) (2), if a trade or business regularly carried on by such partnership is an unrelated trade or business with respect to such organization, such organization shall, for taxable years beginning before January 1, 1954, be allowed a deduction in an amount equal to the portion of the gross income of such partnership from such unrelated trade or business which such organization is required (by a provision of a written contract executed by such organization prior to January 1, 1950, which provision expressly deals with the disposition of the gross income of the partnership) to pay within the taxable year in discharge of indebtedness incurred by such organization in acquiring its share of such trade or business, or to irrevocably set aside within the taxable year for the discharge of such indebtedness (to the extent that such amount has been so paid or set aside) if (i) such partnership was formed prior to January 1, 1950, for the purpose of carrying on such trade or business, and (ii) substantially all the assets used in carrying on such trade or business were acquired by it or by its members prior to such date. As used in the preceding sentence, the word 'indebtedness' does not include indebtedness incurred after January 1, 1950."

(b) *EFFECTIVE DATE.*—The amendment made by this section shall be applicable with respect to taxable years beginning after December 31, 1950, and prior to January 1, 1954.

And the Senate agree to the same.

Amendment numbered 102:

That the House recede from its disagreement to the amendment of the Senate numbered 102, and agree to the same with an amendment as follows:

On page 122, line 8, of the Senate engrossed amendments, strike out "350" and insert 349; and the Senate agree to the same.

Amendment numbered 104:

That the House recede from its disagreement to the amendment of the Senate numbered 104, and agree to the same with the following amendments:

On page 124, line 11, of the Senate engrossed amendments, strike out "contributions—" and insert the following: *contributions*;

On page 124 of the Senate engrossed amendments, after line 11, insert the following:

"(v) an organization organized (prior to October 1, 1951) which is exempt under section 101 (6) and which is operated for the purpose of conducting an annual chautauqua program of educational, cultural, and religious activities at a permanent location—"

And the Senate agree to the same.

Amendment numbered 107:

That the House recede from its disagreement to the amendment of the Senate numbered 107, and agree to the same with an amendment as follows:

On page 126 of the Senate engrossed amendments strike out "January" in lines 18 and 19 and insert *April*; and the Senate agree to the same.

Amendment numbered 110:

That the House recede from its disagreement to the amendment of the Senate numbered 110, and agree to the same with the following amendments:

On page 127 of the Senate engrossed amendments strike out "January" in lines 8, 16, 22, and 23 and insert *April*

On page 127, line 18, of the Senate engrossed amendments strike out "April" and insert *July*

On page 128 of the Senate engrossed amendments strike out "January" in lines 6 and 9 and insert *April*

And the Senate agree to the same.

Amendment numbered 111:

That the House recede from its disagreement to the amendment of the Senate numbered 111, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

SEC. 423. REDUCTION OF TAX ON TOBACCO AND SNUFF.

(a) *REDUCTION IN RATE.*—Section 2000 (a) (relating to tax on tobacco and snuff) is hereby amended by striking out "18 cents per pound", wherever it appears therein, and inserting in lieu thereof "10 cents per pound".

(b) *EFFECTIVE DATE.*—The amendment made by subsection (a) shall take effect on the first day of the first month which begins more than ten days after the date of the enactment of this Act.

And the Senate agree to the same.

Amendment numbered 118:

That the House recede from its disagreement to the amendment of the Senate numbered 118, and agree to the same with an amendment as follows:

Restore the matter proposed to be stricken out by the Senate amendment and on page 111 of the House engrossed bill, after line 16, insert: *On and after April 1, 1954, the tax imposed by this section shall be 1½ cents a gallon in lieu of 2 cents a gallon.*

And the Senate agree to the same.

Amendment numbered 121:

That the House recede from its disagreement to the amendment of the Senate numbered 121, and agree to the same with an amendment as follows:

On page 130, line 18, of the Senate engrossed amendments, strike out "January" and insert *April*; and the Senate agree to the same.

Amendment numbered 122:

That the House recede from its disagreement to the amendment of the Senate numbered 122, and agree to the same with an amendment as follows:

On page 131, line 1, of the Senate engrossed amendments, strike out "January" and insert *April*; and the Senate agree to the same.

Amendment numbered 127:

That the House recede from its disagreement to the amendment of the Senate numbered 127, and agree to the same with an amendment as follows:

On page 131, line 8, of the Senate engrossed amendments, strike out "January" and insert *April*; and the Senate agree to the same.

Amendment numbered 128:

That the House recede from its disagreement to the amendment of the Senate numbered 128, and agree to the same with an amendment as follows:

On page 131, line 11, of the Senate engrossed amendments, strike out "January" and insert *April*; and the Senate agree to the same.

Amendment numbered 129:

That the House recede from its disagreement to the amendment of the Senate numbered 129, and agree to the same with an amendment as follows:

On page 131, line 14, of the Senate engrossed amendments, strike out "January" and insert *April*; and the Senate agree to the same.

Amendment numbered 131:

That the House recede from its disagreement to the amendment of the Senate numbered 131, and agree to the same with an amendment as follows:

On page 132 of the Senate engrossed amendments strike out "January" in lines 1 and 8 and insert *April*; and the Senate agree to the same.

Amendment numbered 137:

That the House recede from its disagreement to the amendment of the Senate numbered 137, and agree to the same with an amendment as follows:

On page 132, line 17, of the Senate engrossed amendments, strike out "January" and insert *April*; and the Senate agree to the same.

Amendment numbered 141:

That the House recede from its disagreement to the amendment of the Senate numbered 141, and agree to the same with the following amendments:

On page 133, line 3, of the Senate engrossed amendments, strike out "444" and insert 454

On page 133 of the Senate engrossed amendments strike out "January" in lines 11 and 18 and insert *April*

On page 133, line 20, of the Senate engrossed amendments, strike out "February" and insert *May*

On page 134, line 2, of the Senate engrossed amendments, strike out "January" and insert *April*

And the Senate agree to the same.

Amendment numbered 142:

That the House recede from its disagreement to the amendment of the Senate numbered 142, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following: 455; and the Senate agree to the same.

Amendment numbered 143:

That the House recede from its disagreement to the amendment of the Senate numbered 143, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following: *456*; and the Senate agree to the same.

Amendment numbered 151:

That the House recede from its disagreement to the amendment of the Senate numbered 151, and agree to the same with the following amendments:

On page 135, of the Senate engrossed amendments, strike out "452" in lines 8 and 13 and insert *462*

On page 135, line 16, of the Senate engrossed amendments, strike out "December 31, 1953" and insert *March 31, 1954*

And the Senate agree to the same.

Amendment numbered 154:

That the House recede from its disagreement to the amendment of the Senate numbered 154, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following: *464*; and the Senate agree to the same.

Amendment numbered 156:

That the House recede from its disagreement to the amendment of the Senate numbered 156, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following: *461 and 463*; and the Senate agree to the same.

Amendment numbered 163:

That the House recede from its disagreement to the amendment of the Senate numbered 163, and agree to the same with the following amendments:

On page 136, line 18, of the Senate engrossed amendments, strike out "461" and insert *471*

On page 137, line 5, of the Senate engrossed amendments, strike out "461" and insert *471*

And the Senate agree to the same.

Amendment numbered 166:

That the House recede from its disagreement to the amendment of the Senate numbered 166, and agree to the same with an amendment as follows:

On page 137, line 13, of the Senate engrossed amendments, strike out "January" and insert *April*; and the Senate agree to the same.

Amendment numbered 167:

That the House recede from its disagreement to the amendment of the Senate numbered 167, and agree to the same with an amendment as follows:

On page 137, line 23, of the Senate engrossed amendments, strike out "January" and insert *April*; and the Senate agree to the same.

Amendment numbered 168:

That the House recede from its disagreement to the amendment of the Senate numbered 168, and agree to the same with an amendment as follows:

On page 138, line 5, of the Senate engrossed amendments, strike out "January" and insert *April*; and the Senate agree to the same.

Amendment numbered 172:

That the House recede from its disagreement to the amendment of the Senate numbered 172, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following: 490; and the Senate agree to the same.

Amendment numbered 173:

The the House recede from its disagreement to the amendment of the Senate numbered 173, and agree to the same with the following amendments:

On page 138, line 19, of the Senate engrossed amendments, strike out "473" and insert 483

On page 139, line 7, of the Senate engrossed amendments, strike out "producer or" and insert *producer of*

And the Senate agree to the same.

Amendment numbered 174:

That the House recede from its disagreement to the amendment of the Senate numbered 174, and agree to the same with the following amendments:

On page 139, line 19, of the Senate engrossed amendments, strike out "474" and insert 484

On page 140 of the Senate engrossed amendments strike out lines 19, 20, and 21 and, in lieu thereof, insert the following: *15 per centum, except that on and after April 1, 1954, the rate shall be 10 per centum; fishing rods, creels, reels, and artificial lures, baits, and flies; 10 per centum.*"

And the Senate agree to the same.

Amendment numbered 175:

That the House recede from its disagreement to the amendment of the Senate numbered 175, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following: 485; and the Senate agree to the same.

Amendment numbered 178:

That the House recede from its disagreement to the amendment of the Senate numbered 178, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following: *by striking out "Electric direct motor-driven fans and air circulators;" and inserting in lieu thereof "Electric direct motor-driven fans and air circulators (not of the industrial type); and the following appliances of the household type:"*, (2); and the Senate agree to the same.

Amendment numbered 179:

That the House recede from its disagreement to the amendment of the Senate numbered 179, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following: (3), and on page 139 of the House engrossed bill, in lines 3 and 4, strike out "and the following appliances of the household type:"; and the Senate agree to the same.

Amendment numbered 181:

That the House recede from its disagreement to the amendment of the Senate numbered 181, and agree to the same with an amendment as follows:

Strike out the matter proposed to be stricken out by the Senate amendment and omit the matter proposed to be inserted by the Senate amendment; and the Senate agree to the same.

Amendment numbered 184:

That the House recede from its disagreement to the amendment of the Senate numbered 184, and agree to the same with an amendment as follows:

Restore the matter proposed to be stricken out by the Senate amendment, omit the matter proposed to be inserted by the Senate amendment, and on page 139, line 11, of the House engrossed bill, strike out "485" and insert 486; and the Senate agree to the same.

Amendment numbered 185:

That the House recede from its disagreement to the amendment of the Senate numbered 185, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following: 487; and the Senate agree to the same.

Amendment numbered 188:

That the House recede from its disagreement to the amendment of the Senate numbered 188, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following: 15; and the Senate agree to the same.

Amendment numbered 191:

That the House recede from its disagreement to the amendment of the Senate numbered 191, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following: 488; and the Senate agree to the same.

Amendment numbered 193:

That the House recede from its disagreement to the amendment of the Senate numbered 193, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following: 489; and the Senate agree to the same.

Amendment numbered 194:

That the House recede from its disagreement to the amendment of the Senate numbered 194, and agree to the same with an amendment as follows:

On page 144, line 11, of the Senate engrossed amendments, strike out "January" and insert *April*; and the Senate agree to the same.

Amendment numbered 197:

That the House recede from its disagreement to the amendment of the Senate numbered 197, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following: 489; and the Senate agree to the same.

Amendment numbered 198:

That the House recede from its disagreement to the amendment of the Senate numbered 198, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following: *a producer or importer of gasoline. The provisions of section 3443 shall be applicable to the floor stocks tax imposed by this subsection so as to entitle, subject to all the provisions of such section, (1) any manufacturer or producer to a refund or credit of such tax under subsection (a) (1) of such section, and (2) any person paying such floor stocks tax to a refund or credit thereof where gasoline is by such person or any other person used or resold for any of the purposes specified in subparagraphs (A) (i), (ii), and (iii) of subsection (a) (3) of such section.*

And the Senate agree to the same.

Amendment numbered 199:

That the House recede from its disagreement to the amendment of the Senate numbered 199, and agree to the same with the following amendments:

On page 145 of the Senate engrossed amendments strike out "January" in lines 6, 12, and 13 and insert *April*

On page 145, line 16, of the Senate engrossed amendments, strike out "April" and insert *July*

On page 146, line 9, of the Senate engrossed amendments, strike out "January" and insert *April*

And the Senate agree to the same.

Amendment numbered 200:

That the House recede from its disagreement to the amendment of the Senate numbered 200, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following: 490; and the Senate agree to the same.

Amendment numbered 210:

That the House recede from its disagreement to the amendment of the Senate numbered 210, and agree to the same with an amendment as follows:

On page 147, line 10, of the Senate engrossed amendments, strike out "482" and insert 492; and the Senate agree to the same.

Amendment numbered 211:

That the House recede from its disagreement to the amendment of the Senate numbered 211, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following: 493; and the Senate agree to the same.

Amendment numbered 213:

That the House recede from its disagreement to the amendment of the Senate numbered 213, and agree to the same with an amendment as follows:

On page 148, line 15, of the Senate engrossed amendments, strike out "484" and insert 494; and the Senate agree to the same.

Amendment numbered 214:

That the House recede from its disagreement to the amendment of the Senate numbered 214, and agree to the same with the following amendments:

On page 149, line 15, of the Senate engrossed amendments, strike out "485" and insert 495

On page 149 of the Senate engrossed amendments, after the quotation marks in line 24 insert the following: *The determination as to the applicability of the tax imposed by section 3475 in the case of the transportation of any excavated material, other than transportation to which the amendment made by this subsection applies, shall be made as if this subsection had not been enacted and without inferences drawn from the fact that the amendment made by this subsection is not expressly applicable to the transportation of such other excavated material.*

And the Senate agree to the same.

Amendment numbered 215:

That the House recede from its disagreement to the amendment of the Senate numbered 215, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following: 496; and the Senate agree to the same.

Amendment numbered 216:

That the House recede from its disagreement to the amendment of the Senate numbered 216, and agree to the same with the following amendments:

On page 150, line 8, of the Senate engrossed amendments, strike out "487" and insert 497

On page 150 of the Senate engrossed amendments strike out "January" in lines 15 and 22 and insert *April*

On page 151 of the Senate engrossed amendments strike out "January" in lines 10 and 18 and insert *April*.

And the Senate agree to the same.

Amendment numbered 217:

That the House recede from its disagreement to the amendment of the Senate numbered 217, and agree to the same with an amendment as follows:

On page 151, line 22, of the Senate engrossed amendments, strike out "488" and insert 498; and the Senate agree to the same.

Amendment numbered 219:

That the House recede from its disagreement to the amendment of the Senate numbered 219, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

SEC. 501. MAXIMUM TAX FOR NEW CORPORATIONS.

Section 430 (relating to imposition of tax) is hereby amended as follows:

(1) *By adding at the end of subsection (a) thereof, as amended by section 121 of this Act, the following:*

"(3) in the case of a corporation for which an amount is determined for the taxable year under subsection (e), the amount determined under such subsection."

(2) *By redesignating subsection (e) as subsection (f); and*

(3) *By inserting after subsection (d) the following new subsection:*

"(e) NEW CORPORATIONS.—

"(1) ALTERNATIVE AMOUNT.—In the case of a taxpayer which commenced business after July 1, 1945, and whose fifth taxable year ends after June 30, 1950, the amount referred to in subsection (a) (3) shall be—

"(A) If the taxable year is the first or second taxable year of the taxpayer, an amount equal to 5 per centum of the excess profits net income for the taxable year, except that if the excess profits net income exceeds \$300,000, the amount shall be the sum of \$15,000 plus the amount determined under subparagraph (E) of this paragraph.

"(B) If the taxable year is the third taxable year of the taxpayer, an amount equal to 8 per centum of the excess profits net income for the taxable year, except that if the excess profits net income exceeds \$300,000, the amount shall be the sum of \$24,000 plus the amount determined under subparagraph (E) of this paragraph.

"(C) If the taxable year is the fourth taxable year of the taxpayer, an amount equal to 11 per centum of the excess profits net income for the taxable year, except that if the excess profits net income exceeds \$300,000, the amount shall be the sum of \$33,000 plus the amount determined under subparagraph (E) of this paragraph.

"(D) If the taxable year is the fifth taxable year of the taxpayer, an amount equal to 14 per centum of the excess profits net income for the taxable year, except that if the excess profits net income exceeds \$300,000, the amount shall be the sum of \$42,000 plus the amount determined under subparagraph (E) of this paragraph.

"(E) The amount determined under this subparagraph shall be—

"(i) if the taxable year ends before April 1, 1951, an amount equal to 15 per centum of the excess of the excess profits net income for the taxable year over \$300,000.

"(ii) if the taxable year begins on January 1, 1951, and ends on December 31, 1951, an amount equal to 17¼ per centum of the excess of the excess profits net income for the taxable year over \$300,000.

“(iii) if the taxable year (other than a taxable year described in clause (ii)) ends after March 31, 1951, an amount equal to 18 per centum of the excess of the excess profits net income for the taxable year over \$300,000.

“(2) *FIRST FIVE TAXABLE YEARS.*—For the purpose of this subsection—

“(A) The taxable year in which the taxpayer commenced business and the first, second, third, and fourth succeeding taxable years shall be considered its first, second, third, fourth, and fifth taxable years, respectively.

“(B) The taxpayer shall be considered to have been in existence and to have had taxable years for any period during which it or any corporation described in any clause of this subparagraph was in existence, and the taxpayer shall be considered to have commenced business on the earliest date on which it or any such corporation commenced business:

“(i) Any corporation which during or prior to the taxable year was a party with the taxpayer to a transaction described in section 445 (g) (2) (A), (B), or (C), determined as if the date ‘July 1, 1945’ were substituted for the date ‘December 1, 1950’ in section 445 (g) (2) (C).

“(ii) Any corporation if a group of not more than four persons who control the taxpayer at any time during the taxable year also controlled such corporation at any time during the period beginning twelve months preceding their acquisition of control of the taxpayer and ending with the close of the taxable year; but only if at any time during such period (and while such persons controlled such corporation) such corporation was engaged in a trade or business substantially similar to the trade or business of the taxpayer during the taxable year. For the purpose of this clause, the term ‘control’ means the ownership of more than 50 per centum of the total combined voting power of all classes of stock entitled to vote, or more than 50 per centum of the total value of shares of all classes of stock. A person shall not be considered a member of the group referred to in this clause unless during the period referred to in this clause he owns stock in such corporation at a time when the members of the group control such corporation and he owns stock in the taxpayer at a time when the members of the group control the taxpayer. For the purpose of this clause, the ownership of stock shall be determined in accordance with the provisions of section 503, except that constructive ownership under section 503 (a) (2) shall be determined only with respect to the individual’s spouse and minor children.

“(iii) In case the taxpayer during or prior to the taxable year was a purchasing corporation (as defined in part IV), the selling corporation (as defined in such part) whose properties were acquired in the part IV transaction; but this clause shall not apply unless for the taxable year or for any preceding taxable year the conditions of paragraphs (1), (2), and (3) of section 474 (c) were satisfied with respect to such transaction.

“(iv) Any corporation which, under regulations prescribed by the Secretary, is determined by one or more additional applications of clauses (i) to (iii) to stand indirectly in the same relation to the taxpayer as though such corporation were described in any such clause.

If as of the beginning of December 1, 1950, the adjusted basis for determining gain upon sale or exchange of the aggregate assets theretofore acquired by the taxpayer in transactions described in clauses (i) and (iii) (or acquired in the ordinary course of business in replacement of such assets) and held by it at such time constituted less than 20 per centum of the adjusted basis for determining gain upon sale or exchange of its total assets held at such time, then transactions described in such clauses occurring prior to such date shall be disregarded in determining the date as of which the taxpayer shall be considered to have commenced business.

“(3) LIMITATION.—The provisions of paragraph (1) of this subsection shall not apply to a taxpayer which derives more than 50 per centum of its gross income (determined without regard to dividends and without regard to gains from sales or exchanges of capital assets) for the taxable year from contracts and subcontracts to which the provisions of title I of the Renegotiation Act of 1951 (or the provisions of any prior renegotiation act) are applicable.”

And the Senate agree to the same.

Amendment numbered 220:

That the House recede from its disagreement to the amendment of the Senate numbered 220, and agree to the same with the following amendments:

On page 160, line 4, of the Senate engrossed amendments insert, after “corporation”, the following: *at the time it renders such services or assistance*

On page 160, line 12, of the Senate engrossed amendments strike out “renders” and insert *rendered*

On page 160, line 19, of the Senate engrossed amendments strike out “constitutes” and insert *constituted*

On page 161, line 1, of the Senate engrossed amendments strike out “owns” and insert the following: *at the time it rendered such services or assistance owned*

And the Senate agree to the same.

Amendment numbered 221:

That the House recede from its disagreement to the amendment of the Senate numbered 221, and agree to the same with an amendment as follows:

On page 161, line 17, of the Senate engrossed amendments strike out the quotation marks and insert the following: *In computing the average base period net income for such substituted period, the excess profits net income for January, February, and March of 1950 shall be computed by use of the ‘weighted excess profits net income’, as defined in section 435 (e) (2) (E), for the taxable year in which such months fall.”*; and the Senate agree to the same.

Amendment numbered 222:

That the House recede from its disagreement to the amendment of the Senate numbered 222, and agree to the same with the following amendments:

On page 164, line 4, of the Senate engrossed amendments strike out "regulation" and insert *regulations*

On page 165, line 4, of the Senate engrossed amendments strike out the period and quotation marks and insert the following: , *and such monthly excess profits net income shall be in lieu of the monthly excess profits net income determined under paragraphs (1) and (2) of section 462 (b).*"

And the Senate agree to the same.

Amendment numbered 224:

That the House recede from its disagreement to the amendment of the Senate numbered 224, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

SEC. 506. ADJUSTMENTS FOR CHANGES IN INADMISSIBLE ASSETS IN CASE OF BANKS.

(a) *AMENDMENT OF SECTION 435 (g).—Section 435 (g) (relating to net capital addition or reduction) is hereby amended by redesignating paragraph (8) as paragraph (11) and by adding after paragraph (7) the following new paragraph:*

"(8) ADJUSTMENTS FOR CHANGES IN INADMISSIBLE ASSETS IN CASE OF BANKS.—In the case of a bank (as defined in section 104)—

"(A) If the increase in total assets for the taxable year exceeds the net capital addition computed without regard to the adjustment under paragraph (1) for an increase in inadmissible assets, then the net capital addition for the taxable year shall not be less than the excess of—

"(i) the amount determined under the first sentence of paragraph (1) over

"(ii) an amount which bears the same ratio to the increase in inadmissible assets for the taxable year, determined under paragraph (5), as the amount computed under such first sentence bears to the increase in total assets for the taxable year.

"(B) If the decrease in total assets for the taxable year exceeds the net capital reduction computed without regard to the adjustment under paragraph (2) for a decrease in inadmissible assets, then the net capital reduction for the taxable year shall not be less than the excess of—

"(i) the amount determined under the first sentence of paragraph (2) over

"(ii) an amount which bears the same ratio to the decrease in inadmissible assets for the taxable year, determined under paragraph (5), as the amount computed under such first sentence bears to the decrease in total assets for the taxable year.

For the purpose of this paragraph, the increase or decrease in total assets for the taxable year shall be computed in the same manner as

the increase or decrease in inadmissible assets for the taxable year is computed under paragraph (5), except that such computations shall be made with respect to all assets, whether admissible or inadmissible assets as defined in section 440."

(b) *AMENDMENT OF SECTION 438.*—Section 438 (relating to new capital credit changes) is hereby amended by adding after subsection (f) the following new subsection:

"(g) *ADJUSTMENTS FOR INADMISSIBLE ASSETS IN CASE OF BANKS.*—In the case of a bank (as defined in section 104), if the increase in total assets for the taxable year (determined in the manner provided in the last sentence of section 435 (g) (8)) exceeds the net new capital addition computed without regard to the adjustment under subsection (b) for an increase in inadmissible assets, then the net new capital addition for the taxable year shall not be less than the excess of the amount determined under the first sentence of subsection (b) over an amount which bears the same ratio to the increase in inadmissible assets for the taxable year, determined under section 435 (g) (5), as the amount computed under such first sentence bears to such increase in total assets for the taxable year."

(c) *AMENDMENT OF SECTION 435 (f).*—Section 435 (f) (relating to capital additions in base period) is hereby amended as follows:

(1) By inserting immediately after the word "reduced" in paragraph (1) thereof the following: "(but not below zero)".

(2) By adding at the end of paragraph (1) thereof the following: "For special rule in the case of banks, see paragraph (6)."

(3) By renumbering paragraph (6) as paragraph (7), and by adding immediately after paragraph (5) the following new paragraph:

"(6) *YEARLY BASE PERIOD CAPITAL OF BANKS.*—In the case of a bank (as defined in section 104), the yearly base period capital for any taxable year shall be determined as follows:

"(A) A tentative yearly base period capital shall be computed under paragraph (1) without regard to paragraph (1) (A).

"(B) The tentative yearly base period capital so determined shall be reduced by the amount determined under section 440 (b) (relating to inadmissible assets). For the purpose of this subparagraph, the computation under section 440 (b) shall include only the daily amounts (described in such section) for the first day of such taxable year."

(d) *EFFECTIVE DATE OF SUBSECTION (c) (3).*—The amendment made by subsection (c) (3) (adding a new paragraph (6) to section 435 (f)) shall be applicable with respect to taxable years beginning on or after the date of the enactment of this Act, and, at the election of the taxpayer made in accordance with regulations prescribed by the Secretary, shall be applicable to all taxable years ending after June 30, 1950.

And the Senate agree to the same.

Amendment numbered 225:

That the House recede from its disagreement to the amendment of the Senate numbered 225, and agree to the same with an amendment as follows:

On page 169 of the Senate engrossed amendments strike out lines 9 to 20, inclusive, and insert the following:

"(9) *DECREASE IN INADMISSIBLE ASSETS.*—

"(A) Except as otherwise provided in subparagraph (B) (relating to banks), the excess of the amount computed under

paragraph (2) (A) or (B), whichever is applicable to the taxpayer (whether or not any amount is determined under the first sentence of paragraph (2)), over the amount, if any, computed under the first sentence of paragraph (2) shall be considered the net capital addition for the taxable year or shall be added to the net capital addition otherwise determined under paragraph (1), as the case may be. The amount of the excess so determined shall be subject to the exceptions and limitations provided in paragraph (10).

“(B) In the case of a bank (as defined in section 104), the computation under subparagraph (A) shall be made by substituting for the amount computed under paragraph (2) (A) or (B) whichever of the following amounts is the lesser:

“(i) An amount which bears the same ratio to the decrease in inadmissible assets as the sum of the equity capital (as defined in section 437 (c)) and the daily borrowed capital (as defined in section 439 (b)), each determined as of the first day of the first taxable year ending after June 30, 1950, bears to the total assets as of the beginning of such day;

“(ii) If paragraph (8) (B) is applicable, the amount computed under paragraph (8) (B) (i).

And the Senate agree to the same.

Amendment numbered 226:

That the House recede from its disagreement to the amendment of the Senate numbered 226, and agree to the same with an amendment as follows:

On page 172 of the Senate engrossed amendments strike out line 25 and all that follows over to and including the period in line 3 on page 173 and insert the following: ‘Government obligations’ means obligations described in section 22 (b) (4) any part of the interest from which is excludible from gross income or allowable as a credit against net income; but such term shall include only such obligations as in the hands of the taxpayer are property described in section 117 (a) (1) (A).; and the Senate agree to the same.

Amendment numbered 227:

That the House recede from its disagreement to the amendment of the Senate numbered 227, and agree to the same with an amendment as follows:

On page 175 of the Senate engrossed amendments strike out line 11 and all that follows through line 17 on page 177 and insert the following:

“(h) *ALTERNATIVE AVERAGE BASE PERIOD NET INCOME.*—

“(1) *ELIGIBILITY REQUIREMENTS.*—A taxpayer which commenced business on or before the first day of its base period shall be entitled to the benefits of this subsection if—

“(A) the aggregate excess profits net income (if any) for the 12 months selected under paragraph (2) (B) is less than 35 per centum of one-half of the aggregate excess profits net income for the 24 months remaining under such paragraph; and

“(B) normal production, output, or operation was interrupted or diminished because of the occurrence, within 12 months preceding (i) the first day of the 12-month period selected under

paragraph (2) (B) (i), or (ii) the first day of any period of 6 or more consecutive months selected under paragraph (2) (B) (ii), of events unusual or peculiar in the experience of such taxpayer. This subsection shall have no application unless the taxpayer has an aggregate excess profits net income for the 24 months remaining under paragraph (2) (B).

“(2) COMPUTATION.—If the taxpayer is entitled to the benefits of this subsection, its average base period net income computed under this subsection shall be computed as follows:

“(A) By determining under subsection (b) the period subject to adjustment under this section. For the purposes of subparagraph (B) but not for the purposes of paragraph (1) (B) such period shall be considered a period of 36 consecutive months.

“(B) By selecting from such period whichever of the following 12 months results in the higher remaining aggregate excess profits net income—

“(i) the 12 consecutive months the elimination of which produces the highest remaining aggregate excess profits net income, or

“(ii) the 12 months which remain after retaining the 24 consecutive months which produce the highest remaining aggregate excess profits net income.

“(C) By computing for each of the 12 months selected under subparagraph (B) a substitute excess profits net income computed under subsection (e).

“(D) By computing the sum of—

“(i) the aggregate of the substitute excess profits net income, as determined under subparagraph (C), for the 12 months selected under subparagraph (B), but the amount computed under this clause shall not exceed one-half of the aggregate excess profits net income for the 24 months remaining under subparagraph (B), and

“(ii) the aggregate of the excess profits net income for each of the 24 months remaining under subparagraph (B), computed in the manner provided by the second sentence of section 435 (d) (1).

“(E) By dividing by three the amount ascertained under subparagraph (D).

“(3) AGGREGATE EXCESS PROFITS NET INCOME.—The ‘aggregate excess profits net income’ for any period shall be computed for the purposes of this subsection in the same manner as under subsection (b).”

And the Senate agree to the same.

Amendment numbered 228:

That the House recede from its disagreement to the amendment of the Senate numbered 228, and agree to the same with an amendment as follows:

On page 178 of the Senate engrossed amendments strike out line 10 and all that follows through the word “the” in line 11 and insert *The*; and the Senate agree to the same.

Amendment numbered 231:

That the House recede from its disagreement to the amendment of the Senate numbered 231, and agree to the same with an amendment as follows:

On page 181, line 3, of the Senate engrossed amendments insert, after "Commission or", the following: *if the rates for such furnishing or sale are subject*; and the Senate agree to the same.

Amendment numbered 234:

That the House recede from its disagreement to the amendment of the Senate numbered 234, and agree to the same with an amendment as follows:

On page 183 of the Senate engrossed amendments strike out line 15 and all that follows through line 21 on page 184 and insert the following:

"(1) *The adjusted basis of the taxpayer's total facilities (as defined in section 444 (d)) as of the beginning of its base period (when added to the total facilities at such time of all corporations with which the taxpayer has the privilege under section 141 of filing a consolidated return for its first taxable year under this subchapter) did not exceed \$10,000,000;*

"(2) *The basis (unadjusted) of the taxpayer's total facilities (as defined in section 444 (d)) at the close of its base period was 250 per centum or more of the basis (unadjusted) of its total facilities at the beginning of its base period;*

"(3) *The percentage of the taxpayer's aggregate gross income which was from contracts with the United States and related sub-contracts was (A) at least 70 per centum for the period comprising all taxable years beginning after December 31, 1941, and ending before January 1, 1946, (B) less than 20 per centum for the period comprising all taxable years ending after December 31, 1945, and before January 1, 1950, and (C) less than 20 per centum for the period comprising all taxable years ending after December 31, 1949, and beginning before July 1, 1950; and*

"(4) *The average monthly excess profits net income of the taxpayer (computed in the manner provided in section 443 (e)) for—*

"(A) the period comprising all taxable years ending with or within the last 24 months of its base period, and

"(B) the last taxable year ending before the first day of its base period,

are each 300 per centum or more of the average monthly excess profits net income (so computed) of the taxpayer for the period comprising all taxable years ending with or within the first 24 months of its base period."

And the Senate agree to the same.

Amendment numbered 235:

That the House recede from its disagreement to the amendment of the Senate numbered 235, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

SEC. 517. BASE PERIOD CATASTROPHE.

Section 459, as added by section 516 of this Act, is hereby amended by adding after subsection (a) thereof the following new subsection:

“(b) **BASE PERIOD CATASTROPHE.**—

“(1) **ELIGIBILITY REQUIREMENTS.**—A taxpayer shall be entitled to the benefits of this subsection only if it was engaged throughout its base period primarily in manufacturing and if—

“(A) the taxpayer suffered during the last thirty-six months of its base period a catastrophe by fire, storm, explosion, or other casualty which destroyed or rendered inoperative a production facility constituting a complete plant or plants having in the hands of the taxpayer immediately prior to the catastrophe an adjusted basis equal to 15 per centum or more of the adjusted basis of all the taxpayer's production facilities at such time;

“(B) as a result of such catastrophe the taxpayer's normal production or operation was substantially interrupted for a period of more than twelve consecutive months; and

“(C) the taxpayer, prior to the end of its base period, replaced such production facility with a production facility which at the end of its base period had in its hands an adjusted basis not less than the adjusted basis immediately prior to the catastrophe of the production facility destroyed or rendered inoperative;

“(2) **COMPUTATION.**—The taxpayer's base period net income determined under this subsection shall be the amount computed under subparagraph (A) or the amount computed under subparagraph (B), whichever results in the lesser tax under this subchapter for the taxable year for which the tax is being computed:

“(A) The amount computed under section 435 (d) by substituting for the excess profits net income for each month in the taxable year in which the catastrophe described in paragraph (1) occurred an amount equal to the aggregate, divided by the number of months in the base period preceding such taxable year, of the excess profits net income for each month (computed under section 435 (d) (1)) in the base period preceding such taxable year. The average base period net income computed under this subparagraph shall, for the purpose of section 435 (a) (1) (B), be considered an average base period net income determined under section 435 (d).

“(B) The amount computed under section 435 (e) (2) (G) (i) and (ii).”

And the Senate agree to the same.

Amendment numbered 236:

That the House recede from its disagreement to the amendment of the Senate numbered 236, and agree to the same with the following amendments:

On page 187, line 16, of the Senate engrossed amendments insert after the semicolon the following: *and*

On page 188, line 2, of the Senate engrossed amendments insert after the semicolon the following: *and either*

On page 188, line 9, of the Senate engrossed amendments strike out “consolidation began; and” and insert the following: *operations were consolidated; or*

On page 188, line 21, of the Senate engrossed amendments strike out "consolidation began" and insert the following: *operations were consolidated*

On page 188, line 23, of the Senate engrossed amendments insert after the period the following: *In determining such excess amount proper adjustment shall be made for increase in labor costs and newsprint following such consolidation. Proper adjustment shall also be made for any case in which a taxable year referred to in this subsection is a period of less than twelve months.*

And the Senate agree to the same.

Amendment numbered 237:

That the House recede from its disagreement to the amendment of the Senate numbered 237, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

SEC. 519. TELEVISION BROADCASTING COMPANIES.

Section 459, as added by sections 516 to 518 of this Act, is hereby amended by adding after subsection (c) thereof the following new subsections:

"(d) **TELEVISION BROADCASTING COMPANIES.**—

"(1) **IN GENERAL.**—*In the case of a taxpayer engaged in the business of television broadcasting throughout a period beginning before January 1, 1951, and ending with the close of the taxable year, the taxpayer's average base period net income determined under this subsection shall be the amount computed under paragraph (2) or (3), whichever is applicable.*

"(2) **IF ENGAGED IN TELEVISION BROADCASTING AT CLOSE OF BASE PERIOD.**—*If the taxpayer was engaged in the business of television broadcasting at the close of its base period, the average base period net income computed under this paragraph shall be computed as follows:*

"(A) *If the taxpayer was engaged during its base period in any business or businesses other than television broadcasting, by computing the average base period net income under section 435 (d) for such other business or businesses (determined without regard to income, deductions, losses, or other items attributable to the television broadcasting business).*

"(B) *By multiplying such part of its total assets (as defined in section 442 (f)), for the last day of its base period, as was attributable to the television broadcasting business by—*

"(i) *the base period rate of return determined under section 447 (c) for the industry classification which includes radio broadcasting, or*

"(ii) *if the taxpayer was engaged during its base period in the business of radio broadcasting, its individual rate of return computed under paragraph (4),*
whichever rate of return produces the greater average base period net income under this subsection. If the amount computed under this subparagraph is computed by the use of the rate of return specified in clause (i), the amount so computed shall be reduced by an amount equal to such portion of the

total interest paid or incurred by the taxpayer, for the period of 12 months following the close of its base period, as is attributable to its television broadcasting business.

“(C) By adding the amount computed under subparagraph (B) to the amount, if any, computed under subparagraph (A).

“(3) COMMENCING TELEVISION BROADCASTING AFTER BASE PERIOD AND BEFORE 1951.—If the taxpayer acquires its television broadcasting business after the close of its base period and before January 1, 1951, the average base period net income computed under this paragraph shall be computed as provided in paragraph (2), except that—

“(A) the applicable rate of return under paragraph (2) (B) shall be multiplied by such part of its total assets (as defined in section 442 (f)), for the last day of the calendar month in which it first engaged in such business, as was attributable to such business, and

“(B) the reduction specified in the last sentence of paragraph (2) (B) shall, if applicable, be equal to such portion of the total interest paid or incurred by the taxpayer, for the period of 12 months following the month in which it first engaged in such business, as is attributable to such business.

“(4) INDIVIDUAL RATE OF RETURN.—The individual rate of return shall be computed as follows:

“(A) By determining the amount of the taxpayer's total assets (as defined in section 442 (f)) attributable to the business of radio broadcasting for the last day of each month in its base period.

“(B) By computing the aggregate of the amounts ascertained under subparagraph (A) and dividing by 48.

“(C) By computing for each month in the base period the excess profits net income of the radio broadcasting business (determined without regard to income, deductions, losses, or other items attributable to any other business), by adding such amounts for all of the months in the base period, and by dividing by 4.

“(D) By dividing the amount computed under subparagraph (C) by the amount computed under subparagraph (B).

“(5) RULES FOR APPLICATION OF SUBSECTION.—

“(A) For the purpose of section 435 (a) (1) (B), an average base period net income determined under this subsection shall be considered an average base period net income determined under section 435 (d); but, in computing the base period capital addition under section 435 (f), the computations under such section shall be adjusted, under regulations prescribed by the Secretary, so as to exclude therefrom items attributable to the television broadcasting business.

“(B) If any part of the total assets referred to in paragraph (2) (B) or paragraph (3) (A), whichever is applicable, were acquired, directly or indirectly, through the use of assets attributable at any time during the base period to a business of the taxpayer other than television broadcasting, the amount determined under paragraph (2) (A) shall be properly adjusted by eliminating from the excess profits net income (computed for the purpose of paragraph (2) (A)) for each month prior to such

acquisition such portion thereof as is attributable to the assets used, directly or indirectly, for such acquisition. For the purpose of this subparagraph, the excess profits net income for any month shall be attributed to such assets on the basis of the ratio, as of the beginning of the day of the acquisition, of such assets to total assets (as defined in section 442 (f)) determined without regard to assets attributable to the television broadcasting business.

“(C) The Secretary shall by regulations prescribe rules for the application of this subsection, including rules for the computation of the taxpayer's net capital addition or reduction.

“(6) APPLICATION OF PART II.—The Secretary shall prescribe regulations for the application of Part II for the purpose of this subsection in the case of an acquiring corporation or a component corporation in a transaction described in section 461 (a) which occurred prior to January 1, 1951.

“(e) BASIS OF ASSETS.—For the purposes of this section, any reference to the adjusted basis of property or to the basis (unadjusted) of property means the adjusted basis or the basis (unadjusted), as the case may be, for determining gain upon sale or exchange.”

And the Senate agree to the same.

Amendment numbered 238:

That the House recede from its disagreement to the amendment of the Senate numbered 238, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

SEC. 520. INCREASE IN CAPACITY FOR PRODUCTION OR OPERATION.

Section 444 (f) (relating to increase in capacity for production or operation) is hereby amended to read as follows:

“(f) RULES FOR APPLICATION OF SECTION.—

“(1) The benefits of this section shall not be allowed unless the taxpayer makes application therefor in accordance with section 447 (e).

“(2) If, during its first taxable year ending after June 30, 1950, the taxpayer completed construction of (including the installation of the machinery or equipment for use in) a factory building or other manufacturing establishment, such factory building or other manufacturing establishment and such machinery or equipment shall, for the purpose of determining whether there is an increase in capacity under the provisions of subsection (b), be considered to have been added to its total facilities on the last day of its base period if—

“(A) the taxpayer, prior to the end of its base period, had completed construction work representing more than 40 per centum of the total cost of construction of such factory building or other manufacturing establishment, and

“(B) the completion of such factory building or other manufacturing establishment was in pursuance of a plan to which the taxpayer was committed prior to the end of its base period.

This paragraph shall not apply in determining the amount of the taxpayer's total assets for the purpose of subsection (c).”

And the Senate agree to the same.

Amendment numbered 239:

That the House recede from its disagreement to the amendment of the Senate numbered 239, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

**SEC. 521. EXCESS PROFITS CREDIT BASED ON INCOME
IN CONNECTION WITH CERTAIN TAXABLE
ACQUISITIONS.**

(a) *GENERAL RULE.*—Subchapter D (relating to the excess profits tax) of chapter 1 is hereby amended by inserting immediately following section 472 the following new part:

**“Part IV—Excess Profits Credit Based on Income in Connection
With Certain Taxable Acquisitions Occurring Prior to
December 1, 1950.**

**“SEC. 474. EXCESS PROFITS CREDIT BASED ON INCOME—
CERTAIN TAXABLE ACQUISITIONS.**

“(a) *DEFINITIONS.*—For the purpose of this part—

“(1) *PURCHASING CORPORATION.*—The term ‘purchasing corporation’ means a corporation which, before December 1, 1950, acquired—

“(A) In a transaction other than a transaction described in section 461 (a), substantially all of the properties (other than cash) of another corporation, of a partnership, or of a business owned by a sole proprietorship; or

“(B) Properties of another corporation or of a partnership if (i) such properties constituted, immediately prior to the acquisition, substantially all of the properties (other than cash) of one or more separate businesses of such other corporation or such partnership, (ii) such other corporation or such partnership was engaged in one or more separate businesses other than those described in clause (i), and (iii) substantially all of the properties (other than cash) of such other corporation or such partnership were acquired, in furtherance of a single plan of complete liquidation for such other corporation or such partnership, by the purchasing corporation, and by one or more other persons, in transactions other than transactions described in section 461 (a).

“(2) *SELLING CORPORATION.*—The term ‘selling corporation’ means a corporation, a partnership, or a business owned by a sole proprietorship, as the case may be, properties of which were acquired by a purchasing corporation in a transaction described in paragraph (1).

“(3) *PART IV TRANSACTION.*—The term ‘part IV transaction’ means a transaction described in paragraph (1).

“(b) *AVERAGE BASE PERIOD NET INCOME OF PURCHASING CORPORATION.*—The average base period net income of a purchasing corporation, if computed with reference to this part, shall be determined under section 435 (d). The average base period net income under section 435 (d) of a purchasing corporation shall be determined by computing its excess profits net income either with or without reference to this part, whichever produces the lesser tax under this subchapter for the taxable

year for which the tax is being computed. If computed with reference to this part, the excess profits net income of a purchasing corporation for any month of its base period shall be its excess profits net income (or deficit therein), computed without reference to this part, and increased or decreased, as the case may be, by the addition or reduction resulting from including—

“(1) In the case of a transaction described in subsection (a) (1) (A), the excess profits net income (or deficit therein) for such month of the selling corporation, or

“(2) In the case of a transaction described in subsection (a) (1) (B), the excess profits net income (or deficit therein) for such month of the selling corporation properly attributable to the business or businesses acquired by the purchasing corporation and properly allocable to such purchasing corporation.

The excess profits net income of a purchasing corporation for any month, recomputed as provided in the previous sentence, shall not be less than zero.

“(c) *LIMITATIONS.*—This part shall apply only if each of the following conditions is satisfied:

“(1) The selling corporation (A) did not, after the part IV transaction (or the last transaction described in subsection (a) (1) (B)), continue any business activities other than those incident to its complete liquidation, and (B) within a reasonable time after ceasing business activities, completely liquidated in a transaction other than a transaction described in section 461 (a), and ceased existence.

“(2) During so much of the base period of the purchasing corporation and of the period thereafter as preceded the part IV transaction, the properties acquired in the part IV transaction were substantially all of the properties (other than cash) which were used, or which in the ordinary course of business replaced properties used, by the selling corporation (or by a component corporation, as defined in section 461 (b), of such selling corporation) in the production of the excess profits net income (or deficit therein) which under subsection (b) increases or decreases the excess profits net income of the purchasing corporation. For the purpose of this paragraph, if a business in the hands of both the selling corporation and the purchasing corporation was operated under a substantially identical franchise or license, granted by the same person, such franchise or license shall be deemed acquired by the purchasing corporation from the selling corporation.

“(3) The business or businesses acquired in the part IV transaction (including the properties so acquired or properties in replacement thereof) were operated by the purchasing corporation from the date of such transaction to the end of the taxable year or were transferred during the taxable year by the purchasing corporation in a part II transaction to which the provisions of section 462 (b) (4) are applicable.

“(d) *SPECIAL RULES.*—

“(1) For the purpose of subsection (a) (1), the properties of a selling corporation shall be considered to have been acquired by a purchasing corporation only if acquired from—

“(A) such selling corporation, or

“(B) persons who received the properties upon the liquidation of such selling corporation and who forthwith transferred such

properties to the purchasing corporation in a transaction other than a transaction described in section 461 (a).

“(2) The computations required by this part in the case of a selling corporation which is a partnership or a business owned by a sole proprietorship shall be made, under regulations prescribed by the Secretary, as if such partnership or such business owned by a sole proprietorship had been a corporation.

“(3) In no case shall more than 100 per centum of the excess profits net income (or deficit therein) for any month of a selling corporation be allocated to the purchasing corporation or, in the case of transactions described in subsection (a) (1) (B), to the several persons (or to any one or more of such persons) receiving the properties of such selling corporation in such transactions.

“(e) **SUCCESSIVE TRANSACTIONS.**—

“(1) **PART IV TRANSACTION FOLLOWING PART IV TRANSACTION.**—In the case of a selling corporation which was a purchasing corporation in a previous part IV transaction, or which acquired properties of a purchasing corporation in a transaction to which section 462 (b) (4) is applicable, the computations under this part with respect to the selling corporation shall be made without regard to the previous part IV transaction.

“(2) **PART IV TRANSACTION FOLLOWING PART II TRANSACTION.**—Subject to the provisions of paragraph (1), in the case of a selling corporation which was an acquiring corporation as defined in section 461 (a) in a previous transaction, its excess profits net income (or deficit therein) which increases or decreases the excess profits net income (or deficit therein) of the purchasing corporation under subsection (b) (1) or (2), and its capital changes which are taken into account under this part in determining the capital changes of the purchasing corporation, shall be determined with the application of the rules of part II to such selling corporation with respect to the part II transaction.

“(3) **PART II TRANSACTION FOLLOWING PART IV TRANSACTION.**—For rules applicable in the case of a part II transaction following a part IV transaction, see sections 462 (b) (4), 463 (c), and 464 (c).

“(f) **REGULATIONS.**—The Secretary shall by regulations prescribe rules for the application of this part. Such regulations shall include the following rules:

“(1) **BASE PERIOD CAPITAL ADDITION.**—Rules (consistent with the principles of section 464) for the determination of the base period capital addition of the purchasing corporation by reference to the capital changes of the selling corporation and of the purchasing corporation.

“(2) **NET CAPITAL ADDITION OR REDUCTION.**—Rules (consistent with the principles of section 463) for the determination of the net capital addition or reduction of the purchasing corporation by reference to the capital changes of the selling corporation and of the purchasing corporation.

“(3) **EXCESS PROFITS NET INCOME.**—Rules (consistent with the principles of section 462 (i)) for the determination of the amount of excess profits net income (or deficit therein) of the selling corporation attributable to the business or businesses acquired by a purchasing corporation in a transaction described in subsection (a) (1) (B) and properly allocable to such purchasing corporation.

“(4) *DUPLICATION.*—Rules for the application under this part of the principles of section 462 (j) (1) and the other provisions of part II relating to the prevention of duplication.

“(5) *EXCESS PROFITS CREDIT.*—In the event that the part IV transaction occurred in a taxable year of the purchasing corporation which ended after June 30, 1950, rules (consistent with the principles of section 462 (j) (2)) for the determination of the excess profits credit of such corporation for the year in which the transaction occurred.

Such rules shall not include the principles of section 461 (c) (relating to the excess profits credit of the component corporation), of section 462 (b) (2) (relating to constructive excess profits net income for months during which a corporation was not in existence), of section 462 (l) (relating to minimum average base period net income in the case of certain acquiring corporations), or of such other provisions of part II as relate to sections 435 (e), 442, 443, 444, 445, or 446.”

(b) *TECHNICAL AMENDMENTS.*—

(1) Section 435 (a) (3) (relating to amount of excess profits credit) is hereby amended by inserting before the period at the end thereof the following: “, and in the case of certain taxable acquisitions, see part IV of this subchapter”.

(2) Section 461 (relating to definitions under part II) is amended by inserting at the end thereof the following new subsections:

“(g) *COMPONENT CORPORATION WHICH WAS A PURCHASING CORPORATION IN A PREVIOUS TRANSACTION.*—See section 462 (b) (4) for rules applicable if the component corporation was a purchasing corporation (as defined in part IV) in a previous part IV transaction, or if (as an acquiring corporation in a previous part II transaction) it was subject to the provisions of section 462 (b) (4).

“(h) *DEFINITION OF PART II TRANSACTION.*—For the purpose of this subchapter, the term ‘part II transaction’ means a transaction described in section 461 (a).”

(3) Section 462 (b) (relating to the method of recomputing the excess profits net income of an acquiring corporation under part II) is hereby amended by adding at the end thereof the following new paragraph:

“(4) If the average base period net income of the acquiring corporation is determined under section 435 (d) with reference to this subsection, and if the provisions of section 474 (b) (relating to the computation of excess profits net income in the case of certain purchasing corporations) were applicable to the component corporation immediately prior to the part II transaction (or would have been applicable if such part II transaction had occurred in a taxable year of the component corporation ending after June 30, 1950), then the excess profits net income (or deficit therein) of the component corporation shall, for the purpose of this subsection, be determined with the application of the provisions of section 474 (b). For the purpose of this paragraph, if a component corporation was an acquiring corporation in a previous part II transaction and, immediately prior to the later part II transaction, the provisions of this paragraph were applicable to such component corporation, its excess profits net income (or deficit therein) shall be determined with the application of the

provisions of the preceding sentence. This paragraph shall be applicable to an acquiring corporation only if—

“(A) the properties acquired by the acquiring corporation from the component corporation include substantially all of the properties (other than cash), or properties acquired in the ordinary course of business in the replacement of properties, which the component corporation acquired either from the selling corporation in the part IV transaction or from a previous component corporation subject (immediately prior to such acquisition) to the provisions of this paragraph.

“(B) the business or businesses acquired by the acquiring corporation were operated by the acquiring corporation from the date of such transaction to the end of the taxable year or were transferred during the taxable year by the acquiring corporation in a part II transaction to which the provisions of this paragraph are applicable; and

“(C) in the event that the part II transaction is one described in section 461 (a) (1) (E), the provisions of section 462 (i) (6) are satisfied.”

(4) Section 462 (i) (6) (relating to allocation rules in the case of transactions described in section 461 (a) (1) (E)) is hereby amended by adding at the end thereof the following: “Notwithstanding the provisions of paragraph (1), if an acquiring corporation in a transaction described in section 461 (a) (1) (E) determines its average base period net income under section 435 (d) by recomputing its excess profits net income under the provisions of section 462 (b) (4), the amount of the component corporation’s excess profits net income for any month which shall be taken into account by the acquiring corporation shall be such portion of the component corporation’s excess profits net income for such month as is determined on the basis of the earnings experience of the assets transferred and the assets retained by the component corporation.”

(5) Section 463 (relating to capital changes) is amended by inserting at the end thereof the following new subsection:

“(c) **COMPONENT CORPORATION WHICH WAS A PURCHASING CORPORATION IN A PREVIOUS TRANSACTION.**—The Secretary shall provide by regulations for the application of this section in cases to which section 462 (b) (4) is applicable.”

(6) Section 464 (relating to capital changes during the base period) is amended by inserting at the end thereof the following new subsection:

“(c) The Secretary shall provide by regulation for the application of this section in cases to which section 462 (b) (4) is applicable.”

And the Senate agree to the same.

Amendment numbered 240:

That the House recede from its disagreement to the amendment of the Senate numbered 240, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

SEC. 522. STRATEGIC MINERALS.

Section 450 (b) (1) (relating to corporations engaged in mining of strategic minerals) is hereby amended by inserting after "chromite," the following: "bauxite,".

And the Senate agree to the same.

Amendment numbered 241:

That the House recede from its disagreement to the amendment of the Senate numbered 241, and agree to the same with an amendment as follows:

On page 199, line 16, of the Senate engrossed amendments strike out "510" and insert 506 (d); and the Senate agree to the same.

Amendment numbered 245:

That the House recede from its disagreement to the amendment of the Senate numbered 245, and agree to the same with the following amendments:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following: *or to the benefit of a hospital, or an institution for the rehabilitation of physically handicapped persons, which maintains or is building for proper maintenance a hospital or institution staffed or to be staffed by qualified professional persons for the treatment of the sick and/or the rehabilitation of the physically handicapped,*

On page 150, line 25, of the House bill strike out the quotation marks and insert the following: *The determination as to whether an organization other than one described in this subsection is exempt under section 101 of the Internal Revenue Code from taxation for any taxable year beginning before January 1, 1951, shall be made as if this subsection and section 301 (b) of this Act had not been enacted and without inferences drawn from the fact that this subsection and the amendment made by section 301 (b) are not expressly made applicable with respect to taxable years beginning before January 1, 1951."*

And the Senate agree to the same.

Amendment numbered 246:

That the House recede from its disagreement to the amendment of the Senate numbered 246, and agree to the same with an amendment as follows:

Strike out the matter proposed to be stricken out by the Senate amendment and insert the following:

SEC. 602. EXCESS PROFITS CREDIT BASED ON INCOME.

(a) **PERCENTAGE OF AVERAGE BASE PERIOD NET INCOME TAKEN INTO ACCOUNT.**—

(1) **IN GENERAL.**—Paragraph (1) (A), and paragraph (2), of section 435 (a) (relating to excess profits credit based on income) are each amended by striking out "85 per centum" and inserting in lieu thereof "83 per centum".

(2) **TAXABLE YEARS BEGINNING BEFORE JANUARY 1, 1952, AND ENDING AFTER DECEMBER 31, 1951.**—Section 435 (a) is hereby amended by adding at the end thereof the following new paragraph:

"(4) **TAXABLE YEARS BEGINNING IN 1951 AND ENDING IN 1952.**—In the case of a taxable year beginning before January 1, 1952, and ending after December 31, 1951, there shall be used, for the purposes of paragraph (1) (A) and paragraph (2), in lieu of 85 per centum

of the average base period net income, an amount equal to the sum of—

“(A) that portion of an amount equal to 85 per centum of the average base period net income which the number of days in such taxable year prior to January 1, 1952, bears to the total number of days in such taxable year, plus

“(B) that portion of an amount equal to 83 per centum of the average base period net income which the number of days in such taxable year after December 31, 1951, bears to the total number of days in such taxable year.”

(b) *EFFECTIVE DATE.*—The amendments made by subsection (a) shall be applicable only with respect to taxable years ending after December 31, 1951.

And the Senate agree to the same.

Amendment numbered 247:

That the House recede from its disagreement to the amendment of the Senate numbered 247, and agree to the same with the following amendments:

On page 200, line 13, of the Senate engrossed amendments strike out “602” and insert 603

On page 201 of the Senate engrossed amendments strike out lines 15 to 25, inclusive, and insert the following:

“(A) shall not, with respect to any such tax, exceed an amount which bears the same ratio to the amount of such tax actually paid to such foreign country as the value of property which is—

“(i) situated within such foreign country,

“(ii) subjected to such tax, and

“(iii) included in the gross estate

bears to the value of all property subjected to such tax; and

“(B) shall not, with respect to all such taxes, exceed an amount which bears the same ratio to the tax imposed by section 810

On page 202, line 14, of the Senate engrossed amendments strike out “taxes” and insert tax

On page 205 of the Senate engrossed amendments strike out all after line 23 over to and including line 12 on page 206 and insert the following:

“(A) For the purposes of paragraph (2) (A), ‘such taxes paid to the foreign country’ shall, with respect to any tax paid to the foreign country, be the amount computed under section 813 (c) (2) (A).

And the Senate agree to the same.

Amendment numbered 248:

That the House recede from its disagreement to the amendment of the Senate numbered 248, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following: 604; and the Senate agree to the same.

Amendment numbered 249:

That the House recede from its disagreement to the amendment of the Senate numbered 249, and agree to the same with an amendment as follows:

On page 208, line 21, of the Senate engrossed amendments, strike out "604" and insert 605; and the Senate agree to the same.

Amendment numbered 250:

That the House recede from its disagreement to the amendment of the Senate numbered 250, and agree to the same with an amendment as follows:

On page 209, line 14, of the Senate engrossed amendments, strike out "605" and insert 606; and the Senate agree to the same.

Amendment numbered 251:

That the House recede from its disagreement to the amendment of the Senate numbered 251, and agree to the same with an amendment as follows:

On page 210, line 14, of the Senate engrossed amendments, strike out "606" and insert 607; and the Senate agree to the same.

Amendment numbered 252:

That the House recede from its disagreement to the amendment of the Senate numbered 252, and agree to the same with an amendment as follows:

On page 211, line 2, of the Senate engrossed amendments, strike out "607" and insert 608; and the Senate agree to the same.

Amendment numbered 253:

That the House recede from its disagreement to the amendment of the Senate numbered 253, and agree to the same with an amendment as follows:

On page 211, line 9, of the Senate engrossed amendments, strike out "608" and insert 609; and the Senate agree to the same.

Amendment numbered 254:

That the House recede from its disagreement to the amendment of the Senate numbered 254, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

SEC. 610. REVERSIONARY INTERESTS IN CASE OF LIFE INSURANCE.

If refund or credit of any overpayment resulting from the application of section 503 of the Revenue Act of 1950 was prevented on October 25, 1950, by the operation of any law or rule of law (other than section 3760 of the Internal Revenue Code, relating to closing agreements, and other than section 3761 of such code, relating to compromises), refund or credit of such overpayment may, nevertheless, be made or allowed if claim therefor was filed after October 25, 1949, and on or before October 25, 1950.

And the Senate agree to the same.

Amendment numbered 255:

That the House recede from its disagreement to the amendment of the Senate numbered 255, and agree to the same with an amendment as follows:

On page 212, line 14, of the Senate engrossed amendments, strike out "610" and insert 611; and the Senate agree to the same.

Amendment numbered 256:

That the House recede from its disagreement to the amendment of the Senate numbered 256, and agree to the same with an amendment as follows:

On page 214, line 2, of the Senate engrossed amendments, strike out "611" and insert 612; and the Senate agree to the same.

Amendment numbered 257:

That the House recede from its disagreement to the amendment of the Senate numbered 257, and agree to the same with an amendment as follows:

On page 214, line 14, strike out "612" and insert 613; and the Senate agree to the same.

Amendment numbered 258:

That the House recede from its disagreement to the amendment of the Senate numbered 258, and agree to the same with an amendment as follows:

On page 215, line 6, of the Senate engrossed amendments, strike out "613" and insert 614; and the Senate agree to the same.

Amendment numbered 259:

That the House recede from its disagreement to the amendment of the Senate numbered 259, and agree to the same with an amendment as follows:

On page 216, line 2, of the Senate engrossed amendments, strike out "614" and insert 615; and the Senate agree to the same.

Amendment numbered 260:

That the House recede from its disagreement to the amendment of the Senate numbered 260, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following: 616; and the Senate agree to the same.

Amendment numbered 261:

That the House recede from its disagreement to the amendment of the Senate numbered 261, and agree to the same with an amendment as follows:

On page 216, line 8, of the Senate engrossed amendments, strike out "616" and insert 617; and the Senate agree to the same.

Amendment numbered 262:

That the House recede from its disagreement to the amendment of the Senate numbered 262, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

SEC. 618. PROHIBITION UPON DENIAL OF SOCIAL SECURITY ACT FUNDS.

No State or any agency or political subdivision thereof shall be deprived of any grant-in-aid or other payment to which it otherwise is or has become entitled pursuant to title I, IV, X, or XIV of the Social Security Act, as amended, by reason of the enactment or enforcement by such State of any legislation prescribing any conditions under which public access may be had to records of the disbursement of any such funds or payments within such State, if such legislation prohibits the use of any list or names obtained through such access to such records for commercial or political purposes.

And the Senate agree to the same.

Amendment numbered 263:

That the House recede from its disagreement to the amendment of the Senate numbered 263, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

SEC. 619. REMOVAL OF TAX EXEMPTION FROM EXPENSE ALLOWANCES OF THE PRESIDENT, THE VICE PRESIDENT, THE SPEAKER, AND MEMBERS OF CONGRESS.

(a) *EXPENSE ALLOWANCE OF THE PRESIDENT.*—Section 102 of title 3 of the United States Code is amended by striking out “no tax liability shall accrue and for which no accounting shall be made by him” and inserting in lieu thereof “no accounting, other than for income tax purposes, shall be made by him”.

(b) *EXPENSE ALLOWANCE OF THE VICE PRESIDENT.*—Section 111 of title 3 of the United States Code is amended by striking out “for which no tax liability shall occur or accounting be made by him” and inserting in lieu thereof “for which no accounting, other than for income tax purposes, shall be made by him”.

(c) *EXPENSE ALLOWANCE OF THE SPEAKER OF THE HOUSE OF REPRESENTATIVES.*—Subsection (e) of the first section of the Act entitled “An Act to increase rates of compensation of the President, Vice President, and the Speaker of the House of Representatives”, approved January 19, 1949 (Public Law 2, 81st Congress), is amended by striking out “for which no tax liability shall occur or accounting be made by him” and inserting in lieu thereof “for which no accounting, other than for income tax purposes, shall be made by him”.

(d) *EXPENSE ALLOWANCES OF MEMBERS OF CONGRESS.*—Section 601 (b) of the Legislative Reorganization Act of 1946 is amended by striking out “for which no tax liability shall incur, or accounting be made” and inserting in lieu thereof “for which no accounting, other than for income tax purposes, shall be made”.

(e) *EFFECTIVE DATES.*—The amendments made by subsections (a) and (b) of this section shall become effective at noon on January 20, 1953, and the amendments made by subsections (c) and (d) shall become effective at noon on January 3, 1953.

And the Senate agree to the same.

Amendment numbered 264:

That the House recede from its disagreement to the amendment of the Senate numbered 264, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

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PART I—INDIVIDUAL INCOME TAXES

- Sec. 101. Increase in surtax for 1951, 1952, and 1953.*
 - (a) *Rates of surtax.*
 - (b) *Limitation on tax.*
- Sec. 102. Individuals with adjusted gross income of less than \$5,000.*
- Sec. 103. Inapplicability of certain penalties and additions to tax.*
 - (a) *Penalties for failure to file return.*
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- Sec. 121. Increase in rate of corporation normal tax and surtax.*
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 - (d) *Regulated investment companies.*
 - (e) *Business income of certain section 101 organizations.*
 - (f) *Amendment of section 15.*
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- Sec. 122. Credits of corporations.*
 - (a) *Dividends received credit.*
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- Sec. 123. Filing of corporation returns for taxable years ending after March 13, 1951, and before October 1, 1951.*
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- Sec. 201. Percentage method of withholding.*
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- Sec. 301. Tax treatment in case of head of household.*
 - (a) *Surtax in case of head of household.*
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- Sec. 305. Compensation of certain members of the armed forces.*
(a) Amendment of section 22 (b) (13).
(b) Definition of service in combat zone.
(c) Withholding on wages.
(d) Effective dates.
- Sec. 306. Involuntary liquidation and replacement of inventory.*
(a) Amendment of section 22 (d) (6) (F) (iii).
(b) Effective date.
- Sec. 307. Medical expenses.*
(a) Amendment of section 23 (x).
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- Sec. 308. Standard deduction.*
(a) Method of election.
(b) Change of election.
(c) Effective date.
- Sec. 309. Expenditures in the development of mines.*
(a) Deduction of expenditures.
(b) Adjusted basis for determining gain or loss upon sale or exchange.
(c) Technical amendment.
(d) Effective date.
- Sec. 310. Gross income of dependent of taxpayer.*
(a) Increase in amount of gross income permitted.
(b) Effective date.
- Sec. 311. Credit for dividends received.*
(a) Dividends from foreign corporation engaged in trade or business in the United States.
(b) Technical amendment.
(c) Effective date.
- Sec. 312. Joint return after filing separate return.*
(a) Change of election.
(b) Effective date.
- Sec. 313. Mutual savings banks, building and loan associations, cooperative banks.*
(a) Mutual savings banks.
(b) Building and loan associations and cooperative banks.
(c) Exemptions from excess profits tax.
(d) Federal savings and loan associations.
(e) Paid debt reserves.
(f) Dividends paid to depositors.
(g) Deduction for repayment of certain loans.
(h) Definition of bank.
(i) Definition of domestic building and loan association.
(j) Effective date.
- Sec. 314. Income tax treatment of exempt cooperatives.*
(a) Amendment of section 101 (12).
(b) Technical amendments.
(c) Information returns.
(d) Effective date.
- Sec. 315. Surtax on corporations improperly accumulating surplus.*
(a) Long-term capital gains.
(b) Effective date.
- Sec. 316. Election as to recognition of gain in certain corporate liquidations.*
(a) Amendment of section 112 (b) (7).
(b) Basis of property.
(c) Effective date.
- Sec. 317. Certain distributions of stock on reorganization.*
(a) Distributions not in liquidation.
(b) Basis of stock.
(c) Effective date.

- Sec. 318. Gain from sale or exchange of taxpayer's residence.*
(a) *Nonrecognition of gain in certain cases.*
(b) *Technical amendments.*
(c) *Effective date.*
- Sec. 319. Percentage depletion.*
(a) *Allowance of percentage depletion.*
(b) *Technical amendment.*
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- Sec. 320. Redemption of stock to pay death taxes.*
(a) *Amendment of section 115 (g) (3).*
(b) *Effective date.*
- Sec. 321. Earned income from sources without the United States.*
(a) *Exclusion from gross income.*
(b) *Withholding of tax on wages.*
(c) *Effective dates.*
- Sec. 322. Capital gains and losses.*
(a) *Treatment of long-term capital gains and losses.*
(b) *Alternative tax.*
(c) *Technical amendments.*
(d) *Effective date.*
- Sec. 323. Sale of land with unharvested crop.*
(a) *Treatment of gain or loss.*
(b) *Treatment of deductions.*
(c) *Effective date.*
- Sec. 324. Sales of livestock.*
- Sec. 325. Tax treatment of coal royalties.*
(a) *Definition of property used in the trade or business.*
(b) *Gain or loss upon certain disposals of timber or coal.*
(c) *Clerical amendment.*
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(e) *Conforming amendments.*
(f) *Effective date.*
- Sec. 326. Collapsible corporations.*
(a) *Definitions with respect to collapsible corporations.*
(b) *Limitations on application of section 117 (m).*
(c) *Effective date.*
- Sec. 327. Dealers in securities—capital gains and ordinary losses.*
- Sec. 328. Treatment of gain on sales of certain property between spouses and between an individual and a controlled corporation.*
(a) *Disallowance of capital gain treatment.*
(b) *Effective date.*
- Sec. 329. Receipts of certain termination payments by employee.*
(a) *Taxability to employee as capital gain.*
(b) *Effective date.*
- Sec. 330. Net operating loss carry-over.*
(a) *Loss for taxable year beginning before 1948.*
(b) *Allowance of three-year loss carry-over from taxable years 1948–1949.*
(c) *Effective date.*
- Sec. 331. Stock options.*
(a) *Option subject to stockholder approval.*
(b) *Effective date.*
- Sec. 332. Credit for taxes of foreign corporations.*
(a) *Foreign subsidiary of a domestic corporation.*
(b) *Foreign subsidiary of a foreign corporation.*
(c) *Clerical amendment.*
- Sec. 333. Information at source on payments of interest.*
- Sec. 334. Abatement of income tax for certain members of armed forces upon death.*
- Sec. 335. Employees' trusts.*
(a) *Amendment of section 165 (b).*
(b) *Effective date.*
- Sec. 336. Life insurance companies.*
(a) *Tax for 1951.*
(b) *Adjusted normal-tax net income for 1951.*
(c) *Technical amendments.*
(d) *Effective date.*

- Sec. 337. Tax treatment of certain investment companies.*
(a) *Inclusion of certain registered management companies in the definition of regulated investment company.*
(b) *Technical amendment.*
(c) *Effective date.*
- Sec. 338. Exchanges and distributions in obedience to orders of Securities and Exchange Commission.*
(a) *Definition of system group.*
(b) *Effective date.*
- Sec. 339. Taxation of business income of State colleges and universities.*
(a) *Amendment of section 421 (b).*
(b) *Unrelated trade or business.*
(c) *Effective date.*
- Sec. 340. Family partnerships.*
(a) *Definition of partner.*
(b) *Allocation of partnership income.*
(c) *Effective date.*
- Sec. 341. War losses.*
(a) *Tax upon war loss recovery.*
(b) *Basis of recovered property.*
(c) *Credit for foreign taxes.*
(d) *Effective dates.*
- Sec. 342. Deduction of expenditures for mine exploration.*
(a) *Deduction of mine exploration expenditures.*
(b) *Adjusted basis for determining gain or loss upon sale or exchange.*
(c) *Effective date.*
- Sec. 343. Definition of employee.*
(a) *Amendment of section 3797 (a).*
(b) *Effective date.*
- Sec. 344. Nonbusiness casualty losses.*
(a) *Removal of limitation.*
(b) *Effective date.*
- Sec. 345. Abatement of tax on certain trusts for members of armed forces dying in service.*
- Sec. 346. Life insurance departments of mutual savings banks.*
(a) *Computation of tax.*
(b) *Technical amendment.*
(c) *Effective date.*
- Sec. 347. Publishing business carried on by tax-exempt organization.*
(a) *Treatment as related trade or business.*
(b) *Effective date.*
- Sec. 348. Deduction with respect to certain unrelated business net income.*
(a) *Unrelated business net income.*
(b) *Effective date.*
- Sec. 349. Nondistributable income of personal holding companies.*

TITLE IV—EXCISE TAXES

PART I—TAX ON ADMISSIONS AND CABARETS

- Sec. 401. Removal of tax on free admissions.*
- Sec. 402. Exemptions from admissions tax.*
(a) *Reinstatement of prewar exemptions.*
(b) *Amendment of section 1701 (a) and (b).*
(c) *Admissions to municipal swimming pools, etc.*
- Sec. 403. Effective date of amendments relating to admissions.*
- Sec. 404. Tax on cabarets, roof gardens, etc.*
(a) *Ballrooms and dance halls.*
(b) *Effective date.*

PART II—TAX ON CIGARETTES

- Sec. 421. Tax on cigarettes.*
(a) *Increase in rate.*
(b) *Effective date.*
- Sec. 422. Floor stocks tax and floor stocks refund on cigarettes.*
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(a) *Reduction in rate.*
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PART III—RETAILERS' EXCISE TAXES

Sec. 431. Retailers' excise tax on toilet preparations.

(a) *Baby oils, etc.*

(b) *Sales to barber shops, etc.*

Sec. 432. Effective date of Part III.

PART IV—DIESEL FUEL

Sec. 441. Diesel fuel used in highway vehicles.

(a) *Imposition of tax.*

(b) *Effective date.*

PART V—LIQUOR

Sec. 451. Increase in tax on distilled spirits from \$9 to \$10.50 per gallon.

(a) *Distilled spirits generally.*

(b) *Imported perfumes containing distilled spirits.*

(c) *Floor stocks tax.*

Sec. 452. Wines.

(a) *Increase in rate of tax.*

(b) *Floor stocks.*

Sec. 453. Fermented malt liquor.

(a) *Increase in tax on fermented malt liquors from \$8 to \$9 per barrel.*

(b) *Floor stocks tax.*

Sec. 454. Floor stocks refunds.

(a) *Amendment of section 1656 (a).*

(b) *Amendment of section 1656 (b).*

Sec. 455. Clerical amendment.

Sec. 456. Effective date of Part V.

PART VI—OCCUPATIONAL TAXES

Sec. 461. Dealers in liquors.

(a) *Wholesale dealers in liquors.*

(b) *Retail dealers in liquors.*

(c) *Wholesale dealers in malt liquors.*

Sec. 462. Drawback in the case of distilled spirits used in the manufacture of certain nonbeverage products.

(a) *Drawback.*

(b) *Effective date.*

Sec. 463. Tax on coin-operated gaming devices.

Sec. 464. Effective date of Part VI.

PART VII—WAGERING

Sec. 471. Wagering taxes.

(a) *Imposition of taxes.*

(b) *Technical amendment.*

Sec. 472. Effective date of Part VII.

PART VIII—MANUFACTURERS' EXCISE TAXES

Sec. 481. Automobiles, trucks, and parts or accessories.

(a) *Increase in tax on trucks.*

(b) *Increase in tax on passenger automobiles and motorcycles.*

(c) *Increase in tax on parts or accessories.*

(d) *Rebuilt parts or accessories.*

(e) *Technical amendment.*

(f) *Parts or accessories for farm equipment.*

(g) *Effective date of subsection (f).*

(h) *Removal of tax on tires for toys, etc.*

Sec. 482. Navigation receivers sold to the United States.

(a) *Exemption on sales to United States of certain radio sets.*

(b) *Tax-free sales of radio parts.*

(c) *Refund in case of use of parts.*

(d) *Refund in case of resale to United States.*

(e) *Use by manufacturer of taxable parts.*

(f) *Effective dates.*

Sec. 483. Tax-free sales of refrigerator components to wholesalers for resale to manufacturers.

- Sec. 484. Sporting goods.*
Sec. 485. Electric, gas, and oil appliances.
Sec. 486. Adjustments of tax rates on photographic apparatus and film; repeal of tax on certain items.
 (a) *Items subject to tax.*
 (b) *Floor stocks refund on bulbs.*
Sec. 487. Imposition of tax on mechanical pencils, fountain and ball point pens, and mechanical lighters for cigarettes, cigars, and pipes.
Sec. 488. Repeal of tax on electrical energy.
 (a) *Repeal of tax.*
 (b) *Effective date.*
Sec. 489. Tax on gasoline.
 (a) *Increase in rate.*
 (b) *Floor stocks tax and refund.*
Sec. 490. Effective date of Part VIII.

PART IX—MISCELLANEOUS EXCISE TAX AMENDMENTS

- Sec. 491. Reduction of tax on telegraph dispatches.*
 (a) *Reduction of tax.*
 (b) *Effective date.*
 (c) *Amounts paid pursuant to bills rendered.*
 (d) *Rate reduction date.*
Sec. 492. Exemption of certain overseas telephone calls from the tax on telephone facilities.
 (a) *Telephone calls from members of armed forces in combat zones.*
 (b) *Effective date.*
Sec. 493. Exemption of fishing trips from tax on transportation.
 (a) *Exemption.*
 (b) *Effective date.*
Sec. 494. Tax on transportation of persons.
 (a) *Exemption of certain foreign travel.*
 (b) *Effective date.*
Sec. 495. Transportation of material excavated in the course of construction work.
 (a) *Amendment of section 3475.*
 (b) *Effective date.*
Sec. 496. Articles from foreign trade zones.
 (a) *Imported articles.*
 (b) *Previously tax-paid articles.*
Sec. 497. Refunds on articles from foreign trade zones.
 (a) *Imported articles.*
 (b) *Previously tax-paid articles.*
Sec. 498. Tax refunds on spirits lost in floods of 1951.
 (a) *Authorization.*
 (b) *Destruction of spirits.*
 (c) *Credit.*
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TITLE V—EXCESS PROFITS TAX

- Sec. 501. Maximum tax for new corporations.*
Sec. 502. Payments from foreign sources for technical assistance, etc.
 (a) *Amendment of section 433 (a) (1).*
 (b) *Amendment of section 433 (b).*
Sec. 503. Average base period net income in case of certain fiscal year taxpayers.
Sec. 504. Average base period net income—alternative based on growth in case of new corporations.
 (a) *General rule.*
 (b) *Amendment of Part II.*
Sec. 505. Average base period net income—alternative based on growth.
Sec. 506. Adjustments for changes in inadmissible assets in case of banks.
 (a) *Amendment of section 435 (g).*
 (b) *Amendment of section 438.*
 (c) *Amendment of section 435 (f).*
 (d) *Effective date of subsection (c) (3).*
Sec. 507. Decrease in inadmissible assets.
Sec. 508. Election with respect to certain inadmissible assets.
 (a) *Amendment of section 440.*
 (b) *Amendment of section 433 (a) (1).*
 (c) *Amendment of section 433 (b).*

- Sec. 509. Alternative average base period net income.*
 (a) Amendment of section 442.
 (b) Technical amendments.
- Sec. 510. Definition of total assets for purposes of sections 442-446.*
- Sec. 511. Average base period net income—change in products or services.*
- Sec. 512. Average base period net income—new corporation.*
- Sec. 513. Excess profits credit—regulated public utilities.*
- Sec. 514. Consolidated returns of regulated public utilities.*
- Sec. 515. Nontaxable income from certain mining properties.*
- Sec. 516. Transition from war production and increase in peacetime capacity.*
 (a) In general.
 (b) Technical amendments.
- Sec. 517. Base period catastrophe.*
- Sec. 518. Consolidation of newspapers.*
- Sec. 519. Television broadcasting companies.*
- Sec. 520. Increase in capacity for production or operation.*
- Sec. 521. Excess profits credit based on income in connection with certain taxable acquisitions.*
 (a) General rule.
 (b) Technical amendments.
- Sec. 522. Strategic minerals.*
- Sec. 523. Effective date of title V.*

TITLE VI—MISCELLANEOUS PROVISIONS AND AMENDMENTS

- Sec. 601. Exemption of certain organizations from income tax for prior taxable years.*
- Sec. 602. Excess profits credit based on income.*
 (a) Percentage of average base period net income taken into account.
 (b) Effective date.
- Sec. 603. Foreign estate tax credit.*
 (a) Credit against basic estate tax.
 (b) Credit against additional estate tax.
 (c) Reversionary or remainder interest.
 (d) Extension of period of limitations, etc., in case of recovery of taxes claimed as credit.
 (e) Effective date.
- Sec. 604. Estate and gift tax treatment of United States bonds held by certain non-resident aliens.*
 (a) Estate tax.
 (b) Gift tax.
- Sec. 605. Estate tax exemption for works of art loaned by nonresident aliens.*
 (a) Amendment of section 863 (c).
 (b) Effective date.
- Sec. 606. Exemption from additional estate tax of members of armed forces upon death.*
- Sec. 607. Transfers conditioned upon survivorship.*
- Sec. 608. Transfers with income reserved.*
- Sec. 609. Transfers taking effect at death.*
- Sec. 610. Reversionary interests in case of life insurance.*
- Sec. 611. Income pursuant to award of Interstate Commerce Commission.*
- Sec. 612. Credit in prior taxable years for dividends received on preferred stock of a public utility.*
- Sec. 613. Consolidated returns—includible corporations.*
- Sec. 614. Time for performing certain acts postponed in case of China Trade Act corporations.*
- Sec. 615. Treaty obligations.*
- Sec. 616. Reorganization Plan Numbered 26 of 1950.*
- Sec. 617. Claims under the Renegotiation Act.*
- Sec. 618. Prohibition upon denial of Social Security Act funds.*
- Sec. 619. Removal of tax exemption from expense allowances of the President, the Vice President, the Speaker and Members of Congress.*
 (a) Expense allowance of the President.
 (b) Expense allowance of the Vice President.
 (c) Expense allowance of the Speaker of the House of Representatives.
 (d) Expense allowances of Members of Congress.
 (e) Effective dates.

And the Senate agree to the same.

R. L. DOUGHTON,
JERE COOPER,
JOHN D. DINGELL,
W. D. MILLS,
THOMAS A. JENKINS,
RICHARD M. SIMPSON,

Managers on the Part of the House.

WALTER F. GEORGE,
TOM CONNALLY,
ED C. JOHNSON,
E. D. MILLIKIN,
ROBERT A. TAFT,

Managers on the Part of the Senate.

STATEMENT OF THE MANAGERS ON THE PART OF THE HOUSE

The managers on the part of the House at the conference on the disagreeing votes of the two Houses on the amendments of the Senate to the bill (H. R. 4473) to provide revenue, and for other purposes, submit the following statement in explanation of the effect of the action agreed upon by the conferees and recommended in the accompanying conference report:

Amendment No. 1: The House bill provided for an increase in individual income-tax rates by a percentage increase of $12\frac{1}{2}$ percent of the tax liability under existing law, with an over-all effective ceiling rate of 90 percent of the net income of the taxpayer. The House bill also increased the alternative tax on capital gains by $12\frac{1}{2}$ percent. The Senate amendment eliminated the increase in the alternative tax on capital gains and provided, in general, for an increase of 11 percent of the present tax liability, or 8 percent of the amount by which the surtax net income exceeds present taxes, whichever produced the lesser increase in tax. The Senate amendment provided an over-all ceiling rate of 88 percent of the net income of the taxpayer.

Under the conference agreement the increase in the combined normal tax and surtax under existing law will, in general, be $11\frac{3}{4}$ percent of the present rates or 9 percent of the amount by which the surtax net income exceeds present taxes, whichever is the lesser. Special rates are provided for the calendar year 1951 so as to reflect November 1, 1951, as the effective date of the increase in tax. The ceiling rate of 88 percent contained in the Senate amendment is retained under the conference agreement, and no increase in tax is provided with respect to the alternative tax on capital gains. Under the House bill no termination date was provided for the increase in the taxes. The Senate amendment provided for the termination of the increased rates on January 1, 1954, and the conference agreement retains the termination date.

Amendments Nos. 2 and 3: These amendments are clerical. The Senate recedes.

Amendments Nos. 4 and 5: The House bill provided for an increase in the normal tax on corporations, in general, from 25 to 30 percent of normal tax net income, applicable to taxable years beginning after December 31, 1950. The Senate provided for an increase in the corporation normal tax from 25 to 27 percent and an increase in the corporation surtax from 22 to 25 percent. Under the Senate amendment, the increases in normal tax and surtax were to be effective as of April 1, 1951, and were to terminate on December 31, 1953. Special rates were provided for the calendar year 1951 to reflect the April 1 effective date. Under the conference agreement on amendments 4 and 5, the normal tax is increased from 25 to 30 percent as provided in the House bill with no increase in the surtax. The increase in normal tax is to be effective as of April 1, 1951, with a normal tax rate of $28\frac{3}{4}$ percent for the calendar year 1951. The conference

agreement provides that the increase in normal tax is to terminate as of March 31, 1954.

Amendment No. 6: The House bill amended section 430 (a) (2) of the code (relating to maximum excess profits tax) so as to increase the percentage used under existing law for computing the maximum excess profits tax from 62 to 70 percent. The Senate amendment provided a new method for computing the maximum excess profits tax which, in general, was 16½ percent of the excess profits net income for the calendar year 1951 and was 17 percent of the excess profits net income for taxable years beginning after March 15, 1951. The 17 percent figure of the Senate amendment was comparable to a 69 percent figure under the method provided in the House bill. The House recedes with an amendment which adopts the Senate method of computing the maximum tax but increases the 17 percent figure to 18 percent (comparable to the House bill 70 percent figure) for taxable years beginning after March 31, 1951. Under the conference agreement the maximum excess profits tax for the calendar year 1951 is 17¼ percent of the excess profits net income for such year.

Amendments Nos. 7, 8, and 9: Senate amendments Nos. 7 and 8 amended section 207 (a) (tax on certain insurance companies), 362 (b) (tax on regulated investment companies), section 421 (a) (tax on business income of certain tax exempt organizations), and section 26 (relating to credits for corporations) of the code to make changes conforming to the action of the Senate with respect to the corporate normal and surtax rate increases. These amendments also made other technical conforming changes in the code. Senate amendment No. 9 struck out section 123 of the House bill which provided for the allowance of only one surtax exemption and one minimum excess profits credit to certain controlled groups of corporations. The House recedes on amendments Nos. 7 and 8 with conforming amendments and an amendment adding a new section 15 (c) to the code (relating to disallowance of surtax exemptions and minimum excess profits credit) and the House recedes on amendment No. 9.

The new subsection (c) of section 15 applies to the situation where a corporation, on or after January 1, 1951, transfers property (other than money) to one or more corporations created for the purpose of acquiring such property, or to one or more corporations not actively engaged in business at the time of such acquisition, if after such transfer the transferor corporation or its stockholders, or both, are in control of the transferee during any part of a taxable year of such transferee corporation. In such case the transferee corporation shall not be allowed either the \$25,000 exemption from surtax or the \$25,000 minimum excess profits credit unless it establishes by the clear preponderance of the evidence that the securing of the \$25,000 exemption or the \$25,000 minimum excess profits credit, or both, was not a major purpose of the transfer of the property to it by the transferor. The term "control" is defined as the ownership of stock possessing at least 80 percent of the total combined voting power of all classes of stock entitled to vote or at least 80 percent of the total value of shares of all classes of stock of the corporation. Under the amendment the ownership of stock is to be determined in accordance with the provisions of section 503, except that constructive ownership under section 503 (a) (2) is to be determined only with respect to the individual's spouse and minor children. The Secretary, to the

extent not inconsistent with the provisions of the new subsection, is granted the same authority as under section 129 (b) to allow in whole or in part a surtax exemption or a minimum excess profits credit which might otherwise be disallowed under the subsection or to apportion such exemption or credit among the corporations involved. For example: Corporation A transfers on January 1, 1952, all of its property to corporations B and C in exchange for the entire stock of such corporations. Immediately thereafter corporation A is dissolved, its stockholders becoming the stockholders of B and C. Assuming that a major purpose for such transfers is to secure additional surtax exemptions and minimum excess profits credits, the Secretary has the authority to allow one such exemption and credit and to apportion such exemption and credit between corporations B and C. It is provided that the subsection shall not be applicable to any taxable year with respect to which the tax imposed by subchapter D of chapter 1 (relating to the excess profits tax) is not in effect. It is not intended that the new subsection shall in any way delimit or abrogate any of the existing provisions of the code (including sec. 129), or any principle established by judicial decision, which have the effect of preventing the avoidance of income or excess profits taxes.

Amendment No. 10: This amendment strikes out all of section 124 of the House bill relating to the computation of an alternative capital gains tax. The House recedes.

Amendment No. 11: This amendment provides, in general, that corporations subject to a tax imposed by chapter 1 of the code for a taxable year ending after March 31, 1951, but prior to October 1, 1951, shall after the date of the enactment of the bill and on or before January 15, 1952, make a return for such taxable year with respect to such tax and such taxable year. The House recedes.

Amendment No. 12: This amendment, which corresponds to section 125 of the House bill, provides the effective date of part II of title I. The House recedes.

Amendment No. 13: This amendment, relating to the computation of tax by certain fiscal year taxpayers, corresponds to subsection (a) of section 131 of the House bill with such changes as are necessary to reflect the normal tax and surtax rates and the termination dates provided by the Senate amendments. The House recedes with amendments conforming to the conference action with respect to the corporate income tax rates.

Amendments Nos. 14, 15, 16, 17, 18, 19, 20, and 21: These amendments are clerical amendments. The House recedes.

Amendment No. 22: This amendment strikes out part I of title II of the House bill providing for the withholding of tax at the source on dividends, interest, and royalties. The House recedes.

Amendment No. 23: This amendment, which corresponds to part II of title II of the House bill (relating to increase in withholding of tax at source on wages) amends section 1622 (a) of the code by changing the percentage rate of withholding from 18 percent to 20 percent in the case of wages paid on or after November 1, 1951, and before January 1, 1954. It also amends section 1622 (c) (1), relating to wage-bracket withholding, to provide new tables which reflect the increased tax rates. It also provides, as did the House bill, for additional withholding of tax on wages upon agreement by employer

and employee and provides that the amendments made thereby shall be applicable only with respect to wages paid on or after November 1, 1951. The House recedes.

Amendments Nos. 24, 25, 26, and 27: These amendments are clerical and conforming amendments. The House recedes.

Amendment No. 28: Section 301 of the House bill amended section 12 (c) of the code to provide for a head of a household approximately one-half of the income-splitting benefits provided for a husband and wife who file a joint return. Under the Senate amendment the head of a household was afforded approximately one-fourth of such benefits. The House recedes with an amendment conforming to the House action in affording approximately one-half of such benefits and making the necessary changes in the surtax tables to conform to the conference action with respect to individual income tax rates and effective date provisions.

Amendment No. 29: Under the House bill, a taxpayer might qualify as a head of a household by reason of such household constituting the principal place of abode of a descendant of a stepson or stepdaughter of the taxpayer. Under the Senate amendment, such descendants are eliminated from the category of persons in respect of whom the taxpayer may qualify as head of a household. The House recedes.

Amendment No. 30: This amendment adds subsection (b) to section 301 of the bill to provide that in the case of a head of a household who elects the benefits of section 51 (f) (1) of the code (relating to tax computed by collector in case of wage earners) the tax shall be computed by the collector under supplement T without regard to the taxpayer's status as head of a household. The House recedes.

Amendment No. 31: This amendment amends section 22 (b) (1) of the code (relating to exclusion of life insurance proceeds from gross income) to provide for a limited exclusion for amounts paid by an employer to the beneficiaries of an employee by reason of the employee's death. The House recedes.

Amendment No. 32: This amendment amends sections 113 (a) (5) and (22) (b) (2) of the code to provide that the basis of a survivor's interest in a joint and survivor annuity, the value of which is required to be included in the estate of a decedent annuitant dying after December 31, 1950, shall be considered to be acquired by "bequest, devise, or inheritance" and that such basis (that is, the value of such survivor's interest at the time of the decedent's death) shall be considered, for purposes of determining the amount to be included in the income of the survivor, to be the consideration paid for the survivor's annuity. The House recedes.

Amendment No. 33: This amendment provides for the permanent enactment of section 22 (b) (9) of the code, relating to exclusion from gross income of income attributable to the discharge of certain indebtedness in the case of a corporation which consents to reduction in basis of its properties in an amount equal to the income excluded, and extends for three years the application of section 22 (b) (10), relating to the exclusion of income of a railroad corporation attributable to the discharge of its indebtedness in a receivership proceeding. The amendment is similar to H. R. 2416, which was passed by the House on April 12, 1951 (H. Report No. 311). The House recedes.

Amendment No. 34: This amendment makes certain changes in section 22 (b) (13) of the Internal Revenue Code, relating to the additional allowance for certain members of the Armed Forces.

Section 22 (b) (13) of existing law excludes from gross income certain compensation received for active service in the Armed Forces of the United States for any month during any part of which the recipient served in a combat zone after June 24, 1950, and prior to January 1, 1952. This amendment extends this latter date from January 1, 1952, to January 1, 1954.

This amendment also extends the exclusion to certain compensation received for active service in the Armed Forces of the United States for any month during any part of which the recipient was hospitalized at any place as a result of wounds, disease, or injury incurred while serving in a combat zone after June 24, 1950, and prior to January 1, 1954, provided that during all of such month there are combatant activities in some combat zone. The House recedes.

Amendment No. 35: This amendment revises section 22 (d) (6) (F) (iii) of the code, which provision was added to section 22 (d) (6) by Public Law 919 (81st Cong., 2d sess.), so as to vary the application of the rule with respect to replacement of involuntary liquidations of inventories in certain cases where such replacement is made during taxable years ending after June 30, 1950, and prior to January 1, 1953. The effect of the amendment would be to permit the replacement of the World War II involuntary liquidations during taxable years ending after June 30, 1950, and prior to January 1, 1953, without requiring that the involuntary liquidations occurring during such years be first replaced, thus enabling the replacement of the World War II liquidations to be made in time to permit them to qualify for the benefits of section 22 (d) (6). The House recedes.

Amendment No. 36: This amendment amends section 23 (x) (relating to the deduction of medical expenses) by eliminating the 5 percent limitation with respect to the deduction of medical, dental, etc., expenses paid during the taxable year, not compensated for by insurance or otherwise, for the care of the taxpayer or his spouse if either the taxpayer or his spouse attains the age of 65 before the close of the taxable year. The limitation with respect to the maximum deduction allowable under section 23 (x) remains unchanged. The amendment is effective with respect to taxable years beginning after December 31, 1950. The House recedes.

Amendment No. 37: This amendment adds paragraph (7) to section 23 (aa) of the Internal Revenue Code to provide, in general, that an election to take or not to take the standard deduction for any taxable year may be changed after the time prescribed for filing a return for such year. The House recedes.

Amendment No. 38: This amendment is clerical. The House recedes.

Amendment No. 39: Section 302 of the House bill would add a new subparagraph (D) to section 23 (a) (1) of the code providing, in general, that all expenditures paid or incurred after December 31, 1950, in the development of a mine or other natural deposit (other than an oil or gas well), to the extent paid or incurred after the existence of ores or minerals in commercially marketable quantities has been disclosed, shall be deducted ratably as the produced ores or minerals benefited

by such expenditures are sold. Section 302 of the House bill also amended section 113 (b) (1) by adding a new subparagraph (J) thereto to provide for adjustment to the basis of the mine or deposit for amounts allowed as a deduction under new subparagraph (D) as added to section 23 (a) (1).

The Senate bill made technical changes in the House provisions and inserted the substance of subparagraph (D) as added to section 23 (a) (1) by the House bill in a new subsection (cc) to be added to section 23 of the code. The Senate bill also added a provision to the new subsection (cc) which, in general, would allow the taxpayer to elect to deduct development expenditures either in the taxable year paid or incurred or ratably during the taxable years in which the produced ores or minerals benefited by such expenditures are sold. The House recedes.

Amendments Nos. 40 and 41: These amendments are clerical. The House recedes.

Amendment No. 42: This amendment changes section 25 (b) (1) (D) of the code to increase the gross income test of a dependent from \$500 to \$600. The House recedes.

Amendment No. 43: This amendment adds to section 26 (b) of the code a new paragraph to provide for a dividends received credit in the case of dividends received from a foreign corporation (other than a foreign personal holding company) subject to taxation under chapter 1 of the code which for a stipulated uninterrupted period of time has been engaged in trade or business within the United States and has derived during such period 50 percent or more of its gross income from sources within the United States.

The House recedes with an amendment under which the dividends received credit will be allowed with respect to dividends received from such a foreign corporation in an amount equal to—

(A) 85 percent of the dividends received out of its earnings or profits of the taxable year (computed as of the close of the taxable year without diminution by reason of any distributions made during the taxable year) without regard to the amount of the earnings or profits at the time the distribution was made, but such amount shall not exceed an amount which bears the same ratio to 85 percent of such dividends received out of such earnings or profits as the gross income of such foreign corporation for such taxable year from sources within the United States bears to its gross income from all sources for such taxable year, and

(B) 85 percent of the dividends received out of that part of its earnings or profits specified in clause (1) of the first sentence of section 115 (a) accumulated after the beginning of such uninterrupted period, but such amount shall not exceed an amount which bears the same ratio to 85 percent of such dividends received out of such accumulated earnings or profits as the gross income of such foreign corporation from sources within the United States for the portion of such uninterrupted period ending at the beginning of the taxable year bears to its gross income from all sources for such portion of such uninterrupted period.

The determination of earnings or profits distributed in any taxable year shall be made in accordance with section 115 (b) of the code.

The application of this amendment is illustrated by the following example: Corporation A (a foreign corporation filing its return on a

calendar year basis) whose stock is 100 percent owned by Corporation B (a domestic corporation filing its return on a calendar-year basis) for the first time engaged in trade or business in the United States on January 1, 1940, and qualified under this amendment for the entire period beginning from that date and ending with December 31, 1951. Corporation A had accumulated earnings or profits of \$50,000, immediately prior to January 1, 1940, and had earnings or profits of \$10,000 for each taxable year during the uninterrupted period from January 1, 1940, through December 31, 1951. It derived for the period from January 1, 1940, through December 31, 1950, 90 percent of its gross income from sources within the United States, and in 1951 derived 95 percent of its gross income from sources within the United States. During the calendar years, 1940, 1941, 1942, 1943, and 1944 corporation A distributed in each year \$15,000; during the calendar years 1945, 1946, 1947, 1948, 1949, and 1950 it distributed in each year \$5,000; and during the year 1951, \$50,000. For 1951 a dividends-received credit of \$31,025 will be given corporation B with respect to the \$50,000 received from corporation A, computed as follows:

(1) \$8,075 which is \$8,500 (85 percent of the \$10,000 of earnings or profits of the taxable year) multiplied by 95 percent (the portion of the gross income of A corporation derived during the taxable year from sources within the United States) plus

(2) \$22,950 which is \$25,500 (85 percent of \$30,000 (that part of the earnings or profits accumulated after the beginning of the uninterrupted period)) multiplied by 90 percent (the portion of the gross income derived from sources within the United States during that portion of the uninterrupted period ending at the beginning of the taxable year).

If, in the foregoing example, corporation A for the taxable year 1951 had incurred a deficit of \$10,000 (shown to have been incurred prior to December 31), and if it had distributed \$50,000 on December 31, 1951, the dividends received credit which corporation B would receive would be \$15,300, computed by multiplying \$17,000 (85 percent of \$20,000 earnings or profits accumulated after the beginning of the uninterrupted period) by 90 percent (the portion of the gross income from United States sources during that part of the uninterrupted period ending at the beginning of the taxable year).

Amendment No. 44: This amendment adds to section 51 of the code (relating to individual returns) a new subsection (g) providing for the filing of a joint return by a taxpayer and his spouse for a taxable year for which a joint return could have been made under section 51 (b) even though the time prescribed by law for filing the return for such taxable year has expired. This provision is effective with respect to taxable years beginning after December 31, 1950; The House recedes.

Amendment No. 45: This amendment adds section 313 to the bill which relates to income-tax treatment of mutual savings banks, building and loan associations, and cooperative banks, effective with respect to taxable years beginning after December 31, 1951. The House recedes with an amendment.

Subsection (a) of section 313 as agreed to in conference repeals section 101 (2) of the code (relating to exemption from tax of mutual savings banks).

Subsection (b) amends section 101 (4) of the code to repeal the exemption from tax of building and loan associations and cooperative banks. Credit unions without capital stock organized and operated for mutual purposes and without profit will remain tax-exempt under section 101 (4) of the code.

The amendment to section 101 (4) of the code made by subsection (b) will also continue to exempt from tax corporations or associations without capital stock organized prior to September 1, 1951, and operated for mutual purposes and without profit for the purpose of providing reserve funds for, and insurance of, shares or deposits in (A) domestic building and loan associations (as defined in sec. 3797 (a) (19)), (B) cooperative banks without capital stock organized and operated for mutual purposes and without profit, or (C) mutual savings banks not having capital stock represented by shares.

Subsection (c) amends section 454 of the code to add to the list of corporations exempt from the excess profits tax any mutual savings bank not having capital stock represented by shares, any domestic building and loan association (as defined in sec. 3797 (a) (19)), and any cooperative bank without capital stock organized and operated for mutual purposes and without profit.

Subsection (d) amends section 5 (h) of the Home Owners Loan Act of 1933 (48 Stat. 132; 12 U. S. C., sec. 1464 (h)), to remove the language in such section exempting Federal savings and loan associations from Federal income tax, war-profits, and excess profits taxes, in the case of taxable years beginning after December 31, 1951. These associations will not, of course, be subject to the excess profits tax, by reason of the amendment made by subsection (c).

Subsection (e) amends section 23 (k) (1) (relating to deduction from gross income of bad debts) to provide rules with respect to a reasonable addition to a reserve for bad debts in the case of a mutual savings bank not having capital stock represented by shares, a domestic building and loan association, and a cooperative bank without capital stock organized and operated for mutual purposes and without profit. Where 12 percent of the total deposits or withdrawable accounts of the institution's depositors at the close of the taxable year exceeds the sum of its surplus, undivided profits and reserves at the beginning of the taxable year it may take a deduction for a reasonable addition to a reserve for bad debts for such year in any amount determined by it to be a reasonable addition for such year, except that such amount shall not be greater than the lesser of (A) the amount of its net income for such year computed without regard to this provision, or (B) the amount by which such 12 percent of its total deposits exceeds its surplus, undivided profits, and reserves at the beginning of such year. Where the sum of the institution's surplus, undivided profits, and reserves at the beginning of the taxable year equals or exceeds 12 percent of its total deposits or withdrawable accounts at the close of such year, any deduction for such year for a reasonable addition to a reserve for bad debts will be determined under the general provisions of section 23 (k) (1). In determining a deduction for a reasonable addition to a reserve for bad debts, and in determining the sum of the surplus, undivided profits, and reserves, there will be taken into account surplus, undivided profits, and bad debt reserves accumulated prior to the close of December 31, 1951 (i. e., during the period for which the institution was not subject to taxation).

Subsection (f) amends section 23 (r) (relating to the deduction from gross income of certain dividends paid by banking corporations) to provide that in the case of mutual savings banks, cooperative banks, and domestic building and loan associations (for definition of domestic building and loan associations, see section 3797 (a) (19) as added by section 313 (i) of the bill), there shall be allowed as deductions in computing net income any amounts paid to, or credited to the accounts of, depositors or holders of accounts as dividends on their deposits or withdrawable accounts, if such amounts may be withdrawn on demand subject only to customary notice of intention to withdraw. For example, if an institution has the right to receive 30 days' notice prior to the withdrawal of a deposit or of any amounts paid or credited to the account thereof, the amounts credited will nevertheless be considered as withdrawable on demand subject only to customary notice of intention to withdraw.

Subsection (g) amends section 23 of the code (relating to deductions from gross income) to provide a deduction for repayment of certain loans by a mutual savings bank not having capital stock represented by shares, a domestic building and loan association (as defined in section 3797 (a) (19) of the code) or a cooperative bank without capital stock organized and operated for mutual purposes and without profit. It provides that amounts paid by the taxpayer during the taxable year in repayment of loans made prior to September 1, 1951, by the United States or any agency or instrumentality thereof which is wholly owned by the United States, or by a mutual fund established under the authority of the laws of any State, shall be allowed as a deduction in computing net income of the taxpayer. An example for this purpose of an agency or instrumentality wholly owned by the United States would be the Reconstruction Finance Corporation.

Subsection (h) amends section 104 (a) of the code (defining the term bank) to include, within the definition of bank, a domestic building and loan association.

Subsection (i) amends section 3797 (a) of the code (relating to definitions for the purpose of the Internal Revenue Code) to define the term "domestic building and loan association" to mean a domestic building and loan association, a domestic savings and loan association, and a Federal savings and loan association, substantially all the business of which is confined to making loans to members. This amendment is of a clarifying nature and is not intended to change the existing meaning of a domestic building and loan association.

Subsection (j) provides that the amendments made by the section shall be applicable only with respect to taxable years beginning after December 31, 1951.

Amendment No. 46: This amendment in general amends section 101 (12) of the code to subject tax-exempt cooperatives to normal tax and surtax on earnings not definitely allocated to the accounts of patrons.

The House recedes with an amendment making a clerical change, and with the following additional amendments. First, it is provided that amounts allocated to patrons with respect to income not derived from patronage, if made after the close of the taxable year and on or before the fifteenth day of the ninth following month, shall be considered as made during the taxable year to the extent such allocations are attributable to income derived before the close of the taxable year.

Second, it is made clear that in taking into account patronage dividends to patrons with respect to their patronage in computing the net income of the cooperative, it is immaterial whether such dividends relate to patronage of the taxable year of the cooperative or to patronage of preceding taxable years. Third, the provision of the Senate amendment relating to withholding on patronage dividends in the event withholding is required on corporate dividends is stricken from the bill.

Under the conference agreement, patronage dividends allocated by a cooperative to its patrons will not be treated as taxable income to the cooperative.

Amendment No. 47: This amendment, which adds a new subparagraph (D) to section 102 (d) (1) of the Internal Revenue Code, provides that the excess of the net long-term capital gain for the taxable year over the net short-term capital loss for such year, less the taxes imposed by chapter 1 of the code attributable to such excess, shall be deducted from the net income in computing section 102 net income. However, the fact that such excess is not to be taken into account in the tax basis on which the penalty tax under section 102 is imposed will not prevent capital gains from being taken into consideration in determining whether earnings or profits of a corporation have been permitted to accumulate beyond the reasonable needs of the business. The House recedes.

Amendment No. 48: This amendment amends section 112 (b) (7) of the code (relating to election as to recognition of gain in certain corporate liquidations), so as to make it applicable to cases in which the liquidation is pursuant to a plan adopted after December 31, 1950, and the transfer of all the property under the liquidation occurs within one calendar month in 1951 or 1952. The House recedes.

Amendment No. 49: This amendment amends sections 112 (b) and 113 (a) of the code to provide for the nonrecognition of gain in certain cases, where, pursuant to a plan of reorganization, a shareholder of a corporation which is a party to the reorganization receives stock (other than preferred stock) in another corporation which is a party to the reorganization without the surrender by such shareholder of stock. This amendment is applicable with respect to taxable years ending after the date of the enactment of this act, but applies only with respect to distribution of stock made after such date. The House recedes.

Amendment No. 50: This is a clerical amendment. The House recedes.

Amendment No. 51: Section 303 of the House bill provides, in general, that any gain from a sale of property used by the taxpayer as his principal residence will not be recognized if the taxpayer within a period beginning 1 year prior to the date of such sale and ending 1 year after such date purchases property and uses it as his principal residence except to the extent that the taxpayer's selling price of the old residence exceeds his cost of purchasing the new residence. The Senate amendment provides that, where the taxpayer is constructing the new residence, such period shall include 18, rather than 12, months after such sale. If the taxpayer commenced construction of the new residence more than 1 year prior to the date of the sale of the old residence, in determining the taxpayer's cost of building the new residence there will be included only so much of the cost as is attributable to

the construction made during the period beginning 1 year prior to the date of the sale of the old residence and ending 18 months after such date. The House recedes.

Amendment No. 52: This is a clerical amendment. The House recedes.

Amendment No. 53: The House bill granted a percentage depletion allowance at the rate of 5 percent in the case of deposits of asbestos, sand, gravel, stone (including pumice, scoria, and slate), brick clay, tile clay, shale, oyster shell, clam shell, granite, and marble. The Senate amendment granted percentage depletion in the case of asbestos at the rate of 10 percent and added to the above list sodium chloride and, if produced from brine wells, calcium chloride, magnesium chloride, potassium chloride, and bromine. The Senate amendment removed slate from the parenthetical clause following stone and included it as a separate item in this 5-percent category. The House bill increased the 5-percent rate of percentage depletion now allowed for coal to 10 percent. The Senate amendment followed this treatment in the case of coal and included in this new 10-percent category those minerals which the House bill would have allowed percentage depletion at a rate of 15 percent. These minerals are borax, fuller's earth, tripoli, refractory and fire clay, quartzite, perlite, diatomaceous earth, metallurgical grade limestone, and chemical grade limestone. The Senate amendment also added wollastonite, magnesite, dolomite, brucite, and calcium and magnesium carbonates, to this 10-percent list, and added aplite and garnet to the list now allowed percentage depletion at the 15-percent rate.

The bill, as passed by both the House and the Senate, made technical amendments to section 114 (b) (4) (A) which do not alter its substance. The House bill changed the parenthetical clause, stating that thenardite produced from brines or mixtures of brine would be allowed percentage depletion, to state that thenardite, including thenardite from brines or mixtures of brine, would be permitted such allowance. The Senate amendment achieved the same effect by striking the parenthetical clause.

The amendments made by both Houses are applicable only with respect to taxable years beginning after December 31, 1950.

The House recedes with an amendment which restores borax, fuller's earth, tripoli, refractory and fire clay, quartzite, diatomaceous earth, metallurgical grade limestone, and chemical grade limestone to the 15-percent category in which they appeared in the House bill and which removes potassium chloride from the list of minerals to which the Senate bill granted the percentage depletion allowance at the 5-percent rate. Potassium chloride is entitled, under existing law, to percentage depletion allowance at 15 percent. Under the conference agreement calcium carbonates are granted an allowance of 10 percent, while marble, which is a calcium carbonate, receives 5 percent. It is intended, in any case where a mineral is specifically provided for at a stated rate of percentage allowance, that the specific provision will govern over the allowance provided (whether higher or lower) for a more general classification.

It is the intention, in including stone in the 5-percent percentage depletion category, to limit such term to its commonly understood meaning. Thus, depletion would be allowed in the case of common

stone which is crushed for use in building roads but would not be allowed in the case of precious stones such as diamonds.

Amendment No. 54: Section 115 (g) (3) of the Internal Revenue Code provides in substance that section 115 (g) (1), relating to the treatment as dividends of amounts distributed in redemption of stock, shall be inapplicable where the redemption is of stock the value of which is included in determining the value of the gross estate of a decedent provided, among other limitations, that the value of the stock in such corporation comprises more than 50 percent of the value of the net estate of the decedent. Under the Senate amendment, the 50-percent limitation would be reduced to 25 percent. The House recedes with an amendment under which the value of the stock of the corporation must comprise more than 35 percent of the value of the gross estate of the decedent. The amendment would be applicable with respect to distributions in redemptions made after the date of enactment of the act.

Amendment No. 55: This amendment amends section 116 (a) of the Internal Revenue Code so as to apply the exemption of earned income received from sources without the United States to (1) an individual citizen of the United States who has been a bona fide resident of a foreign country or countries for an uninterrupted period which includes an entire taxable year or (2) an individual citizen of the United States who during any period of 18 consecutive months is physically present in a foreign country or countries for a total of at least 510 full days in such period. Amounts paid by the United States or any agency thereof do not come within the provisions of this amendment. The amendment further amends the Internal Revenue Code to adapt the provisions respecting collection of income tax at source on wages to the substantive changes made to section 116 (a) of the code, and to eliminate withholding of Federal income tax with respect to wages which are required by law of any foreign country to be withheld upon for income taxes of such foreign country. The House recedes with a clerical amendment.

Amendment Nos. 56, 57, and 58: These are clerical amendments. The House recedes.

Amendment No. 59: This is a technical amendment conforming to the conference agreement on Senate Amendment No. 1. The House recedes.

Amendment Nos. 60, 61, and 62: These are clerical amendments. The House recedes.

Amendment No. 63: This amendment provides rules for the application of section 117 (j) in cases where land bearing an unharvested crop is sold. The provision applies in cases where the land has been held for more than 6 months. The period that the crop has been on the land is immaterial. The House recedes.

Amendment No. 64: The House bill contained a provision which, effective for taxable years after 1950, amended section 117 (j) (1) of the code to provide that the term "property used in the trade or business" includes livestock held by the taxpayer for draft, breeding, or dairy purposes for 12 months or more. The Senate amendment restates this provision to provide that the term "property used in the trade or business" includes livestock, regardless of age, held by the taxpayer for draft, breeding, or dairy purposes, and held by him for 12 months or more from the date of acquisition. The Senate amendment

also provided that the term does not include poultry except that the term does include turkeys regardless of age, held by the taxpayer for breeding purposes, and held by him for 12 months or more from the date of acquisition. The Senate amendment also included rules respecting effective date. The House recedes with an amendment striking out the reference to turkeys. This provision of the bill is not intended to change the present application of section 117 (j) of the code to race horses in any situation in which such race horses fall within the term "property used in the trade or business."

Amendments Nos. 65 through 72: Section 307 of the House bill (which corresponds to section 325 of the Senate bill) extended capital gains treatment to certain coal royalties. The Senate amendments added certain additional rules and conforming amendments to other sections of the code. The House recedes on amendments Nos. 65, 66, 68, 69, 70, 71, and 72, and recedes on amendment No. 67 with an amendment striking out a reference to timber.

Amendment No. 73: This is a clerical amendment. The House recedes.

Amendment No. 74: The House bill provided that the amendments relating to collapsible corporations shall be applicable to taxable years beginning after December 31, 1950. This amendment limits the effective date to taxable years ending after August 31, 1951, and limits the application of the amendment to gains realized after such date. The House recedes.

Amendment No. 75: This is a clerical amendment. The House recedes.

Amendment No. 76: Section 309 of the House bill added a new subsection (n) to section 117 of the code to provide rules for the treatment of capital gains and ordinary losses by a dealer in securities in order to prevent the dealer from obtaining the most beneficial tax result by a shift in securities from one account to another or by insufficient identification of securities alleged to be within a particular account. Under the amendment the provisions of section 117 (n) are made inapplicable to the extent that these provisions are inconsistent with the provisions of section 117 (i) relating to bond, etc., losses of banks. The House recedes.

Amendment No. 77: This amendment strikes out section 310 of the House bill. The House recedes with an amendment which adds a new subsection (o) to section 117 of the Internal Revenue Code so as to provide that in the case of a sale or exchange, directly or indirectly, of depreciable property (1) between husband and wife, or (2) between an individual and a corporation in which he, his spouse, and his minor children and minor grandchildren own more than 80 percent of the value of the outstanding stock, any gain recognized to the transferor shall be considered ordinary income and not capital gain. The transfer of the property can be from the corporation to the stockholder or from the stockholder to the corporation. The property transferred must be property which in the hands of the transferee is property of a character which is subject to the allowance for depreciation provided in section 23 (l) of the code. This amendment shall be applicable only with respect to sales or exchanges made after May 3, 1951.

Amendment No. 78: This amendment adds a new subsection to section 117 of the code, to provide that certain payments received

by an employee after the termination of his employment, which under existing law are taxable as ordinary income, shall be treated as gains from the sale or exchange of a capital asset held for more than 6 months. The House recedes with clerical amendments.

Amendment No. 79: This amendment, for which there is no corresponding provision in the House bill, amends section 122 (b) (2) (relating to the amount of net operating loss carry-overs) to provide for a 4-year carry-over of 1948 and 1949 net operating losses by both corporate and noncorporate taxpayers, and for a 4-year carry-over of 1946 and 1947 net operating losses by certain new corporations. The amendments to section 122 (b) (2) are made applicable in computing the net operating-loss deduction for taxable years beginning after December 31, 1948. The House recedes with an amendment which eliminates the provisions of the Senate amendment for the carry-over of 1946 and 1947 net operating losses by new corporations and reduces from four to three the number of years to which 1948 and 1949 net operating losses may be carried forward by all taxpayers.

Amendment No. 80: This amendment amends subsection (d) of section 130A, relating to definition of the term "restricted stock option," to provide that if the grant of an option is subject to stockholder approval, the date of the grant of the option shall be determined as if the option had not been subject to stockholder approval.

The amendment is made effective as if it had been enacted as a part of section 218 of the Revenue Act of 1950. The House recedes with a clerical amendment.

Amendment No. 81: This amendment adds to the bill a new section 331 pursuant to the provisions of which (1) a domestic corporation which owns at least 10 percent of the voting stock of a foreign corporation from which it receives dividends in a taxable year will, for purpose of computing the foreign tax credit of such domestic corporation, be deemed to have paid a proportion of certain foreign taxes paid, or deemed to be paid, by such foreign corporation, and (2) such foreign corporation will, for the purpose of the above computation, be deemed to have paid a proportion of certain foreign taxes paid by any other foreign corporation from which it receives dividends in a taxable year, if the former foreign corporation owns a majority of the voting stock of the latter foreign corporation. The House recedes with a clerical amendment and an amendment pursuant to which (2) above will be operative if the former foreign corporation owns 50 percent or more of the voting stock of the latter foreign corporation.

Amendment No. 82: This amendment amends section 147 of the code to give to the Secretary the authority to require information returns reporting payments of interest, regardless of amount. Under existing law, except in the case of certain payments, information returns may not be required from persons making payment of interest unless the payment is \$600 or more. The House recedes with a clerical amendment.

Amendment No. 83: This amendment adds a new section 154 to supplement D of chapter 1 of the code, relating to returns and payment of taxes.

Such section 154 provides that, where any individual dies after June 24, 1951, and prior to January 1, 1954, while in active service as a member of the Armed Forces of the United States, if his death

occurred while serving in a combat zone, as determined under section 22 (b) (13) of the code, or at any place as a result of wounds, disease, or injury incurred while so serving, (1) the tax imposed by chapter 1 of the code will not apply with respect to the taxable year in which falls the date of his death, or with respect to any prior taxable year which ended on or after the first day he was so serving in a combat zone after June 24, 1950, and (2) the tax (including interest, additions to the tax, and additional amounts) imposed by chapter 1 of the code and under the corresponding title of each prior revenue law for all taxable years preceding those specified in (1) above, which is unpaid at the date of his death shall not be assessed, and if assessed the assessment shall be abated, and if collected shall be credited or refunded as an overpayment. The House recedes with a clerical amendment.

Amendment No. 84: This amendment amends section 165 (b) of the code, relating to distributions to an employee by a trust which qualifies for exemption under section 165 (a).

Under section 165 (b), amounts distributed or made available to an employee by such a trust (in excess of the employee's contributions) are taxed to the employee only in the years in which distributed or made available and, if the total distributions are paid to the employee in one taxable year on account of the employee's separation from the service, the amount of the distribution (to the extent exceeding the employee's contribution) is taxed at capital gain rates (as from sale or exchange of a capital asset held for more than 6 months).

Under the amendment, where such a total distribution occurs in one taxable year, and consists in whole or in part of securities of the employer corporation, that part of the excess (of the amounts distributed over the amount of the employee's contributions) as consists of net unrealized appreciation attributable to that part of the total distributions made in securities of such employer corporation shall be excluded from income in the year of distribution, and shall be subject to tax only when the securities are sold (or otherwise disposed of in a taxable transaction). The amount of the net unrealized appreciation which is excluded shall in the hands of the recipient not be included in the basis of the stock or other securities distributed.

The House recedes with an amendment providing that the proposed treatment is also to apply to securities issued by a parent or subsidiary corporation of the employer corporation.

Amendment No. 85: Under section 311 of the House bill, the special rule for 1949 and 1950, set forth in section 202 (b) (2) of the code for use in determining the reserve and other policy liability credit of life insurance companies, would have been extended to apply to taxable years beginning in 1951. Under this amendment there is substituted for this provision a system for taxing such companies, but only for taxable years beginning in 1951, which is different from that contained in present law. Under this system, in lieu of allowing life insurance companies an adjustment of their normal tax net income and of their corporation surtax net income, by means of the reserve and other policy liability credit, for purposes of a tax imposed at the regular corporate rates, a low-rate tax is imposed on the normal tax net income of such companies without allowance of any such credit. Under the Senate amendment there is imposed for 1951 a tax equal to $3\frac{3}{4}$ percent of the first \$200,000 of the 1951 adjusted normal tax net

income of such companies and 6½ percent of the amount in excess thereof. The House recedes with a clerical amendment.

Amendment No. 86: This is a clerical amendment. The House recedes with a clerical amendment.

Amendment No. 87: This amendment makes technical and clarifying changes in the section of the House bill providing for tax treatment under supplement Q of chapter 1 of the code of certain registered management investment companies certified by the Securities and Exchange Commission as principally engaged in furnishing capital to corporations principally engaged in development or exploitation of inventions, technological improvements, new processes, or products not previously generally available. The House recedes.

Amendment No. 88: This amendment, for which there is no corresponding provision in the House bill, makes a minor change in the definition of "system group" contained in section 373 (d) of the Internal Revenue Code. Under this amendment, in determining whether one or more of the corporations in a utility system owns the required 90 percent of each class of the stock of another corporation in the same system, there is disregarded not only stock which is preferred to both dividends and assets, which type of stock may be disregarded for this purpose under present law, but also stock which is limited and preferred as to dividends but which is not preferred as to assets, provided that the total value of such stock is less than 1 percent of the aggregate value of all classes of stock which are not preferred as to both dividends and assets. This amendment is applicable to all taxable years affected by exchanges and distributions made after December 31, 1947. The House recedes with a clerical amendment.

Amendment No. 89: This amendment subjects governmental colleges and universities and corporations wholly owned by such colleges or universities to the supplement U tax on their unrelated business net income, effective for taxable years beginning after December 31, 1951. The House recedes with a clerical amendment.

Amendment No. 90: This is a clerical amendment. The House recedes with a clerical amendment.

Amendment No. 91: This amendment provides for retroactive application to taxable years beginning after December 31, 1938, and before January 1, 1951, of the provisions added by the bill to the Internal Revenue Code with respect to the treatment of family partnerships for income tax purposes, which provisions are applicable generally to taxable years beginning after December 31, 1950. The House recedes with an amendment revising the effective date provision to provide that the amendments made by the bill with respect to family partnerships shall be applicable only with respect to taxable years beginning after December 31, 1950, and to provide rules for cases where the taxable year of the partner differs from that of the partnership.

In applying the proposed treatment of family partnerships to taxable years beginning after December 31, 1950, where the taxable year of a partnership begins in 1950 and ends within or with, as to all the family partners, taxable years which begin in 1951, the proposed treatment shall apply to all distributive shares derived by the family partners from the taxable year of the partnership beginning in 1950; however, where a taxable year of the partnership ending in 1951

(whether beginning in 1950 or 1951) ends within or with a taxable year of a family partner which began in 1950, the proposed treatment is not applicable to any of the distributive shares of income derived by the family partners from such taxable year of the partnership.

Amendment No. 92: This amendment, for which there is no corresponding provision in the bill as it passed the House, amends section 127 of the code to provide an alternative treatment of war loss recoveries, applicable at the election of the taxpayer. Under the amendment the amount of the recovery, to the extent that it does not exceed the allowable deductions in prior taxable years on account of the destruction or seizure of property in respect of which the recovery is received, is excluded from gross income for the taxable year in which the recovery is received. In lieu of including such amount in gross income for the taxable year of the recovery, there is to be added to the tax imposed by chapter 1 for such taxable year the total increase in the tax under chapter 1 and chapter 2 for all taxable years which would result by decreasing, in an amount equal to such part of the recovery so excluded, deductions allowable in prior taxable years with respect to the destruction or seizure of the property. To the extent that the amount of the recovery exceeds the allowable deductions in prior taxable years on account of the destruction or seizure of the property, such amount is treated for the taxable year of the recovery as gain on the involuntary conversion of property and is recognized or nonrecognized as provided in section 112 (f). This amendment also provides a new rule for the determination of the unadjusted basis of property where the alternative treatment of the recovery is applicable pursuant to election made by the taxpayer. The House recedes with amendments which revise section 127 (c) (3) (A) and (5), and make minor changes in the phrasing of section 127 (c) (3) (B) and (C) and section 127 (d) (2). The effective date of the amendment is also changed so that it will be applicable to taxable years beginning after December 31, 1941.

Section 127 (c) (3) (A), relating to the definition of "amount of recovery" for the purposes of the new alternative treatment, is revised under the conference agreement so that in the case of recovery of the same property or interest considered under section 127 (a) as destroyed or seized, such property or interest may be included in the amount of recovery at its fair market value, determined as of the date of recovery, or at the option of the taxpayer at the adjusted basis (for determining loss) of such property or interest in the hands of the taxpayer on the date of the loss. Subparagraph (A) is also revised to provide that for the purposes of section 127 (c) (3) (B) and (C) (but not section 127 (d) (2)) the amount of recovery shall be reduced by the amount of the obligations or liabilities with respect to the property recovered, if the taxpayer for any previous taxable year chose under section 127 (b) (2) to treat such obligations or liabilities as discharged or satisfied out of such property, and such obligations or liabilities were not so discharged or satisfied prior to the date of the recovery.

These two new rules incorporated into section 127 (c) (3) (A) may be illustrated by the following examples:

Example (1): The taxpayer on December 11, 1941, owned Blackacre, a property located in Germany. The adjusted basis of such property in the hands of the taxpayer on such date was \$1,000,000. Under section 127 (a) such property was deemed destroyed or seized in the

year 1941 and the taxpayer's loss of \$1,000,000 was an allowable deduction for such year whether or not the taxpayer claimed such deduction. A recovery with respect to such loss is required to be taken into account under section 127 (c). Assume that in 1946 the taxpayer recovered this property and that on the date of recovery it had a fair market value of \$500,000. If the taxpayer elects to proceed under the provisions of section 127 (c) (3), he has an option to include in the amount of the recovery respecting this property either the fair market value on the date of the recovery (\$500,000) or an amount equal to the adjusted basis of the property as of the date of the loss (\$1,000,000). Assuming the taxpayer had no previous recovery with respect to this property, its unadjusted basis under section 127 (d) (2) for the period subsequent to recovery would be \$500,000 or \$1,000,000 depending upon whether the taxpayer chose to include the property in the amount of recovery in 1946 at its fair market value on the date of the recovery or its adjusted basis as of the date of loss. If the taxpayer chooses to treat \$1,000,000 (the adjusted basis of the property on the date of the loss in 1941) as the amount of the recovery, there would be added to the tax for 1946 the total increase in the tax which would result by decreasing from \$1,000,000 to zero the amount of the deduction allowable in 1941 on account of the destruction or seizure of Blackacre. If the taxpayer chooses to treat only \$500,000 (fair market value on date of recovery) as the amount of the recovery, there would be added to the tax for 1946 the amount of the total increase in tax resulting from decreasing to \$500,000 the amount of the deduction allowable in 1941. If the \$1,000,000 allowable as a deduction in 1941 did not result in any tax benefit, then there would be nothing to be added to the tax for 1946, whether the taxpayer chooses the amount of the recovery as \$500,000 or as \$1,000,000.

Example (2): The taxpayer on December 11, 1941, owned an industrial plant in Germany. The adjusted basis of such property in the hands of the taxpayer on such date was \$5,000,000. The property on such date was subject to a mortgage of \$3,000,000. Under the provisions of section 127 (b) (2) the taxpayer chose to treat the mortgage as discharged or satisfied out of the property. Assume that in 1946 the taxpayer recovered this property and that on the date of recovery it had a fair market value of \$5,000,000, and is still subject to the mortgage of \$3,000,000. If the taxpayer elects to have the provisions of section 127 (c) (3) apply, the amount of the recovery respecting this property for the purposes of subparagraph (B) is considered to be \$2,000,000. Since this amount is equal to the allowable deduction in 1941 under section 127 (b), all of such amount is excluded from gross income in 1946; however, there is to be added to the income tax for such year the total increase in the tax under chapter 1 and chapter 2 for all taxable years which would result from eliminating the allowable deduction of \$2,000,000 in 1941. For the purposes of paragraph (C) the amount of recovery is likewise considered to be \$2,000,000, so that there is no amount to be treated for 1946 as gain from the involuntary conversion of the property. However, this rule which reduces the amount of the recovery on account of liabilities and obligations is not applicable in applying the provisions of section 127 (d) (2). Under that section the amount of the recovery in respect of the property is \$5,000,000, and since there

was no amount considered as gain upon involuntary conversion of the property in 1946, such amount is not reduced and the basis of the property is \$5,000,000.

Under the conference agreement, as under existing law and the Senate amendment, property considered as destroyed or seized under section 127 (a) of the code is considered as not being in existence from the date of the loss to the date of its recovery. Thus, depreciation on the recovered property is not allowable for the period between the date of the loss and the date of the recovery.

Section 127 (c) (5), relating to the election by the taxpayer to have the provisions of section 127 (c) (3) apply to war loss recoveries, has been revised under the conference agreement to provide that if the taxpayer elects to have the provisions of paragraph (3) applicable in any taxable year in which he recovers any money or property in respect of property considered under section 127 (a) as destroyed or seized, the provisions of paragraph (3) shall be applicable to all taxable years of the taxpayer beginning after December 31, 1941. Such election once made is irrevocable. The election by the taxpayer is to be made in such manner and at such time as the Secretary may by regulations prescribe. However, no election may be made after December 31, 1952, by the taxpayer unless he receives war loss recoveries during a taxable year ending after the date of enactment of the Revenue Act of 1951.

If under an election made by the taxpayer the provisions of section 127 (c) (3) are applicable to any taxable year, the period of limitations provided in section 275 and 276 of the code for the assessment and collection of (1) the amount to be added to the tax for such taxable year under section 127 (c) (3), and (2) any deficiency for such taxable year or for any other taxable year to the extent attributable to the basis of the recovered property being determined under section 127 (d) (2), shall not expire prior to the expiration of 2 years following the date of the making of such election. Any amount and any deficiency specified in clauses (1) and (2) of the preceding sentence may be assessed at any time prior to the expiration of such 2-year period, notwithstanding any law or rule of law which would otherwise prevent such assessment and collection.

Paragraph (5) further provides that if section 127 (c) (3) is applicable to any taxable year pursuant to the taxpayer's election, and credit or refund of any overpayment resulting from the application of section 127 (c) (3) to such taxable year is prevented on the date of the making of such election, or within 1 year from such date, by any law or rule of law (other sec. 3761 of the Internal Revenue Code, relating to compromises), credit or refund of such overpayment may nevertheless be made or allowed if claim therefor is filed within 1 year from such date.

Paragraph (5) further provides that in the case of any taxable year ending before the date of the making by the taxpayer of an election, no interest shall be paid upon any overpayment resulting from the application of the provisions of section 127 (c) (3) to such year, and no interest shall be assessed or collected with respect to any amount or any deficiency specified in clauses (1) and (2) above, for any period prior to the expiration of 6 months following the date of the making of such election by the taxpayer.

Amendment No. 93: This amendment adds a new subsection (ff) to section 23 of the code (relating to deductions from gross income), providing that expenditures paid or incurred during the taxable year for the purpose of ascertaining the existence, location, extent, or quality of any deposit of ore or other mineral, and paid or incurred prior to the beginning of the development stage of the mine or deposit, may be deducted in computing net income for the taxable year, except to the extent that such expenditures exceed \$75,000. The subsection further provides that the taxpayer may elect to treat as deferred expense any portion of such deductible amount, in which event such deferred portion shall be deductible on a ratable basis as the units of produced ores or minerals discovered or explored by reason of such expenditures are sold. No deduction may be taken under this new subsection if in any four preceding years (not necessarily consecutive years) the taxpayer, or any individual or corporation (who has transferred to the taxpayer any mineral or ore property under circumstances which make the provisions of pars. (7), (8), (11), (13), (15), (17), (20), or (22) of section 113 (a) of the code applicable to such transfer), has taken a deduction, or elected to treat exploration expenditures as deferred expense, under the new subsection. The House recedes with a clerical amendment.

Amendment No. 94: This amendment would have added a new subsection (n) to section 115 of the code to provide a special rule for the treatment of gain upon the complete liquidation of a corporation where the distribution in liquidation included stock in another corporation to which unimproved real estate had been transferred in anticipation of such liquidation. The Senate recedes.

Amendment No. 95: This amendment adds paragraph (20) to section 3797 of the code to provide in substance that a full-time life insurance salesman who is an employee under the definition contained in the Federal Insurance Contributions Act shall be considered to be an "employee" for the purpose of applying the provisions of chapter 1 (such as sections 22 (b) (2) (B), 23 (p) and 165) which determine the effect of contributions for the benefit of, and distribution to, "an employee" under a stock bonus, pension, profit-sharing, or annuity plan. The amendment is applicable to taxable years beginning after 1938. The House recedes.

Amendment No. 96: This amendment would allow in full, for purposes of computing the net operating loss (as defined by sec. 122 (a) of the code) of a taxpayer other than a corporation, deductions allowable under section 23 (e) (2) (relating to losses incurred in a transaction entered into for profit) and section 23 (e) (3) (relating to losses of property not connected with a trade or business, if the losses arise from fire, storm, shipwreck, or other casualty or from theft). Under existing law, in computing the net operating loss in the case of such a taxpayer, section 122 (d) (5) limits the deductions otherwise allowable under section 23 of the code which are not attributable to a trade or business regularly carried on by the taxpayer to the extent of the gross income not derived from such trade or business. The House recedes with an amendment which removes from the present limitation in section 122 (d) (5) deductions for losses sustained after December 31, 1950, in respect of property, if the losses arise from fire, storm, shipwreck, or other casualty, or from theft. The amendment will enable a taxpayer who is an individual to take such losses into account.

in computing a net operating loss which may be carried back 1 year or carried forward 5 years. The amendment is made applicable in computing the net operating loss deduction for taxable years ending after December 31, 1948.

Amendment No. 97: This amendment relates to the abatement of tax of certain irrevocable trusts to the extent that the income is owned by any individual who dies on or after December 7, 1941, while in active service as a member of the military or naval forces of the United States or of any of the other United Nations and prior to January 1, 1948.

The House recedes with an amendment which provides that, in the case of a trust which accumulated income for a beneficiary who died on or after December 7, 1941, and before January 1, 1948, while in active service as a member of the military or naval forces of the United States or of any of the other United Nations, there shall be allowed as a deduction in computing the net income of the trust for any taxable year the income of the trust for such taxable year, before diminution for income taxes with respect thereto, which was, or would have been but for such diminution, accumulated for such beneficiary.

This deduction shall be allowed, however, only if (1) the income accumulated was for a taxable year of the trust which ended with or within a taxable year (ending on or after December 7, 1941) of such beneficiary during any part of which he was a member of such military or naval forces, or, in the case of the taxable year of the trust during which such beneficiary died, the income accumulated was for the period in such taxable year prior to the death of such beneficiary, and (2) the amount of such accumulated income was, without regard to this amendment, taxable to the trust, and (3) the income for such taxable year accumulated for the beneficiary, if not distributed to him prior to his death, was payable by the trust at or after his death only to his estate, spouse, or lineal ancestors or descendants.

Amendment No. 98: This amendment (effective for taxable years ending after the date of enactment of this bill) would require a net worth statement to be filed with the return of any individual who during the taxable year received gross income in excess of \$10,000 from one or more unlawful trades or businesses. The Senate recedes.

Amendment No. 99: This amendment amends the life insurance company provisions of the code to provide that the life insurance department of a mutual savings bank is to be taxed as a life insurance company. This amendment is a corollary of amendment No. 45, relating to the taxation of mutual savings banks. The amendment is applicable only with respect to taxable years beginning after December 31, 1951.

The House recedes with an amendment which adds a new section 110 to the code to provide the method for computing the tax of a mutual savings bank authorized under State law to conduct a life insurance business and which conducts such a business in a separate department the accounts of which are maintained separately from the other departments of the bank. The tax is to consist of the sum of (1) a partial tax computed under sections 13 and 15 of the code upon the net income of the bank determined without regard to any items of income or deductions properly allocable to the life insurance department; and (2) a partial tax upon the net income of the life insurance department determined without regard to any items of income or

deductions not properly allocable to such department at the rates and in the manner provided in supplement G with respect to life insurance companies. In determining the net income for purposes of such partial taxes no account shall be taken of any transactions between the insurance department and the bank or any other department thereof.

The amendment is applicable only with respect to taxable years beginning after December 31, 1951.

Amendment No. 100: This amendment adds at the end of section 422 (b) of the code (relating to definition of unrelated trade or business for the purpose of determining the unrelated business net income subject to the supplement U tax) a special rule with respect to publishing businesses carried on by colleges and universities. This amendment is applicable with respect to taxable years beginning after December 31, 1950 and prior to January 1, 1953. The purpose of this amendment is to afford an organization (exempt under sec. 101 (6) and subject to supplement U) which owns a publishing business limited opportunity to conform or relate such publishing business to its educational or other exempt purposes within the time specified in the amendment, and thus be relieved of supplement U tax thereon for taxable years preceding the taxable year in which the activity becomes related. The House recedes with a clarifying amendment.

Amendment No. 101: This amendment, for taxable years beginning prior to January 1, 1954, treats as related, for the purposes of the tax imposed by supplement U, an unrelated trade or business carried on by certain educational organizations. The House recedes with an amendment which adds at the end of section 442 (a) (relating to the definition of unrelated business net income for the purpose of the supplement U tax) a special rule with respect to unrelated trades or businesses carried on in partnership by certain educational organizations. The amendment is applicable with respect to taxable years beginning after December 31, 1950, and prior to January 1, 1954.

Amendment No. 102: This amendment adds a new subsection (e) to section 504 of the code relating to the computation of undistributed subchapter A net income for purposes of the imposition of the surtax on personal holding companies. Subsection (e) will provide for the deduction, for purposes of computing undistributed subchapter A net income, of an amount by which the undistributed subchapter A net income determined without regard to subsection (e) exceeds the amount which could be distributed on the last day of the taxable year as a dividend (1) without the violation of any action, regulation, rule, order, or proclamation made under the Trading With the Enemy Act of October 16, 1917, as amended, or the First War Powers Act of 1941, and (2) not subject to a lien in favor of the United States. The amendment is applicable to taxable years beginning after 1939. The House recedes with a clerical amendment.

Amendment No. 103: This is a technical amendment to provide that the fifth sentence of section 1700 (a) (1) of the code, added by Public Law 124, Eighty-second Congress, shall be stricken from the code as surplusage upon elimination of the second sentence as provided in the House bill. The House recedes.

Amendment No. 104: This amendment retains the substantive provisions of the House bill, but differs therefrom in the following respects:

(a) Whereas the House bill would grant an exemption from the admissions tax in the case of shows or performances the proceeds of which inure exclusively to the benefit of certain organizations, such as religious, charitable, and educational groups, no such exemption would apply, under the Senate amendment, in the case of any motion-picture exhibition. Under the Senate amendment, to come within the exemption privilege, a religious institution must be a church or a convention or association of churches; an educational institution, to be entitled to the exemption, must have a regular curriculum and student body; and a charitable institution must be supported, in whole or part, by Federal or State funds or by contributions from the general public.

(b) The Senate amendment eliminates the pre-1941 exemption in the case of admissions all the proceeds of which inure exclusively to the benefit of societies for the prevention of cruelty to children or animals and the pre-1941 exemption in the case of societies or organizations conducted for the sole purpose of maintaining a cooperative or community center motion-picture theater.

(c) Whereas the House bill would exempt admissions to agricultural fairs and to any exhibit, entertainment, or other pay feature conducted by the fair association as part of the fair, the Senate amendment limits the exemption to the general admission charge to the fair only.

(d) The exemption granted under the House bill in the case of benefits conducted for or on behalf of police or fire departments, their members or heirs has been further limited to provide that the proceeds from such benefits must inure exclusively to the benefit of the police or fire department or to a retirement, pension or disability fund for the members or their heirs.

(e) The Senate amendment also makes it plain that an exemption from the admissions tax is to apply to operas as well as symphonies which receive their support from voluntary contributions.

The House recedes with an amendment which provides an exemption from tax on admissions, the proceeds of which inure exclusively to the benefit of an organization (organized prior to October 1, 1951) which is exempt under section 101 (6) of the code and which is operated for the purpose of conducting an annual chautauqua program of educational, cultural, and religious activities at a permanent location.

The bill restores the provisions of section 1701 (c) of the code without change, so that admissions to concerts conducted by a civic or community membership association (such as orchestras, choral societies, etc.) will be exempt from tax.

Amendment No. 105: This is a clerical amendment. The House recedes.

Amendment No. 106: This amendment grants an exemption from the admissions tax covering admissions (1) to a home or garden which is temporarily opened to the general public as part of a program carried on by a society or organization for such purpose and (2) to historic sites, houses, and shrines, and museums conducted in connection therewith, maintained and operated by a society or organization devoted to the preservation of such places. The House recedes.

Amendment No. 107: This amendment provides that the increase in the rate of tax with respect to cigarettes shall be reduced to the

present rate of tax effective January 1, 1954. The House recedes with an amendment fixing the rate reduction date as April 1, 1954.

Amendments Nos. 108 and 109: These are clerical amendments. The House recedes.

Amendment No. 110: This amendment makes provision for a floor-stocks refund on tax-paid cigarettes which are held for sale on January 1, 1954, the rate reduction date specified in the bill as passed by the Senate. The House recedes with an amendment fixing April 1, 1954, as the inventory date to correspond with the change made in the rate reduction date and an amendment fixing July 1, 1954, as the date before which claims for refund must be filed.

Amendment No. 111: This amendment provides for a reduction in the rate of tax on snuff and chewing and smoking tobacco from 18 cents per pound to 10 cents per pound. The House recedes with a technical amendment.

Amendment No. 112: This amendment strikes out the provisions of section 431 of the House bill imposing a retailers' excise tax upon mechanical lighters for cigarettes, cigars, and pipes. Such articles will be taxed at the manufacturers' level at the rate of 15 percent (see amendment No. 189). The House recedes.

Amendments Nos. 113 and 114: These amendments are clerical. The House recedes.

Amendments Nos. 115 and 116: These amendments provide that the retailers' excise tax shall not apply with respect to the sale of miniature samples of cosmetics, toilet articles, lotions, powder, etc., taxable under section 2402 (a) of the code, made by a manufacturer or distributor to a house-to-house salesman for demonstration purposes only unless such samples are resold by the salesman. The House recedes.

Amendment No. 117: This amendment is clerical. The House recedes.

Amendment No. 118: This amendment strikes out all of the provisions of the House bill relating to the imposition of a tax of 2 cents per gallon upon any liquid sold or used as a fuel in a Diesel-powered highway vehicle. The House recedes with an amendment which restores the House provisions but provides that effective April 1, 1954, the rate of tax on such fuel will be reduced to 1½ cents per gallon.

Amendments Nos. 119 and 120: These amendments are clerical. The Senate recedes.

Amendments Nos. 121 and 122: These amendments provide that the increase in tax imposed with respect to distilled spirits generally and to imported perfumes containing distilled spirits shall be reduced to the present rate of tax effective January 1, 1954. The House recedes with an amendment fixing April 1, 1954, as the rate reduction date in lieu of January 1, 1954.

Amendments Nos. 123, 124, 125, and 126: These amendments are clerical. The Senate recedes.

Amendments Nos. 127, 128, and 129. These amendments provide that the increase in tax with respect to wines of the various classifications specified shall be reduced to the present rate of tax effective January 1, 1954. The House recedes with an amendment providing that the rate reduction date shall be April 1, 1954.

Amendment No. 130: This amendment is clerical. The Senate recedes.

Amendment No. 131: This amendment provides that the increase in tax imposed with respect to certain sparkling wines, liqueurs, and cordials shall be reduced to the present rate of tax effective January 1, 1954. The House recedes with an amendment establishing the rate reduction date as April 1, 1954.

Amendments Nos. 132, 133, 134, 135, and 136: These are clerical amendments. The Senate recedes.

Amendment No. 137: This amendment provides that the increase in the rate of tax imposed with respect to fermented malt liquors shall be reduced to the present rate of tax effective January 1, 1954. The House recedes with an amendment providing that the rate reduction date shall be April 1, 1954.

Amendments Nos. 138, 139, and 140: These amendments are clerical. The Senate recedes.

Amendment No. 141: This amendment provides for floor stocks refunds with respect to tax-paid distilled spirits, wine, and beer held for sale upon the termination of the tax rate increases proposed for these products in the bill. The House recedes with an amendment fixing the inventory date to be used in determining the amount of refunds as April 1, 1954, in lieu of January 1, 1954, and with a clerical amendment.

Amendment No. 142: This is a clerical amendment. The House recedes with a clerical amendment.

Amendment No. 143: This is a clerical amendment. The House recedes with a clerical amendment.

Amendments Nos. 144, 145, and 146: These amendments are clerical. The Senate recedes.

Amendments Nos. 147, 148, and 149: These amendments provide that the increase in the occupational tax for wholesale dealers in liquor, retail dealers in liquor, and wholesale dealers in malt liquor, respectively, shall be reduced to the present rate on and after January 1, 1954. Under the House bill, the increase in rates was permanent. The Senate recedes.

Amendment No. 150: This amendment is clerical. The Senate recedes.

Amendment No. 151: The House bill provided for an increase in the rate of draw-back on distilled spirits used in certain nonbeverage products. The Senate amendment makes technical revisions in this provision so as to provide for reduction of the amount of draw-back after December 31, 1953, to correspond with the reduction in the rate of tax on distilled spirits on and after January 1, 1954. The House recedes with clerical amendments and with an amendment providing that the reference to draw-backs made after December 31, 1953, shall be changed to March 31, 1954, to take into account the change in the rate reduction date.

Amendment No. 152: This amendment is clerical. The Senate recedes.

Amendment No. 153: This amendment eliminates the increase in tax proposed under the House bill on bowling alleys and billiard and pool tables. The House recedes.

Amendment No. 154: This is a clerical amendment. The House recedes with a clerical amendment.

Amendment No. 155: This is a clerical amendment. The Senate recedes.

Amendment No. 156: This is a clerical amendment. The House recedes with a clerical amendment.

Amendments Nos. 157, 158, 159, 160, 161, and 162: These amendments are clerical. The Senate recedes.

Amendment No. 163: This amendment is technical and makes it clear that any person who is liable for tax under subchapter A of chapter 27A of the code, as added by the bill, or who is engaged in receiving wagers for or on behalf of any person so liable, and who commenced the activity which makes him subject to tax, or who was engaged in receiving such wagers, prior to the day on which such tax becomes effective shall be required to pay the special tax imposed by subchapter B of chapter 27A. The House recedes with clerical amendments.

Amendments Nos. 164 and 165: These are clerical amendments. The Senate recedes.

Amendment No. 166: This amendment provides that the increase in the rate of the manufacturers' excise tax with respect to trucks, busses, etc., shall revert to the present rate of tax effective January 1, 1954. The House recedes with an amendment providing that the rate reduction date shall be April 1, 1954.

Amendment No. 167: This amendment eliminates the present tax of 7 percent upon the sale of house trailers, including parts and accessories therefor. This amendment will become effective on the first day of the first month which begins more than 10 days after the date of enactment of the bill, thus, the tax would apply with respect to the sale of house trailers made prior to such effective date and notwithstanding that such purchases may be paid for on an installment plan after such date. A house trailer would be considered as sold prior to such effective date if the right of possession thereto passed to the purchaser prior to such effective date.

The amendment also provides that the increase in the rate of the manufacturers' excise tax with respect to automobile chassis and bodies, motorcycles, trailers, and semitrailers (other than house trailers) suitable for use in connection with automobiles, shall revert to the present rate of tax with respect to sales made on and after January 1, 1954. The House recedes with an amendment providing that the rate reduction date shall be April 1, 1954.

Amendment No. 168: This amendment provides that the increase in the rate of the manufacturers' excise tax with respect to parts and accessories for automobiles shall revert to the present rate of tax with respect to sales made on and after January 1, 1954. The House recedes with an amendment providing that the rate reduction date shall be April 1, 1954.

Amendment No. 169: This is a technical amendment. The House recedes.

Amendment No. 170: This is a clerical amendment. The Senate recedes.

Amendment No. 171: This is a technical amendment. The House recedes.

Amendment No. 172: This is a clerical amendment. The House recedes with a clerical amendment.

Amendment No. 173: This amendment provides that a manufacturer of refrigerator components may sell such components tax free to a wholesaler or dealer if such components are purchased for

resale to a manufacturer of refrigerator equipment and provided the regulations prescribed by the Secretary of the Treasury relating to such sales are complied with. The House recedes with clerical amendments.

Amendment No. 174: This amendment (a) revises the taxable list of sporting goods in the House bill to exclude baseballs and baseball equipment, (b) reinstates certain items taxable under present law but excluded under the House bill, (c) retains the present 10 percent rate of tax with respect to fishing equipment, and (d) increases the rate of tax, like the House bill, with respect to the remaining sporting equipment to 15 percent. The House recedes, with an amendment providing that snow toboggans and sleds 60 inches or less in length shall not be subject to tax and that the increase in the rate of tax shall revert to the present rate of tax effective April 1, 1954.

Under the provisions of the act of August 9, 1950 (the Dingell-Johnson Act), an amount equal to the revenue accruing from the tax on fishing rods and equipment is authorized to be appropriated for assistance to the States for fish restoration and management projects. The amendments made by this bill will not affect such authorization nor the permanency of such act.

Amendment No. 175: This is a clerical amendment. The House recedes with a clerical amendment.

Amendment No. 176: This is a clerical amendment. The House recedes.

Amendment No. 177: This is a clerical amendment. The Senate recedes.

Amendment No. 178: This amendment strikes out electric direct motor-driven fans and air circulators of the industrial type and electric air heaters of the blower type from the list of items subject to the manufacturers' excise tax under section 3406 (a) (3) of the code. Senate amendment No. 182 exempts from the tax all appliances listed in such sections which are of the industrial type.

The House recedes with an amendment which provides that the tax imposed by section 3406 (a) (3) of the code shall not apply to electric direct motor-driven fans and air circulators of the industrial type, and shall apply in the case of all other appliances listed in section 3406 (a) (3), including those added to such list by the bill, only to such appliances of the household type.

Amendment No. 179: This is a clerical amendment. The House recedes with a technical amendment to conform to the action of the conferees with respect to amendment No. 178.

Amendment No. 180: This amendment adds electric exhaust blowers to the list of items subject to the manufacturers' excise tax. The House recedes.

Amendment No. 181: This amendment strikes out the provision of the House bill which would have added electric shavers to the list of appliances subject to the manufacturers' excise tax under section 3406 (a) (3) of the code, and adds electric garbage-disposal units to such list. The House recedes with an amendment which omits both items from the list of appliances subject to the tax.

Amendment No. 182: This amendment provides that the tax imposed by section 3406 (a) (3) will not apply to appliances of the industrial type. The substance of this amendment is covered by the

action of the conferees with respect to amendment No. 178. The Senate recedes.

Amendment No. 183: This amendment makes the provisions of section 3441 (b) (relating to sale price of a taxable article) applicable to a situation where a manufacturer has a plan of negotiating the sale of an article to the ultimate user for and on behalf of the retailer of such article. The Senate recedes.

Amendment No. 184: The House removed certain items from the list of articles subject to the manufacturer's excise tax on photographic apparatus, imposed by section 3406 (a) (4) of the code, and subjected the items upon which the tax is retained to a uniform 20 percent rate.

The Senate amendment (a) retains the present list of photographic items subject to tax and subjects such items to a uniform tax rate of 15 percent with respect thereto and (b) provides that the tax on a sale of unexposed 35-millimeter color positive-print motion-picture film shall be computed, in lieu of on the price for which so sold, on the price for which an equivalent quantity of unexposed 35-millimeter black-and-white positive-print motion-picture film is sold. The House recedes with an amendment which restores the House provision with a clerical amendment.

Amendment No. 185: This is a clerical amendment. The House recedes with a clerical amendment.

Amendments Nos. 186 and 187: These are clerical amendments. The House recedes.

Amendments Nos. 188 and 189: The House bill imposed a manufacturers' excise tax, at a rate of 20 percent, on mechanical pencils, fountain pens, and ball point pens. Senate amendment No. 189 adds to this list mechanical lighters for cigarettes, cigars, and pipes (the House had imposed a tax on these items at the retail level; see amendment No. 112), and Senate amendment No. 188 provides a rate of tax of 10 percent on all these items. The House recedes on amendment No. 189, and recedes with an amendment on amendment No. 188 fixing the rate of tax on these items at 15 percent.

Amendment No. 190: This is a technical amendment. The House recedes.

Amendment No. 191: This is a clerical amendment. The House recedes with a clerical amendment.

Amendment No. 192: This is a clerical amendment. The House recedes.

Amendment No. 193: This is a clerical amendment. The House recedes with a clerical amendment.

Amendment No. 194: This amendment provides that the increase in the rate of tax on gasoline shall be reduced to the present rate of tax effective January 1, 1954. The House recedes with an amendment fixing the rate reduction date as April 1, 1954.

Amendments Nos. 195, 196, and 197: These are clerical amendments. The House recedes on amendments Nos. 195 and 196 and recedes with a clerical amendment on amendment No. 197.

Amendment No. 198: This is a technical amendment. The House recedes with a further technical amendment providing that the credit and refund provisions of section 3443 of the code shall be applicable to the floor stocks tax imposed on gasoline.

Amendment No. 199: This amendment provides for a floor stocks refund on certain gasoline held for sale on January 1, 1954, the date provided by Senate amendment No. 194 for termination of the increase in tax on gasoline. The House recedes with an amendment fixing April 1, 1954, as the inventory date to correspond with the change made in the rate reduction date.

Amendment No. 200: This is a clerical amendment. The House recedes with a clerical amendment.

Amendments Nos. 201, 202, and 203: These are clerical amendments. The Senate recedes.

Amendment No. 204: The House bill reduced the rate of tax on domestic telegraph, cable, or radio dispatches from 25 percent to 20 percent. The Senate amendment further reduces the rate of tax to 15 percent. The House recedes.

Amendments No. 205, 206, 207, 208, and 209: These are clerical amendments. The House recedes.

Amendment No. 210: This amendment provides that no tax shall be imposed under section 3465 (a) (1) (A) of the code on any payment received for any telephone or radio telephone message which originates within a combat zone, as defined in section 22 (b) (13), from a member of the Armed Forces of the United States performing service in such combat zone. The House recedes with a clerical amendment.

Amendment No. 211: This is a clerical amendment. The House recedes with a clerical amendment.

Amendment No. 212: This amendment strikes out the provisions of the House bill which would impose a tax on the transportation of crude petroleum and liquid products thereof by water from one point in the United States to another when such transportation is performed by the owner of the crude petroleum and liquid products thereof. The House recedes.

Amendment No. 213: This amendment provides that no tax shall be imposed with respect to the transportation of persons by water on a vessel which makes one or more intermediate stops at ports within the United States, Canada, or Mexico on a voyage which begins or ends in the United States and ends or begins outside the northern portion of the Western Hemisphere if the vessel in stopping at such intermediate ports is not authorized both to discharge and to take on passengers. The House recedes with a clerical amendment.

Amendment No. 214: This amendment provides that section 3475 of the code, relating to the tax on the transportation of property, shall not apply to the transportation of earth, rock, or other material excavated within the boundaries of, and in the course of, a construction project and transported to any place within, or adjacent to, the boundaries of such project. The House recedes with an amendment providing that the determination as to the applicability of the tax imposed by section 3475 in the case of the transportation of any excavated material, other than transportation to which the amendment made by this subsection applies, shall be made as if this subsection had not been enacted and without inferences drawn from the fact that the amendment made by this subsection is not expressly applicable to the transportation of such other material.

Amendment No. 215: This is a clerical amendment. The House recedes with a clerical amendment.

Amendment No. 216: This amendment provides for a refund of tax on cigarettes, distilled spirits, wine, and beer equal to the difference between the tax paid on such items and the amount of tax made applicable on and after January 1, 1954, brought from a foreign trade zone into customs territory of the United States on and after January 1, 1954, the rate reduction date specified with respect to the taxable articles in question. The House recedes with a clerical amendment and with an amendment fixing the determinative date as April 1, 1954, in lieu of January 1, 1954.

Amendment No. 217: This amendment provides that the Secretary of the Treasury is authorized and directed to make refund, or allow credit, in the case of a distiller or rectifier, if he so elects, in the amount of the internal revenue tax and customs duties paid on spirits previously withdrawn, and lost or rendered unmarketable by reason of the 1951 floods, provided certain conditions are met. The House recedes with a clerical amendment.

Amendment No. 218: This amendment is clerical. The House recedes.

Amendment No. 219: This amendment, for which there is no corresponding provision in the bill as passed by the House, provides in a new subsection (e) (1) of section 430 for the computation of an alternative amount of excess profits tax for each of the first five taxable years of corporations which commenced business after July 1, 1945. The amount computed thereunder would be the maximum excess profits tax if less than the amount computed under section 430 (a) (2). Under the Senate amendment, the maximum tax would not exceed the following percentages of the first \$400,000 of the excess profits net income: 5 percent if the taxable year is the first or second taxable year (determined from the commencement of business), 8 percent for the third taxable year, 11 percent for the fourth taxable year, and 14 percent for the fifth taxable year. Under the Senate amendment, if, for any such year the excess profits net income exceeds \$400,000, the excess over \$400,000 is subject to the same maximum tax as in the case of other corporations.

The amendment also provides rules in subsection (e) (2) for determining, for the purpose of the subsection, when a taxpayer shall be considered to have commenced business and to have had taxable years determined by reference to the date of commencement of business of certain other corporations. It contemplates that the Secretary will, by regulations, provide for the determination of constructive taxable years by reference to the annual accounting period first established by the taxpayer.

The Senate amendment also provides, in effect, that the benefits of the special limitation provisions under section 430 (e) (1) shall be denied to any taxpayer which derives more than 50 percent of its income for the taxable year from contracts or subcontracts to which title I of the Renegotiation Act of 1951 or to which any prior renegotiation act is applicable.

The House recedes with an amendment. Paragraph (1) of subsection (e) is amended to make it clear that the provision is applicable only to taxpayers whose fifth taxable year ends after June 30, 1950. Clauses (ii) and (iii) of subparagraph (E) of subsection (e) (1) are amended to conform the percentage figures specified therein to those provided by the conference agreement on Senate Amendment No. 6.

A change is made in each of subparagraphs (A) to (D), inclusive, of subsection (e) (1), which makes the percentages therein specified applicable to only the first \$300,000 of excess profits net income instead of to the first \$400,000 of such income as provided in the Senate amendment, and a conforming amendment is made to subsection (e) (1) (E). Amendments are made to paragraph (2) of subsection (e) to make clear that in determining a constructive date of commencement of business and constructive taxable years from such date thereunder, a new determination shall be made each taxable year in the light of the facts for such year. An additional amendment is made to clause (i) of subparagraph (E) to make clear that such clause applies without regard to the provisions of section 445 (g) (1). An additional amendment is made to clause (ii) of such subparagraph to make clear that, for the purpose of such clause, a person shall not be considered a member of a group of persons who control the taxpayer and another corporation unless during the period specified in such clause he owns stock in the corporation at a time when the members of the group control such corporation and he owns stock in the taxpayer at a time when the members of the group control the taxpayer. A change is made in subparagraph (B) of paragraph (2) of subsection (e) to the effect that transactions described in clauses (i) and (iii) shall be disregarded in determining the date as of which the taxpayer shall be considered to have commenced business if the adjusted basis of the aggregate assets acquired by the taxpayer in such transactions before December 1, 1950 (or acquired in the ordinary course of business in replacement of such assets), constituted less than 20 percent of the adjusted basis of the taxpayer's total assets as of December 1, 1950. A change is also made in paragraph (3) of subsection (e) to provide that the gross income of the taxpayer for the taxable year from contracts and subcontracts subject to renegotiation shall, for the purpose of applying the limitation provided by such paragraph, be determined without regard to capital gains and dividends received. Such gross income is the gross income after renegotiation.

Amendment No. 220: This amendment, for which there is no corresponding provision in the House bill, provides for exclusion in the computation of excess profits net income, for both excess profits tax taxable years and base period years, of payments made to a domestic corporation by its related foreign corporation as remuneration for certain technical services rendered. The House recedes with clarifying amendments and an amendment which amends the definition of related foreign corporation to provide that, in order to be a related corporation, 10 percent or more of the stock of the foreign corporation must be owned by the domestic corporation at the time the specified services are rendered.

Amendment No. 221: This amendment adds section 503 to the bill, for which there is no corresponding section in the House bill. This section permits a taxpayer with a fiscal year beginning before January 1, 1950, and ending after March 31, 1950, in computing its average base period net income under the general average method provided by section 435 (d) of the code, to use the period of 48 consecutive months ending March 31, 1950, instead of its base period, if such computation produces a lesser excess profits tax for the taxable year.

The House recedes with an amendment which provides that the excess profits net income for the first 3 months of 1950 shall be subject to the percentage limitations provided in section 435 (e) (2) (E) if such months fall in a taxable year ending after June 30, 1950.

Amendment No. 222: This amendment extends to a new corporation which commenced business before the end of its base period the right to qualify under section 435 (e) of the code for the alternative average base period net income based on growth for the purpose of determining its excess profits credit based on income. The House recedes with technical amendments.

Amendment No. 223: This amendment extends the benefits of section 435 (e) (2) (G) (special alternative average base period net income for a corporation whose excess profits net income for 1949 is not more than 25 percent of its excess profits net income for 1948) to a taxpayer qualifying for growth treatment under section 435 (e) (1) (B) even though it also qualifies as a growth corporation under section 435 (e) (1) (A). The House recedes.

Amendment No. 224: This amendment, for which there is no corresponding section in the House bill, provides limitations in the case of a bank, as defined in section 104 of the code, on the amount of the inadmissible asset adjustment to the net capital addition or reduction for the taxable year, to the net new capital addition for the taxable year, and to the base period capital addition. This amendment also amends section 435 (f) (relating to capital additions in the base period) to make clear that the yearly base period capital of any taxpayer (whether or not a bank) shall not be reduced below zero by the inadmissible asset adjustment.

The House recedes with clarifying amendments and with an amendment dealing with the effective date of the provision applicable to the base period capital addition of banks, making such provision retroactive only at the election of the taxpayer.

Amendment No. 225: This amendment, for which there is no corresponding provision in the House bill, adds two new paragraphs (9) and (10) to section 435 (g) (relating to net capital addition or reduction) in order to provide, if certain conditions are met, that a decrease in inadmissible assets, to the extent in excess of the net capital reduction (if any) for the taxable year, shall be an addition to the excess profits credit computed under the income method. The principal condition to be met is that where there is a decrease in inadmissible assets there must also be a corresponding increase in operating assets before any increase in the credit is allowed.

The House recedes with clarifying amendments and with an amendment providing a special rule for the treatment of a decrease in inadmissible assets in the case of a bank.

Amendment No. 226: This amendment, for which there is no corresponding provision in the bill as passed by the House, permits a dealer in wholly tax-exempt Government securities to elect to increase its excess profits net income by the interest (with certain adjustments) on such obligations, and to treat such obligations as admissible assets. The House recedes with a technical amendment and an amendment which extends the application of the section to Government obligations any part of the interest from which is allowable as a credit against net income.

Amendment No. 227: This amendment adds section 509 to the bill, for which there is no corresponding provision in the bill as passed by the House. Section 509 adds a new subsection (h) to section 442 (relating to abnormalities during the base period) which in general permits a taxpayer in certain cases, after selecting the 36 months in the base period which result in the highest excess profits net income or lowest deficit in excess profits net income, to eliminate from such 36 months the 12 months having the lowest excess profits net income, or highest deficit, and to use a substitute excess profits net income computed under section 442 (e) for such 12 months. As passed by the Senate, the provision was applicable only to a taxpayer which commenced business before the beginning of its base period and only if the aggregate of the excess profits net income for each of the 12 months for which a substitute excess profits net income is to be computed is less than 35 percent of one-half of the aggregate of the excess profits net income for each of the 24 months remaining after selecting the 12 months to be so adjusted.

The House recedes with technical amendments, and also adds other amendments which further limit the application of this new subsection. The first of these additional limitations requires that in order to be entitled to the benefits of subsection (h), the taxpayer's normal production, output, or operation must be interrupted or diminished because of the occurrence (in the 12 months prior to the period for which a substitute excess profits net income is computed) of events unusual or peculiar in the experience of the taxpayer. Under this limitation there is no requirement that a causal connection be shown between the event and a decline in excess profits net income in the period for which a substitute excess profits net income is to be used.

The second limitation added by the conference agreement appears as a new sentence added to paragraph (1) and prevents a taxpayer from using new subsection (h) in cases where the aggregate excess profits net income for the 24 months, which remain after selecting the 12 months for which a substitute excess profits net income is to be computed, is an amount less than zero.

Amendment No. 228: This amendment provides that in determining total assets under section 442 (f), to which factor the industry rates of return are applied in computing average base period net income under various excess profits tax relief formulas, the sum of the cash and other property included shall be reduced by the amount of the indebtedness (other than that included in the definition of borrowed capital) to a member of a controlled group which includes the taxpayer. The House recedes with an amendment changing the effective date from taxable years ending after the date of enactment of the bill to taxable years ending after June 30, 1950.

Amendment No. 229: This amendment changes section 443, which section provides for the case of a change in products or services occurring during the last 36 months of the base period, so as to include certain base period commitments. The House recedes.

Amendment No. 230: This amendment provides that in determining total assets under section 445 (c), which factor is used by a new corporation in computing its average base period net income for any of its first three years (if that year is an excess profits tax taxable year), the net capital addition or reduction shall be computed without regard

to the 75 percent limitation as to borrowed capital and loans to members of a controlled group. The House recedes.

Amendment No. 231: This amendment provides that a corporation engaged as a common carrier in the furnishing or sale of transportation of oil or other petroleum products (including shale oil) by pipeline shall be eligible to qualify under section 448 for the alternative excess profits credit provided for regulated public utilities if such corporation is subject to the jurisdiction of a public service or public utility commission or other similar body of the District of Columbia or of any State. The House recedes with an amendment requiring that the rates for such furnishing or sale be subject to the jurisdiction of the public service or public utilities commission.

Amendment No. 232: This amendment provides that for the purpose of filing a consolidated return with its railroad lessee corporation (using the alternative credit provided by section 448 for regulated public utilities), a railroad lessor corporation meeting certain requirements shall be considered a corporation subject to section 448. The House recedes.

Amendment No. 233: This amendment adds section 515 to the bill, for which there is no corresponding section in the bill as passed by the House. Section 515 allows to producers of potash, sulfur, and metallurgical grade and chemical grade limestone the alternative method for computing nontaxable income from exempt excess output provided in section 453 (b) (2) of the code where the properties were in operation during the normal period. Where these mineral properties were not in operation during the normal period, the net income from such properties is accorded the benefits of section 453 (b) (4) now available in the case of metal and coal mines, timber blocks, and natural-gas properties. The House recedes.

Amendment No. 234: This amendment, for which there is no corresponding provision in the House bill, adds section 459 (a) to the code to provide a special credit for certain corporations under specified circumstances relating to a transition from wartime to peacetime production and to an increase in peacetime capacity. The House recedes with clarifying amendments.

Amendment No. 235: This amendment adds section 517 to the bill. There is no corresponding section in the House bill. Section 517 amends section 459, as added to the code by section 516 of the Senate amendment No. 234, by adding a new subsection (b). This new subsection grants to a taxpayer which suffered a catastrophe during the last 36 months of its base period, if certain conditions are met, two alternative methods of computing its average base period net income. The taxpayer may use whichever results in the lesser excess-profits tax for the taxable year. The first alternative allows such a taxpayer to substitute for the excess profits net income for each month of the taxable year in which the catastrophe occurred, the average of the excess profits net income for the months in the base period preceding the taxable year in which the catastrophe occurred. If the taxpayer computes its average base period net income under the first alternative, it will not be denied the benefits of its base period capital addition. The second alternative allows the taxpayer to compute its average base period net income under the growth alternative of section 435 (e) (2) (G) (i) and (ii) of the code.

The House recedes with technical amendments which separate new subsection (b) into two paragraphs. The first paragraph sets forth eligibility requirements, and the second paragraph sets forth the computation of average base period net income under this subsection.

Amendment No. 236: This amendment, for which there is no corresponding provision in the House bill, adds a new subsection (c) to section 459 of the code, and is applicable in the case of a taxpayer engaged primarily in the newspaper-publishing business which, after the first half of its base period and before July 1, 1950, consolidated its mechanical, circulation, advertising, and accounting operations with such operations of another newspaper-publishing corporation in the same area. In order to be eligible for the benefits of this subsection the taxpayer must meet certain specified requirements.

In the case of a taxpayer eligible for the benefits of this subsection, the average base period net income under the Senate amendment shall be an amount computed under section 435 (d) plus an amount equal to the excess of the average of the amounts paid or incurred as expenses in the conduct of the mechanical, circulation, etc., operations during the two taxable years of the taxpayer next preceding the taxable year in which such consolidation began over such amounts paid or incurred during the first taxable year of the taxpayer beginning after such consolidation. The expenses referred to are those which are taken into account in computing net income. This section is inapplicable to any taxable year of the taxpayer unless the consolidation was continued throughout such taxable year.

The House recedes with amendments, one of which provides that the eligibility requirements in paragraphs (3) and (4) section 459 (c) shall be in the alternative. Another amendment provides that in determining the excess amount of expenses proper adjustment shall be made for increases in the unit cost of labor and newsprint (due to wage and price increases) following such consolidation. It is contemplated that such adjustment shall be made in accordance with regulations prescribed by the Secretary. The House also adds an amendment to provide for appropriate adjustments for any case in which a taxable year referred to in this new subsection is a period of less than 12 months.

Amendment No. 237: This amendment, for which there is no corresponding provision in the House bill, provides a special credit for corporations beginning the television broadcasting business before January 1, 1951. It provides for a computation of an individual rate of return in the case of corporations engaged in the radio and television broadcasting business and for an application of such rate of return (or of the industry rate of return for the industry which includes radio broadcasting) to the assets of the taxpayer employed in the radio and television broadcasting business, or in the case of an acquisition of the television broadcasting business after the base period, to its assets employed only in the television business. In the case of a corporation engaged solely in radio and television broadcasting, this rate of return is applied to its total assets. In the case of a corporation engaged in another business or businesses, the credit includes an average base period net income computed with respect to such other business or businesses. The House recedes with an amendment providing in all cases that the industry rate of return or the individual rate of

return, as the case may be, shall be applicable only to the assets of the corporation used in the television broadcasting business. The amendment also provides that the average base period net income computed in connection with the taxpayer's nontelevision business shall be only the average base period net income computed under section 435 (d) (relating to the general average of earnings during the base period); that the base period capital addition shall be allowable with regard to the taxpayer's nontelevision business; and that, in the case of corporations which first engaged in the television broadcasting business after the close of the base period and before January 1, 1951, the television assets against which the industry rate of return or the individual rate of return are to be applied shall be those held on the last day of the calendar month in which the corporation first engaged in the television broadcasting business.

The House amendment changes the provision in the Senate amendment for the elimination of duplication in the computation of a credit under this section by providing specifically the method to be used in eliminating such duplication. It is provided that if any portion of the television assets used in computing the television portion of the credit was acquired, directly or indirectly, by the use of assets attributable at any time during the base period to a business of the taxpayer other than television broadcasting, the excess profits net income with respect to such other business shall be properly adjusted by eliminating the portion thereof attributable to the assets used in the acquisition of the television properties for months prior to such acquisition. The excess profits net income attributable to such assets is determined by reference to the ratio of such assets to the total assets of the taxpayer other than properties used in television broadcasting.

Amendment No. 238: This amendment adds a base period commitment rule under section 444, which section provides for the computation of the average base period net income by applying a base period industry rate of return to the total assets of the taxpayer in case of an increase in capacity for production or operation occurring during the last 36 months of the base period. The House recedes with an amendment revising the Senate provision. As amended, the commitment rule provides that if, during the first taxable year ending after June 30, 1950, the taxpayer completed construction of a factory building or other manufacturing establishment (for example, an oil refinery), including the installation of the machinery or equipment for use in such factory building or such other establishment, such factory building or such other establishment and such machinery or equipment shall, for the purpose of determining whether there is an increase in capacity under the provisions of section 444 (b), but not for the purpose of computing the average base period net income under section 444 (c), be considered to have been added to its total facilities on the last day of its base period. The provision is applicable only if (A) the taxpayer, prior to the end of its base period, had completed construction work representing more than 40 percent of the total cost of construction of such factory building or such other establishment, and (B) the completion of such factory building or such other establishment was in pursuance of a plan to which the taxpayer was committed prior to the end of its base period.

Amendment No. 239: This amendment, for which there is no corresponding provision in the House bill, provides for the addition of a new part IV to subchapter D of the Internal Revenue Code dealing with the excess profits credit based on income in connection with certain taxable acquisitions before December 1, 1950. Under this amendment a "purchasing corporation" as defined in the part, would, in certain cases, obtain the use of the income experience of a "selling corporation" for the purpose of computing its excess profits credit. The House recedes with an amendment making changes for purposes of clarification and in order further to define the scope of application of the part.

The Senate amendment includes in the definition of a purchasing corporation any corporation which acquired substantially all of the assets of another corporation or of a partnership in a transaction other than a part II transaction. The amendment made by the House includes in this definition a corporation which has acquired substantially all of the properties of a business owned by a sole proprietorship. The definition in the Senate amendment also includes a corporation which acquired only part of the assets of another corporation in a transaction other than a part II transaction provided the properties acquired were substantially all the properties of a separate business of the other corporation and that such acquisition was in furtherance of a plan of complete liquidation by such other corporation. The purchase, under the same circumstances, of a separate business which constituted part of the assets of a partnership is added to the definition by the House amendment. The House amendment also deletes a provision which included in the definition of "purchasing corporation" a corporation which receives assets as paid-in surplus or as a contribution to capital from another corporation which had acquired those assets as a purchasing corporation.

This provision under the conference agreement will in general cover those cases in which assets constituting the whole of a separate business of "a selling corporation" were acquired from a corporation, sole proprietorship, or partnership. It does not cover an acquisition in a tax-free transaction, for example, a case in which a corporation is liquidated to its stockholders and they in turn place all or part of the assets in a new corporation in a tax-free transaction.

The House amendment makes clear that the part provides for the use by the purchasing corporation of an average base period net income computed only under section 435 (d) (the general average of earnings method), that, under the part, the deficits as well as the excess profits net income of the selling corporation for any month shall be reflected in the computation, and that the excess profits net income to which reference is made is that of the corporation in the case of an acquisition of substantially all of the assets of a selling corporation and is the portion thereof properly allocable to the business or businesses acquired in the case of an acquisition of only part of the assets, representing one or more separate businesses of a selling corporation.

The Senate amendment provides that, for part IV to apply, the selling corporation must, immediately after the transaction, discontinue all business activities and be completely liquidated in a transaction other than a part II transaction. The House amendment changes this requirement to provide that the selling corporation must

not have engaged in any business activities after the part IV transaction other than those incident to its complete liquidation and must, within a reasonable time after such cessation of business activities, have been completely liquidated (whether before or after the part IV transaction) in a transaction other than a part II transaction. Such liquidation must terminate the selling corporation's existence.

The Senate amendment further provides that the properties acquired in the part IV transaction must be substantially all of the properties which were used by the selling corporation (or by a component corporation of such selling corporation) in the operation of the business whose assets were acquired by the purchasing corporation. The House amendment provides that such properties must be those used by the selling corporation in the production of the excess profits net income or deficit therein which is used in the computation of the credit provided by this part.

The Senate amendment further provides that the business acquired in the part IV transaction must have been operated by the purchasing corporation from the date of such transaction to the end of the taxable year. The House amendment provides that such business must be operated by the purchasing corporation until the end of the taxable year unless transferred by it, during the taxable year, in a part II transaction to which the provisions of the new section 462 (b) (4) of the code are applicable.

The House amendment adds three special rules. The first provides that, for the purpose of the definition of a purchasing corporation, properties shall be deemed acquired from the selling corporation if they are purchased directly from the selling corporation or if they are purchased from its stockholders, provided such stockholders did not transfer them to the purchasing corporation in a part II transaction. This provision is applicable only in a case in which the selling corporation was first liquidated to its stockholders and the properties were forthwith sold by them to the purchasing corporation. The second special rule provides for the determination under regulations prescribed by the Secretary of all of the computations required by this part as if the business or businesses which were purchased from a partnership or sole proprietorship had been operated by a corporation. The third special rule is that in the case of the purchase of less than all of several businesses operated by a corporation or partnership, the amount of excess profits net income allocable to all or any number of the purchasing corporations or other persons receiving such properties upon the liquidation of the selling corporation shall not exceed 100 percent of the excess profits net income of the selling corporation. Thus, in a case in which a selling corporation has an excess profits net income for any month of \$100 existing by reason of one of its businesses having an income of \$300 and another having a loss of \$200, the amount of the excess profits net income available to either or both of the parties receiving the two businesses shall not exceed \$100 for such month.

The House amendment adds a new subsection (e) dealing with successive transactions and providing that if one part IV transaction succeeds another part IV transaction, the excess profits net income of the first selling corporation is not made available to the second purchasing corporation. The excess profits net income, however, of the first purchasing corporation is available to the second purchasing

corporation but, for that purpose, it must be computed without regard to the excess profits net income of the first selling corporation. It also provides that the excess profits net income of a selling corporation under this part includes the amount previously available to it under part II with respect to a previous part II transaction. Thus, where corporation A had previously merged with corporation B in a transaction described in section 461 (a), the purchase by corporation C of the assets of corporation B under the circumstances outlined in this part will make available to corporation C the excess profits net income (or deficit) of both corporations A and B, as determined under part II for corporation B for the period prior to the merger, as well as the excess profits net income of corporation B for the period after the merger.

The Senate amendment provided for the promulgation of rules by the Secretary, consistent with the principles of part II, for the application of this part. For the purpose of clarification, the conference agreement specifically provides for the promulgation of such rules with respect to (1) base period capital addition, (2) net capital addition or reduction, (3) excess profits net income, (4) duplication, and (5) the excess profits credit of the purchasing corporation for the taxable year in which the transaction occurs if such taxable year is a year which ended after June 30, 1950. It is also provided that the Secretary shall not apply the principles of certain specified provisions of part II.

It is not intended by this specific enumeration of principles to be followed by the Secretary that the general authority to prescribe rules for the application of this part shall be restricted except as specifically provided. Such regulations may include other principles appropriate to the determination of the computations provided by this part.

The Senate amendment contains technical amendments to the code, which technical amendments are revised by the House amendments. Included in these technical amendments as revised are provisions for the application of part II in cases where a corporation acquired in a part II transaction properties of a corporation which was a purchasing corporation in a previous part IV transaction. In general, the amendments provide that the income experience of the original selling corporation shall be used by the acquiring corporation in determining its average base period net income under section 435 (d) with reference to part II. For these provisions to be applicable, however, substantially all of the properties acquired in the part IV transaction (or replacements thereof in the ordinary course of business) must have been transferred in the part II transaction, or, if the part II transaction involved a component corporation which acquired the properties in a previous part II transaction, substantially all of the properties of such component corporation must have been acquired by the acquiring corporation. The business operated by the selling corporation must have been continuously operated by the acquiring corporation to the end of the taxable year, unless the business is transferred by the acquiring corporation during the taxable year in a part II transaction to which the provisions of section 462 (b) (4) are applicable. If the acquiring corporation obtained the properties in a part II transaction of the type described in section 461 (a) (1) (E) ("split-up"), the provisions of the following amendment to section 462 (i) (6) must be satisfied: Section 462 (i) (6) is amended to provide

that if the component corporation in the part II transaction was a purchasing corporation in a previous part IV transaction, and if section 462 (b) (4) is applicable, the allocation of the excess profits net income of the component corporation to the acquiring corporation must be based upon the earnings experience of the assets transferred rather than upon the fair market value rule of allocation provided in section 462 (i), this provision being applicable whether or not the other parties to the part II transaction agree to such an allocation. The technical amendments as revised further provide that section 463 and section 464, relating to capital changes of the acquiring corporation, shall be applied under regulations promulgated by the Secretary with respect to cases in which the part II transaction follows a part IV transaction.

Amendment No. 240: This amendment adds section 522 to the bill, for which there is no corresponding section in the bill as passed by the House. Section 522 adds bauxite to the list of minerals deemed strategic under section 450 (b) (1) of the code for the purpose of exempting from the excess-profits tax the portion of the adjusted excess profits net income attributable to the mining of such mineral. The House recedes with a clerical amendment.

Amendment No. 241: This amendment provides that, except as otherwise provided in section 510 of the bill, the amendments made by title V of the bill, as passed by the Senate, shall be applicable with respect to taxable years ending after June 30, 1950. The House recedes with amendments conforming to the conference agreement with respect to amendments Nos. 224 and 228. Accordingly, the amendments made by title V are applicable with respect to taxable years ending after June 30, 1950, except as otherwise provided in section 506 (d) of the bill (relating to base period capital additions of banks).

Amendments Nos. 242, 243, and 244: These amendments are clerical. The House recedes.

Amendment No. 245: This amendment deals with possible tax liability for taxable years beginning prior to January 1, 1951, in the case of certain organizations carrying on trades or businesses the profits of which were dedicated exclusively to exempt purposes. Specifically, this amendment adds to the list of feeder organizations covered by the House bill, those organizations all of the profits of which inure to the benefit of a hospital or to an institution for the rehabilitation of physically handicapped persons which maintains or is building for proper maintenance such a hospital or institution staffed or to be staffed by qualified professional persons for the treatment of the sick and/or the rehabilitation of the physically handicapped, or to an eleemosynary corporation under State law exempt under section 101 (6) of the Internal Revenue Code.

The House recedes with an amendment striking out the reference to "an eleemosynary corporation under State law exempt under section 101 (6) of the Internal Revenue Code," and with a clarifying amendment providing that no implication is to be drawn from the amendment as to the tax status for taxable years prior to 1951 of so-called feeder organizations not dealt with in section 302 of the Revenue Act of 1950 as amended.

Amendment No. 246: The House bill provided that the percentage of the average base period net income to be taken into account in

computing the excess-profits credit based on income shall be reduced from 85 percent of the average base period net income to 75 percent thereof. This reduction was effective, under the House bill, as of January 1, 1951. The Senate amendment struck this provision of the House bill. The House recedes with an amendment under which the percentage of the base period net income is reduced from 85 to 83 percent, effective January 1, 1952. Provision is made under the conference agreement for the case of a fiscal year beginning in 1951 and ending in 1952 so that a proportionate part of the decrease in the excess-profits credit will be reflected.

Amendment No. 247: This amendment, for which there is no corresponding provision in the House bill, amends sections 813 and 936 of the code to provide that, where property included for Federal estate tax purposes in the gross estate of a resident or citizen of the United States is situated in a foreign country and subjected to a death tax by such country, a credit shall be allowed against the estate tax for such foreign death tax. The amendment applies only with respect to estates of residents and citizens dying after the date of enactment of the bill.

The House recedes with clarifying amendments.

Amendment No. 248: This is a clerical amendment. The House recedes with a clerical amendment.

Amendment No. 249: This amendment, for which there is no corresponding provision in the House bill, amends section 863 (c) of the code to extend the estate tax exemption granted by that section with respect to works of art loaned by a nonresident alien to the National Gallery of Art, Washington, D. C., to works of art loaned to other public galleries or museums.

The House recedes with a clerical amendment.

Amendment No. 250: This amendment, for which there is no corresponding provision in the House bill, makes certain changes in section 939 of the code, relating to the estate tax treatment of certain members of the Armed Forces.

The amendment provides that the tax imposed by section 935 (the additional estate tax) shall not apply to the transfer of the net estate of a citizen or resident of the United States dying after June 24, 1950, and before January 1, 1954, while in active service as a member of the Armed Forces of the United States, if such decedent (1) was killed in action while serving in a combat zone, as determined under section 22 (b) (13), or (2) died at any place as a result of wounds, disease, or injury suffered, while serving in a combat zone (as determined under section 22 (b) (13)) and while in line of duty, by reason of a hazard to which he was subjected as an incident of such service.

The House recedes with a clerical amendment.

Amendment No. 251: This amendment, for which there is no corresponding provision in the House bill, adds a new section to the bill to provide that in the case of a decedent dying after March 18, 1937, and before February 11, 1939, the determination of whether property is included in the gross estate of the decedent as a transfer intended to take effect in possession or enjoyment at or after his death shall be made in conformity with the provisions of article 17 of Regulations 80, as amended by Treasury Decision 4729. The House recedes with a clerical amendment.

Amendment No. 252: This amendment, for which there is no corresponding provision in the House bill, amends section 7 (b) of Public Law 378, Eighty-first Congress (the Technical Changes Act of 1949). Section 7 (b) now provides that the provisions of section 811 (c) (1) (B) of the code, providing for inclusion in a decedent's estate of property transferred with reservation of rights in income, shall not be applicable to transfers made before March 4, 1931 (and, in some cases, before June 6, 1932), if the decedent died before January 1, 1950. Under the amendment, inapplicability of section 811 (c) (1) (B) is extended to estates of decedents dying before January 1, 1951. The House recedes with a clerical amendment.

Amendment No. 253: This amendment, for which there is no corresponding provision in the House bill, amends section 7 (b) of Public Law 378, Eighty-first Congress (the Technical Changes Act of 1949) to provide that the provisions of section 811 (c) (1) (C) of the code (relating to inclusion in gross estate of transfers intended to take effect in possession or enjoyment at or after death) shall not apply to transfers made before September 8, 1916. The effect of the last sentence of this section, which makes section 7 (c) of such public law inapplicable to overpayments resulting from the enactment of this section of the bill, is to limit refunds of such overpayments to those situations in which the refund is not prohibited by the statute of limitations or some other law or rule of law. The House recedes with a clerical amendment.

Amendment No. 254: This amendment, for which there is no corresponding provision in the House bill, permits the making of refund or credit of any overpayment resulting from the application of section 503 of the Revenue Act of 1950, if claim therefor is filed within 1 year from the date of enactment of the bill, even though the making of such refund or credit is otherwise prohibited by the statute of limitations or any other law or rule of law (other than sec. 3760 or 3761 of the code which relate, respectively, to closing agreements and compromises). The effect of section 503 of the Revenue Act of 1950 was to provide that proceeds of life insurance policies attributable to premiums paid on or before January 10, 1941, should not be included in the gross estate of the insured person for estate tax purposes by reason of the fact that the premiums were paid by him, unless on January 10, 1941, or thereafter he had substantial rights in the life insurance policy. The House recedes with an amendment providing that claim for credit or refund must be made after October 25, 1949, and on or before October 25, 1950.

Amendment No. 255: This amendment, for which there is no corresponding provision in the House bill, provides that in the case of the award made on December 4, 1950, by the Interstate Commerce Commission as retroactive compensation for the transportation of mail, such compensation shall be deemed to be income which accrued in the taxable year in which the services to which such compensation relates were rendered. It is provided that no interest shall be assessed for deficiencies created by the inclusion of such income in prior years and that the period for assessment and collection of such deficiencies shall be extended to the date closing the period for assessment and collection for the taxable year of the taxpayer which includes December 4, 1950. The amendment also amends section 292 of the code to provide that in the case of retroactive mail payments, if such payments are

required to be included in income in the year or years in which the mail was carried, no interest shall be due with respect to deficiencies resulting from such inclusion for any period prior to 30 days after the award of payment is granted. The House recedes with a clerical amendment.

Amendment No. 256: This amendment, for which there is no corresponding provision in the House bill, adds to the bill a new section 611 which provides with respect to certain taxable years a special rule to be followed whereby in the computation of corporation surtax net income certain amounts received as dividends on the preferred stock of a public utility will not be disregarded in computing the credit for dividends received.

Section 116 (a) of the Revenue Act of 1943 so amended section 26 (n) (1) of the Internal Revenue Code that, in the computation of the credit for dividends paid on the preferred stock of a public utility, amounts distributed in the current taxable year with respect to dividends unpaid and accumulated in any taxable year ending prior to October 1, 1942, were to be excluded from the amount of dividends paid on its preferred stock during the taxable year. The 1943 act did not contain a conforming amendment so that in the computation of corporation surtax net income the 85-percent credit for dividends received would always be allowed with respect to such amounts as were to be excluded in computing the credit for dividends paid on the preferred stock of a public utility.

Pursuant to new section 611, in the case of taxable years beginning before April 1, 1951, the 85-percent credit for dividends received will be allowed in the computation of corporation surtax net income with respect to those amounts which are to be excluded in computing the credit for dividends paid on the preferred stock of a public utility. In the case of the calendar year 1951 and taxable years beginning after March 31, 1951, see the amendments made to section 26 (b) of the code by section 122 of the bill (amendment No. 8). The House recedes with a clerical amendment.

Amendment No. 257: This amendment, for which there is no corresponding provision in the House bill, provides that if an affiliated group making a consolidated return with respect to the first taxable year of the group ending after June 30, 1950, included a corporation described in section 454 (f) of the code, pursuant to the consent provided in section 141 (e) (7) of the code, such corporation may withdraw such consent at any time within 90 days after the enactment of the Revenue Act of 1951. If such consent is withdrawn under this provision, the tax liability of the affiliated group and its several members for the taxable year shall be determined, assessed, and collected as if such corporation had never joined in the making of the consolidated return. The House recedes with a clerical amendment.

Amendment No. 258: This amendment, for which there is no corresponding provision in the House bill, adds to the bill a new section 613 pursuant to which the due date for filing income tax returns of, or for paying the income tax by, China Trade Act corporations for any taxable year beginning after December 31, 1948, and ending before October 1, 1953, shall be not later than December 31, 1953. The due date thus prescribed shall apply, however, only with respect to any such corporation and any such taxable year as the Secretary of the Treasury, pursuant to such regulations as he may prescribe, may

determine to be reasonable in view of circumstances in China. New section 613 recognizes that certain China Trade Act corporations, despite the situation existing in China, are fully able to comply with requirements of existing law as to the time for filing returns and paying the tax.

The due date of December 31, 1953, hereby prescribed is subject to the power of the Secretary to extend, as in other cases, the time for filing returns or paying the tax. The House recedes with a clerical amendment.

Amendment No. 259: This amendment, for which there is no corresponding provision in the House bill, adds a new section which provides that no amendment made by the bill shall apply in any case where its application would be contrary to any treaty obligation of the United States. The House recedes with a clerical amendment.

Amendment No. 260: This is a clerical amendment. The House recedes with a clerical amendment.

Amendment No. 261: This amendment, for which there is no corresponding provision in the House bill, extends for 4 months the date on or before which a claim for net renegotiation rebates arising under the World War II Renegotiation Act may be filed. Section 201 (c) of the Renegotiation Act of 1951, approved on March 23, 1951, sets the expiration date as June 30, 1951. This amendment extends such date to October 31, 1951. The House recedes with a clerical amendment.

Amendment No. 262: This amendment, for which there is no corresponding provision in the House bill, adds to the bill a new section relating to prohibition upon the denial of payments by the Federal Government to a State under title I, IV, X, or XIV of the Social Security Act. These titles relate to grants by the Federal Government to States for aid to needy aged individuals, needy dependent children, needy blind individuals, and needy permanently and totally disabled individuals, respectively. The Federal Government and the States share the cost of these assistance programs. A State is not entitled to payments from the Federal Government unless the State plan for assistance has been approved by the Federal Security Administrator. Under existing law a State assistance plan in order to be approved must, inter alia, provide safeguards which restrict the use or disclosure of information concerning applicants and recipients to purposes directly connected with the administration of the assistance program. The Senate amendment provides that no State or any agency or political subdivision thereof shall be deprived of any grant-in-aid or other payment to which it otherwise is or has become entitled pursuant to title I, IV, X, or XIV of the Social Security Act by reason of the enactment or enforcement by such State of any legislation prescribing any conditions under which public access may be had to records of the disbursement of any such funds or payments within such State. The House recedes with an amendment which imposes a condition that the State legislation providing public access to the records of disbursement must prohibit the use of any list or names obtained through such access to such records for commercial or political purposes.

Under this amendment, as agreed to by the conferees, the State of Indiana, which has a law which permits public access to the records of disbursements of public welfare funds but which contains, inter alia, a prohibition upon the use of any lists or names so obtained for

commercial or political purposes of any nature, will be entitled to receive its payments under the Social Security Act in the future and will also be entitled to receive any such payments which have been withheld because of the enactment and enforcement of the Indiana law.

Amendment No. 263: This amendment, for which there is no corresponding provision in the House bill, amends the provisions of existing law which provide the President, the Vice President, the Speaker of the House, and the Members of Congress an expense allowance which is tax-exempt and for which no accounting is made. Under this amendment, the President would receive \$150,000 a year for his services, instead of the \$100,000 plus the \$50,000 tax-exempt expense allowance he now receives. Under existing law, the President neither pays tax on nor accounts for this \$50,000. Under this amendment, \$50,000 would be added to his compensation and his \$50,000 tax-exempt expense allowance would be eliminated. Likewise, the salary of the Vice President, and that of the Speaker of the House, would be increased by \$10,000 and his \$10,000 tax-exempt expense allowance would be eliminated. And, similarly, the salary of each Member of Congress would be increased by \$2,500 and his \$2,500 tax-exempt expense allowance would be eliminated. This amendment would become effective, with respect to the President, on January 20, 1953, and with respect to the Vice President, the Speaker, and Members of Congress, on January 3, 1953.

The House recedes with an amendment which eliminates the provisions of the Senate amendment increasing the compensation of the President, the Vice President, the Speaker of the House, and the Members of Congress but which removes the tax-exempt status of the expense allowances of such officials. The expense allowance provided the President by section 102 of title 3 of the United States Code and that provided the Vice President by section 111 of title 3 of the United States Code shall be taxable on and after January 20, 1953; the expense allowance provided the Speaker of the House by subsection (e) of the first section of Public Law 2, Eighty-first Congress, approved January 19, 1949, and that provided each Member of Congress by section 601 (b) of the Legislative Reorganization Act of 1946 (Public Law 601, 79th Cong.) shall be taxable on and after January 3, 1953. The President, the Vice President, the Speaker of the House, and each Member of Congress will be required to account for such expense allowances insofar as is necessary for the purpose of deducting such expenses for income-tax purposes.

Amendment No. 264. This amendment struck out the table of contents to the bill and inserted a new table of contents conforming to the amendments to the bill made by the Senate. The House recedes with an amendment to conform the table of contents to the action of the conference committee.

R. L. DOUGHTON,
JERE COOPER,
JOHN D. DINGELL,
W. D. MILLS,
THOMAS A. JENKINS,
RICHARD M. SIMPSON,

Managers on the Part of the House.

which is estimated by the Public Printer to cost \$205.

Mr. MANSFIELD in two instances and to include various excerpts.

Mr. BAKEWELL to extend his remarks at a point in the RECORD before the close of debate on the bill H. R. 5426.

Mr. KEATING to extend his remarks at the conclusion of debate on H. R. 5505 and to extend his remarks and include an editorial.

Mr. AYRES and to include a copy of a bill.

Mr. JENSEN at that point in the RECORD where the bill H. R. 5411 was under discussion.

Mr. VORYS.

Mr. ADDONIZIO (at the request of Mr. PRIEST).

Mr. MCGUIRE (at the request of Mr. PRIEST) and to include an article on the Honorable James A. Farley.

Mr. ENGLE (at the request of Mr. PRIEST) and to include extraneous matter.

Mr. HINSHAW to revise and extend the remarks he made today in the Committee of the Whole and in the House, and in one instance to include excerpts from an official document.

LEAVE OF ABSENCE

By unanimous consent, leave of absence was granted to Mr. BARING, for an indefinite period, on account of illness.

SENATE BILLS AND CONCURRENT RESOLUTION REFERRED

Bills and a concurrent resolution of the Senate of the following titles were taken from the Speaker's table and, under the rule, referred as follows:

S. 43. An act for the relief of Joseph Flury Paluy; to the Committee on the Judiciary.

S. 64. An act for the relief of Helen Dick; to the Committee on the Judiciary.

S. 183. An act for the relief of Elfriede Ehrhardt Otto; to the Committee on the Judiciary.

S. 366. An act for the relief of Stanislas d'Erceville; to the Committee on the Judiciary.

S. 440. An act for the relief of Evangelos and Michael Dumas; to the Committee on the Judiciary.

S. 471. An act for the relief of Ai Mei Yu and Ai Mei Chen; to the Committee on the Judiciary.

S. 527. An act for the relief of Youichi Nobori; to the Committee on the Judiciary.

S. 605. An act for the relief of Constance Chin Hung; to the Committee on the Judiciary.

S. 639. An act for the relief of Motoi Kano; to the Committee on the Judiciary.

S. 640. An act for the relief of Isamu Furuta; to the Committee on the Judiciary.

S. 664. An act to amend section 4 of the act of May 5, 1870, as amended and codified, entitled "An act to provide for the creation of corporations in the District of Columbia by general law", and for other purposes; to the Committee on the District of Columbia.

S. 690. An act to permit certain lands heretofore conveyed to the city of Canton, S. Dak., for park, recreation, airport, or other public purposes, to be leased by it so long as the income therefrom is used for such purposes; to the Committee on Expenditures in the Executive Departments.

S. 740. An act for the relief of Albert Walton; to the Committee on the Judiciary.

S. 811. An act for the relief of Mitsuko Sakata Lord; to the Committee on the Judiciary.

S. 821. An act for the relief of Wong Woo, also known as William Curtis; to the Committee on the Judiciary.

S. 828. An act for the relief of Berta Gomes Leite; to the Committee on the Judiciary.

S. 839. An act for the relief of Alice Ibrahim Hannan Ibrahim, Ellen Issa Zakaria, Ruth Naomi Schut, and Roseileen Schut; to the Committee on the Judiciary.

S. 895. An act for the relief of Dr. Yau Shun Leung; to the Committee on the Judiciary.

S. 904. An act for the relief of Roy Y. Shiomi; to the Committee on the Judiciary.

S. 914. An act for the relief of Masako Miyazaki; to the Committee on the Judiciary.

S. 931. An act for the relief of Bernard Kenji Tachibana; to the Committee on the Judiciary.

S. 971. An act for the relief of Ralph Albrecht Hsiao; to the Committee on the Judiciary.

S. 985. An act for the relief of Agnes Anderson; to the Committee on the Judiciary.

S. 1052. An act for the relief of Maria Rhee; to the Committee on the Judiciary.

S. 1120. An act for the relief of Misao Konishi; to the Committee on the Judiciary.

S. 1212. An act to amend section 2113 of title 18 of the United States Code; to the Committee on the Judiciary.

S. 1236. An act for the relief of Kim Song Nore; to the Committee on the Judiciary.

S. 1256. An act for the relief of Barbara Ann Koppius; to the Committee on the Judiciary.

S. 1280. An act for the relief of the minor child, Peng-siu Mei; to the Committee on the Judiciary.

S. 1323. An act for the relief of Francisca Quinones; to the Committee on the Judiciary.

S. 1339. An act for the relief of Dr. Chai Cahng Choi; to the Committee on the Judiciary.

S. 1401. An act for the relief of Lore A. M. Hennessey; to the Committee on the Judiciary.

S. 1448. An act for the relief of Robert William Lauber; to the Committee on the Judiciary.

S. 1462. An act for the relief of Joseph Boris Tchertkoff; to the Committee on the Judiciary.

S. 1482. An act for the relief of the town of Mount Desert, Maine; to the Committee on the Judiciary.

S. 1604. An act for the relief of Truman W. McCullough; to the Committee on the Judiciary.

S. 1622. An act to amend section 10 of the Flood Control Act of 1946; to the Committee on Public Works.

S. 1668. An act for the relief of Pansy E. Pendergass; to the Committee on the Judiciary.

S. 1682. An act for the relief of Daniel J. Crowley; to the Committee on the Judiciary.

S. 1770. An act to amend the Administrative Procedure Act, and eliminate certain exemptions therefrom; to the Committee on the Judiciary.

S. 1819. An act for the relief of Wolfgang Vogel; to the Committee on the Judiciary.

S. 1909. An act for the relief of Henry Bongart and Evelyn Bongart; to the Committee on the Judiciary.

S. 1911. An act for the relief of Michael David Liu, a minor; to the Committee on the Judiciary.

S. 1934. An act for the relief of Ascanio Collodel; to the Committee on the Judiciary.

S. 1938. An act granting the consent of Congress to a supplemental contract or agreement between the Commonwealth of Pennsylvania and the State of New Jersey concerning the Delaware River Joint Toll Bridge Commission, and for other purposes; to the Committee on Public Works.

S. 1949. An act for the relief of Hattie Truax Graham, formerly Hattie Truax; to the Committee on the Judiciary.

S. 2042. An act to extend certain privileges to representatives of member states on the Council of the Organization of American States; to the Committee on Foreign Affairs.

S. 2095. An act for the relief of Joe Kosaka; to the Committee on the Judiciary.

S. Con. Res. 36. Concurrent resolution authorizing the appointment of 14 Members of Congress to participate in a public discussion of problems of common interest with representatives of the Consultative Assembly of the Council of Europe; to the Committee on Rules.

ENROLLED BILLS SIGNED

Mr. STANLEY, from the Committee on House Administration, reported that that committee had examined and found truly enrolled bills of the House of the following titles, which were thereupon signed by the Speaker:

H. R. 732. An act for the relief of Konstantinos N. Bellos;

H. R. 782. An act conferring United States citizenship posthumously upon Siegfried Oberdorfer;

H. R. 794. An act for the relief of Arthur E. Hackett;

H. R. 824. An act for the relief of Luisa Monti;

H. R. 1087. An act to amend title 18, United States Code, entitled "Crimes and Criminal Procedure," to empower the courts to remit or mitigate forfeitures under the Indian liquor laws;

H. R. 1100. An act for the relief of Eugenio Bellini;

H. R. 1119. An act for the relief of Mario DiFilippo;

H. R. 1252. An act for the relief of Mr. and Mrs. Miroslav Kudrat;

H. R. 1413. An act for the relief of Franz Geyling;

H. R. 1596. An act for the relief of N. H. Kelley, Bernice Kelley, Clyde D. Farquhar, and Gladys Farquhar;

H. R. 1696. An act for the relief of Jack Varner and family;

H. R. 1764. An act to authorize the Secretaries of the Army and Air Force to settle, pay, adjust, and compromise certain claims for damages and for salvage and towage and to execute releases, certifications, and reports with respect thereto, and for other purposes;

H. R. 1908. An act for the relief of Helena Jange Chinn;

H. R. 2210. An act for the relief of Hye Pah Kung;

H. R. 2322. An act to authorize the improvement of East Pass Channel from the Gulf of Mexico into Choctawhatchee Bay, Fla.;

H. R. 2684. An act to provide for the sale, transfer, or quitclaim of title to certain lands in Florida;

H. R. 3221. An act for the relief of Joji Ikeda, a minor;

H. R. 3424. An act for the relief of Yumi Horiuchi;

H. R. 3430. An act for the relief of the estate of Nora B. Kennedy, deceased, and Mrs. Ann R. Norton;

H. R. 4154. An act for the relief of the estate of Jake Jones, deceased;

H. R. 4205. An act to provide retirement benefits for the Chief of the Dental Division of the Bureau of Medicine and Surgery, and for other purposes;

H. R. 4270. An act for the relief of the estate of Jennie Gayle, deceased;

H. R. 4271. An act for the relief of Mr. and Mrs. Richard G. Adams and legal guardian of Dorothy Margaret Adams;

H. R. 4550. An act to provide for the control by the United States and cooperating foreign nations of exports to any nation or combination of nations threatening the se-

curity of the United States, including the Union of Soviet Socialist Republics and all countries under its domination, and for other purposes;

H. R. 4693. An act to amend section 77, subsection (c) (3), of the Bankruptcy Act, as amended;

H. R. 4740. An act making appropriations for the Departments of State, Justice, Commerce, and the Judiciary, for the fiscal year ending June 30, 1952, and for other purposes;

H. R. 4931. An act for the relief of Lewyt Corp.; and

H. R. 5054. An act making appropriations for the National Security Council, the National Security Resources Board, and for military functions administered by the Department of Defense for the fiscal year ending June 30, 1952, and for other purposes.

The SPEAKER announced his signature to enrolled bills of the Senate of the following titles:

S. 537. An act to further amend the Communications Act of 1934; and

S. 1450. An act to provide for the exchange of certain lands owned by the United States of America for certain privately owned lands.

ADJOURNMENT

Mr. PRIEST. Mr. Speaker, I move that the House do now adjourn.

The motion was agreed to; accordingly (at 5 o'clock and 46 minutes p. m.) the House adjourned until tomorrow, Tuesday, October 16, 1951, at 12 o'clock noon.

EXECUTIVE COMMUNICATIONS, ETC.

Under clause 2 of rule XXIV, executive communications were taken from the Speaker's table and referred as follows:

879. A letter from the Assistant Secretary of the Interior, transmitting a draft of a proposed bill entitled "A bill to amend section 62 of the National Defense Act of June 3, 1916 (39 Stat. 198), as amended (32 U. S. C., 1946 ed., sec. 4c), to include the Virgin Islands"; to the Committee on Armed Services.

880. A letter from the President, Board of Commissioners, Government of the District of Columbia, transmitting a draft of a proposed bill entitled "A bill to amend section 86, Revised Statutes of the United States relating to the District of Columbia, as amended"; to the Committee on the District of Columbia.

881. A letter from the Assistant Secretary of the Interior, transmitting a draft of a proposed bill entitled "A bill to approve repayment contract negotiated with the irrigation districts comprising the Owyhee Federal reclamation project, Idaho-Oregon, to authorize its execution, and for other purposes"; to the Committee on Interior and Insular Affairs.

882. A letter from the Assistant Secretary of the Interior, transmitting a draft of a proposed bill entitled "A bill to approve a repayment contract negotiated with the Frenchtown irrigation district, Montana, to authorize its execution, and for other purposes"; to the Committee on Interior and Insular Affairs.

883. A letter from the Assistant Secretary of the Interior, transmitting a draft of a proposed bill entitled "A bill to approve repayment contracts negotiated with the Malta irrigation district and the Glasgow irrigation district, to authorize their execution by the Secretary of the Interior, and for other purposes"; to the Committee on Interior and Insular Affairs.

884. A letter from the Acting Deputy Attorney General, transmitting a draft of legislation entitled "A bill to amend section 12 of the Clayton Act with respect to transfer of civil actions brought under the antitrust laws"; to the Committee on the Judiciary.

885. A letter from the Acting Administrator, Federal Security Agency, transmitting a draft of a bill entitled "A bill to include, within the provisions of law providing punishment for killing or assaulting Federal officers on official duty, officers and employees of the Federal Security Agency engaged in enforcing the food and drug or public health laws of the United States"; to the Committee on the Judiciary.

886. A letter from the Chairman, Joint Committee on Internal Revenue Taxation, transmitting a report by the Joint Committee on Internal Revenue Taxation covering refunds and credits of internal-revenue taxes for the fiscal years ended June 30, 1947 and 1948, pursuant to section 3777 of the Internal Revenue Code (H. Doc. No. 259); to the Committee on Ways and Means, and ordered to be printed.

887. A letter from the Archivist of the United States, transmitting a report on records proposed for disposal and lists or schedules covering records proposed for disposal by certain Government agencies; to the Committee on House Administration.

REPORTS OF COMMITTEES ON PUBLIC BILLS AND RESOLUTIONS

Under clause 2 of rule XIII, pursuant to the order of the House of October 11, 1951, the following bills were reported on October 12, 1951:

Mr. CAMP: Committee on Ways and Means. H. R. 5693. A bill to amend the Tariff Act of 1930, so as to impose certain duties upon the importation of tuna fish, and for other purposes; with amendment (Rept. No. 1153). Referred to the Committee of the Whole House on the State of the Union.

Mr. DOUGHTON: Committee on Ways and Means. H. R. 5248. A bill to suspend certain import duties on tungsten; with amendment (Rept. No. 1152). Referred to the Committee of the Whole House on the State of the Union.

Under clause 2 of rule XIII, reports of committees were delivered to the Clerk for printing and reference to the proper calendar, as follows:

Mr. ROGERS of Colorado: Committee on the Judiciary. H. R. 3589. A bill to amend title 17 of the United States Code entitled "Copyrights" with respect to recording and performing rights in literary works; with amendment (Rept. No. 1160). Referred to the Committee of the Whole House on the State of the Union.

Mr. BYRNE of New York: Committee on the Judiciary. S. 1482. An act for the relief of the town of Mount Desert, Maine; without amendment (Rept. No. 1161). Referred to the Committee of the Whole House on the State of the Union.

Mr. GRAHAM: Committee on the Judiciary. H. R. 401. A bill to amend the Nationality Act of 1940, as amended; with amendment (Rept. No. 1176). Referred to the Committee of the Whole House on the State of the Union.

Mr. ENGLE: Committee on Interior and Insular Affairs. H. R. 5633. A bill to approve a contract negotiated with the irrigation districts on the Owyhee Federal project, to authorize its execution, and for other purposes; without amendment (Rept. No. 1177). Referred to the Committee of the Whole House on the State of the Union.

Mr. MORRIS: Committee on Interior and Insular Affairs. H. R. 5680. A bill to amend the act of October 5, 1949 (Public Law 322, 81st Cong.), as amended, so as to extend the time of permits covering lands located on the Agua Caliente Indian Reservation; without amendment (Rept. No. 1178). Referred to the Committee of the Whole House on the State of the Union.

Mr. DOUGHTON: Committee of conference. H. R. 4473. A bill to provide revenue and for other purposes. (Rept. No. 1179). Ordered to be printed.

Mr. McMILLAN: Committee on the District of Columbia. H. R. 5511. A bill to authorize the Board of Commissioners of the District of Columbia to permit certain improvements to two business properties situated in the District of Columbia; without amendment (Rept. No. 1180). Referred to the Committee of the Whole House on the State of the Union.

Mr. GARMATZ: Joint Committee on the Disposition of Executive Papers. House Report No. 1181. Report on the disposition of certain papers of sundry executive departments. Ordered to be printed.

Mr. GARMATZ: Joint Committee on the Disposition of Executive Papers. House Report No. 1182. Report on the disposition of certain papers of sundry executive departments. Ordered to be printed.

Mr. COOLEY: Committee on Agriculture. H. R. 2150. A bill authorizing the Secretary of Agriculture to convey certain lands to the Maryland National Capital Park and Planning Commission; without amendment (Rept. No. 1183). Referred to the Committee of the Whole House on the State of the Union.

Mr. COOLEY: Committee on Agriculture. H. R. 3554. A bill to amend the Agricultural Adjustment Act of 1938, as amended; without amendment (Rept. No. 1184). Referred to the Committee of the Whole House on the State of the Union.

Mr. FORRESTER: Committee on the Judiciary. House Joint Resolution 308. Joint resolution authorizing the President to proclaim January 13 of each year as Stephen Foster Memorial Day; without amendment (Rept. No. 1185). Referred to the House Calendar.

Mr. SPENCE: Committee on Banking and Currency. S. 2170. An act to amend the Defense Production Act of 1950, as amended; with amendment (Rept. No. 1186). Referred to the Committee of the Whole House on the State of the Union.

REPORTS OF COMMITTEES ON PRIVATE BILLS AND RESOLUTIONS

Under clause 2 of rule XIII, reports of committees were delivered to the Clerk for printing and reference to the proper calendar, as follows:

Mr. BYRNE of New York: Committee on the Judiciary. S. 1970. An act for the relief of Louis E. Gabel; without amendment (Rept. No. 1154). Referred to the Committee of the Whole House.

Mr. BYRNE of New York: Committee on the Judiciary. H. R. 1161. A bill for the relief of Kenneth McRight; without amendment (Rept. No. 1155). Referred to the Committee of the Whole House.

Mr. BYRNE of New York: Committee on the Judiciary. H. R. 1267. A bill to reimburse the Stamey Construction Co. and/or the Oklahoma Paving Co., as their interests appear; with amendment (Rept. No. 1156). Referred to the Committee of the Whole House.

Mr. BYRNE of New York: Committee on the Judiciary. H. R. 2362. A bill for the relief of Mrs. Thelma A. Nolen; with amendment (Rept. No. 1157). Referred to the Committee of the Whole House.

Mr. KEATING: Committee on the Judiciary. H. R. 3375. A bill for the relief of Mrs. Orinda Josephine Quigley; without amendment (Rept. No. 1158). Referred to the Committee of the Whole House.

Mr. BYRNE of New York: Committee on the Judiciary. H. R. 4558. A bill for the relief of Mrs. Alberta S. Rozanski; without amendment (Rept. No. 1159). Referred to the Committee of the Whole House.

House of Representatives

TUESDAY, OCTOBER 16, 1951

The House met at 12 o'clock noon.
The Chaplain, Rev. Bernard Braskamp, D. D., offered the following prayer:

Eternal God, our Father, inspire us now with the spirit of humility and reverence as we unite our hearts to worship Thee.

Grant that in these troubled days we may have Thy unmistakable guidance as we daily assemble to deliberate and debate in the interest of the best kind of legislation for our beloved country.

We penitently confess that our finite minds know so little. Our thoughts are often so vague and futile and we know not how to interpret and implement our problems to the life of our generation.

We pray that we may be more devoutly obedient to the leading of Thy spirit. Show us how we may decide and settle every great problem in the same way as Thy servants did in the long ago which enabled them to say, "It seemed good to the Holy Spirit and to us."

In Christ's name we pray. Amen.

THE JOURNAL

The Journal of the proceedings of yesterday was read and approved.

MESSAGE FROM THE SENATE

A message from the Senate by Mr. Landers, its enrolling clerk, announced that the Senate had passed bills of the following titles, in which the concurrence of the House is requested:

S. 1347. An act to amend the Railroad Retirement Act, the Railroad Retirement Tax Act, and the Railroad Unemployment Insurance Act, and for other purposes;

S. 2244. An act to amend certain housing legislation to grant preferences to veterans of the Korean conflict; and

S. Con. Res. 51. Concurrent resolution establishing a Joint Committee on Railroad Retirement Legislation.

The message also announced that the Senate had passed, with amendments in which the concurrence of the House is requested, a bill of the House of the following title:

H. R. 3298. An act to amend section 303 (b) of the Federal Food, Drug, and Cosmetic Act.

The message also announced that the Senate insists upon its amendments to the foregoing bill and requests a conference with the House on the disagreeing votes of the two House thereon, and appoints Mr. LEHMAN, Mr. HUMPHREY, and Mr. NIXON to be the conferees on the part of the Senate.

The message also announced that the Senate agrees to the amendments of the House to a bill of the Senate of the following title:

S. 945. An act to amend the District of Columbia Teachers' Salary Act of 1947.

The message also announced that the Senate agrees to the amendments of the

House numbered 1, 2, 3, 5, and 6 to the bill (S. 657) entitled "An act to amend and clarify the District of Columbia Teachers' Leave Act of 1949, and for other purposes"; and

That the Senate agrees to House amendment No. 4 to the above-entitled bill with an amendment as follows: Before the language "existing at the time such leave was granted" insert the following: "in accordance with the rules of the Board of Education."

The message also announced that the Senate agrees to the report of the committee of conference on the disagreeing votes of the two Houses on the amendments of the House to the bill (S. 11) entitled "An act to provide for the appointment of conservations to conserve the assets of persons of advanced age, mental weakness, not amounting to unsoundness of mind, or physical incapacity".

REVENUE ACT OF 1951—CONFERENCE REPORT

Mr. DOUGHTON. Mr. Speaker, I call up the conference report on the bill (H. R. 4473) to provide revenue, and for other purposes, and I ask unanimous consent that the statement on the part of the managers be read in lieu of the report.

The SPEAKER. Is there objection to the request of the gentleman from North Carolina?

There was no objection.

CALL OF THE HOUSE

Mr. ARENDS. Mr. Speaker, I make the point of order that a quorum is not present.

The SPEAKER. Evidently no quorum is present.

Mr. McCORMACK. Mr. Speaker, I move a call of the House.

A call of the House was ordered.

The Clerk called the roll, and the following Members failed to answer to their names:

[Roll No. 203]

Allen, Calif.	Donovan	Murray, Wis.
Allen, La.	Dorn	Norblad
Baring	Havener	Patman
Bates, Ky.	Hébert	Patten
Blackney	Herlong	Phillips
Boggs, La.	Hess	Powell
Bosone	Holifield	Regan
Boykin	Howell	Ribicoff
Bramblett	Irving	Roosevelt
Brown, Ohio	Jackson, Calif.	Sabath
Buckley	Johnson	Scott,
Burleson	Judd	Hugh D., Jr.
Busbey	Kearney	Shelley
Byrne, N. Y.	Kelley, Pa.	Sikes
Byrnes, Wis.	Kennedy	Taylor
Celler	Keogh	Teague
Chatham	Kersten, Wis.	Thompson, Tex.
Cole, N. Y.	Kilburn	Thornberry
Combs	Kirwan	Velde
Crawford	Lantaff	Watts
Dague	Lucas	Werdel
Dawson	McDonough	Whitaker
Deane	Mack, Ill.	Wilson, Tex.
Dempsey	Madden	Wolcott
D'Ewart	Miller, Calif.	Wood, Ga.
Dingell	Murphy	

The SPEAKER. On this roll call 349 Members have answered to their names. A quorum is present.

By unanimous consent, further proceedings under the call were dispensed with.

SIZE AND WEIGHT LIMITATIONS FOR FOURTH-CLASS MAIL

Mr. MURRAY of Tennessee submitted the following conference report and statement on the bill (S. 1335) to readjust size and weight limitations of fourth-class mail:

CONFERENCE REPORT (H. REPT. No. 1187)

The committee of conference on the disagreeing votes of the two Houses on the amendments of the House to the bill (S. 1335) to readjust size and weight limitations on fourth-class (parcel post) mail, having met, after full and free conference, have agreed to recommend and do recommend to their respective Houses as follows:

That the Senate recede from its disagreement to the amendments of the House numbered 1, 2, 3, and 4, and agree to the same.

TOM MURRAY,
M. G. BURNSIDE,
EDWARD H. REES,
Managers on the Part of the House.
MIKE MONRONEY,
GEORGE SMATHERS,
JOHN M. BUTLER,
Managers on the Part of the Senate.

STATEMENT

The managers on the part of the House at the conference on the disagreeing votes of the two Houses on the amendments of the House to the bill (S. 1335) to readjust size and weight limitations on fourth-class (parcel post) mail, submit the following statement in explanation of the effect of the action agreed upon by the conferees and recommended in the accompanying conference report:

The Senate recedes from its disagreement to the amendments of the House.

TOM MURRAY,
M. G. BURNSIDE,
EDWARD H. REES,
Managers on the Part of the House.

REVENUE ACT OF 1951—CONFERENCE REPORT

The SPEAKER. The Clerk will read the statement on the part of the managers of the House.

The Clerk read the statement.

(For conference report and statement, see proceedings of the House of October 15, 1951.)

Mr. DOUGHTON. Mr. Speaker, I yield myself 12 minutes.

(Mr. DOUGHTON asked and was given permission to revise and extend his remarks.)

Mr. DOUGHTON. Mr. Speaker, I shall have time to make only a short statement on the conference report on H. R. 4473, the revenue bill of 1951.

On February 2, 1951, the President sent up a message requesting enactment

of legislation to provide new revenue of \$16,500,000,000 a year. This request was later modified to about \$10,000,000,000 a year. The Committee on Ways and Means responded promptly by starting hearings on February 5, which lasted for 2 months. After about 2½ months in executive session, we reported a bill which, as passed by the House, would have raised \$7,200,000,000 in additional revenue annually.

In the other body, the Committee on Finance held hearings for almost 2 months, and spent more than a month

in executive session. After 2 weeks' debate on the floor of the Senate, a bill raising \$5,500,000,000 a year was finally passed.

The conference met for nearly 2 weeks and only yesterday reached final agreement on the report now before you raising taxes by about \$5,750,000,000, or nearly \$6,000,000,000 a year.

INDIVIDUAL INCOME TAXES

In the case of individual income taxes, the increase in the individual income-tax burden under the conference

agreement is approximately midway between the Senate and House bill. It is estimated that the rate increases in the individual income tax will yield \$2,538,000,000 as compared with \$2,854,000,000 under the House bill and \$2,394,000,000 under the Senate bill. Under the compromise there will be integrated into a rate schedule increases amounting to approximately 11¼ percent of the tax or 9 percent of the income after tax, whichever results in the smallest increase. These increases are reflected in the following table:

Comparison between the individual income tax burden in the years 1944-45, 1948-49, and under present law, with that under H. R. 4473 as agreed to by the conferees for the years 1952 and 1953

A. SINGLE PERSON, NO DEPENDENTS

Net income (after deductions but before exemptions)	Amount of tax			Increase in tax liability due to 1950 act		Amount of tax under H. R. 4473	Increase in tax liability of H. R. 4473 over present law		Cumulated increase in liability due to the 1950 act and H. R. 4473	
	1944-45	1948-49	Present law	Amount	Percent		Amount	Percent	Amount	Percent
\$600.....	\$23									
\$800.....	69	\$33	\$40	\$7	20.5	\$45	\$5	11.5	\$11	34.3
\$1,000.....	115	66	80	14	20.5	89	9	11.5	23	34.3
\$1,500.....	230	149	180	31	20.5	201	21	11.5	51	34.3
\$2,000.....	345	232	230	48	20.5	312	32	11.5	80	34.3
\$3,000.....	585	409	488	79	19.2	544	56	11.6	135	33.0
\$5,000.....	1,105	811	944	133	16.4	1,054	110	11.7	243	30.0
\$8,000.....	2,035	1,546	1,780	234	15.1	1,964	214	12.0	448	29.0
\$10,000.....	2,755	2,124	2,436	312	14.7	2,730	294	12.1	606	28.5
\$15,000.....	4,930	3,894	4,448	554	14.2	4,970	522	11.7	1,076	27.6
\$20,000.....	7,590	6,080	6,942	853	14.0	7,764	822	11.8	1,675	27.5
\$25,000.....	10,590	8,600	9,796	1,196	13.9	10,942	1,145	11.7	2,342	27.2
\$50,000.....	27,945	23,201	26,388	3,187	13.7	28,468	2,080	7.9	5,267	22.7
\$100,000.....	69,870	58,762	66,798	8,036	13.7	69,690	2,892	4.3	10,928	18.6
\$500,000.....	444,350	385,000	429,274	44,274	11.5	436,166	6,892	1.6	51,166	13.3
\$1,000,000.....	1,900,000	1,770,000	1,870,000	100,000	13.0	1,880,000	10,000	1.1	110,000	14.3

B. MARRIED COUPLE,⁵ NO DEPENDENTS

\$1,000.....	\$15									
\$1,500.....	130	\$50	\$60	\$10	20.5	\$67	\$7	11.5	\$17	34.3
\$2,000.....	245	133	160	27	20.5	178	18	11.5	46	34.3
\$3,000.....	475	299	360	61	20.5	401	41	11.5	103	34.3
\$5,000.....	975	631	760	129	20.5	847	87	11.5	217	34.3
\$8,000.....	1,885	1,206	1,416	210	17.4	1,581	165	11.6	375	31.1
\$10,000.....	2,585	1,621	1,888	267	16.4	2,108	220	11.7	487	30.0
\$15,000.....	4,695	2,829	3,260	431	15.2	3,648	388	11.0	819	29.0
\$20,000.....	7,315	4,247	4,872	625	14.7	5,460	588	12.1	1,213	28.6
\$25,000.....	10,295	5,877	6,724	847	14.4	7,512	788	11.7	1,635	27.8
\$50,000.....	27,585	17,201	19,592	2,391	13.9	21,884	2,292	11.7	4,683	27.2
\$100,000.....	69,435	46,403	52,776	6,373	13.7	56,936	4,160	7.9	10,533	22.7
\$500,000.....	443,895	359,662	403,548	43,886	12.2	412,332	8,784	2.2	52,670	14.6
\$1,000,000.....	1,900,000	1,770,000	1,858,548	88,548	11.5	1,872,332	13,784	1.6	102,332	13.3

C. MARRIED COUPLE,⁵ 2 DEPENDENTS

\$2,000.....	\$45									
\$3,000.....	275	\$100	\$120	\$20	20.5	\$134	\$14	11.5	\$34	34.3
\$5,000.....	755	432	520	88	20.5	580	60	11.5	148	34.3
\$8,000.....	1,585	974	1,152	178	18.3	1,286	134	11.6	312	32.0
\$10,000.....	2,245	1,361	1,592	231	17.0	1,778	186	11.7	417	30.6
\$15,000.....	4,265	2,512	2,900	388	15.4	3,240	340	11.7	728	29.0
\$20,000.....	6,785	3,888	4,464	576	14.8	5,004	540	12.1	1,116	28.7
\$25,000.....	9,705	5,476	6,268	792	14.5	7,008	740	11.8	1,532	28.0
\$50,000.....	26,865	16,578	18,884	2,306	13.9	21,092	2,208	11.7	4,514	27.2
\$100,000.....	68,565	45,643	51,912	6,269	13.7	56,036	4,124	7.9	10,393	22.8
\$500,000.....	442,985	358,677	402,456	43,779	12.2	411,228	8,772	2.2	52,551	14.7
\$1,000,000.....	1,900,000	1,769,314	1,857,456	88,142	11.5	1,871,228	13,772	1.6	101,914	13.2

¹ Maximum effective rate limitation of 90 percent.

² Maximum effective rate limitation of 77 percent.

³ Maximum effective rate limitation of 87 percent.

⁴ Maximum effective rate limitation of 88 percent.

⁵ Income earned by 1 spouse.

The Senate conferees accepted the House provision allowing special relief in the case of heads of families.

A Senate amendment, which was accepted by the conferees, provides that an individual may be classed as a dependent if his income is less than \$600. Under the present law an individual cannot be classed as a dependent where his income is \$500 or more.

The House conferees accepted a Senate amendment continuing the existing 25-percent capital gains rate on individuals and corporations. This rate was increased from 16½ percent to 25 percent in World War II and has not been reduced since that time.

The increases in the individual income-tax rates under the conference agreement will become effective Novem-

ber 1, 1951. Under the House bill, such increases were effective September 1, 1951.

CORPORATION TAXES

The conferees adopted the House increase on corporations of 5 percentage points, and applied the entire increase to the normal tax, as was done in the House bill. This means that corporations with incomes of \$25,000 or less will

pay a tax at the top rate of 30 percent instead of at the rate of 25 percent imposed on such corporations under existing law. Corporations which are now subject to a total normal and surtax rate of 47 percent will be subjected to a top rate of 52 percent. Under the conference agreement, the increase in the tax on corporations was made effective on April 1, 1951, instead of January 1, 1951, as provided in the House bill. This means in effect that a corporation on the calendar-year basis will be subject to a top rate of approximately 50 $\frac{3}{4}$ percent for the calendar year 1951. The 1952 top rate of 52 percent will not become effective until the calendar year 1952.

Another provision of the House bill which was the subject of considerable controversy in the conference was the one lowering the earnings credit for the purpose of the excess-profits tax from 85 percent to 75 percent. Our committee felt that some additional revenue should come from this source. The conference agreement provides for an average-earnings credit of 83 percent, effective January 1, 1952. The Senate conferees agreed to the House ceiling on corporations of 70 percent. However, a simpler method for computing the ceiling was agreed upon. Under this method, the excess-profits tax cannot exceed 18 percent of the excess-profits net income. The yield from the above changes under the conference agreement from corporations will amount to \$2,343,000,000, as compared with \$2,060,000,000 from the Senate bill and \$2,855,000,000 from the House bill. The House conferees agreed, with some modifications, to the Senate amendments providing relief from the excess-profits tax in certain hardship cases.

MUTUAL SAVINGS BANKS, BUILDING AND LOAN ASSOCIATIONS, AND COOPERATIVES

The Senate bill provided for subjecting mutual savings banks, building and loan associations, and cooperatives to the corporate income tax. Mutual savings banks and building and loan associations are to be taxed as ordinary corporations. In addition, there is allowed a deduction in computing income for dividends or interest paid or credited to their policyholders. A special deduction, in addition to the regular deduction allowed for bad-debt reserves, is also provided. Under this special deduction mutual savings banks and building and loan associations are permitted to accumulate a tax-free bad-debt reserve until 12 percent of the total deposits or withdrawable accounts of its depositors at the close of the year exceeds the sum of its surplus, undivided profits, and reserves at the beginning of the taxable year. These institutions were also exempted from the excess-profits tax under the conference agreement. In the case of cooperatives, the tax is applied to the net margins which are not allocated to their patrons. This is similar in principle to a provision in the North Carolina law. I believe that it is proper at this time, when all taxpayers are having their tax liabilities increased, to secure some revenue from mutual savings banks, building and loan associations, and cooperatives. It is estimated that by taxing these organizations

the Government will pick up an additional \$28,000,000.

EXCISE TAXES

The Senate conferees in general accepted the House provisions on excise taxes.

The tax on liquor will be increased by \$1.50 a gallon, and on beer by \$1 a barrel. While the tax on cigarettes would be increased by 1 cent per package. The tax on snuff, chewing, and smoking tobacco reduced from 18 cents to 10 cents per pound.

Manufacturers' excise taxes on automobiles will be raised from 7 percent to 10 percent, but the House conferees agreed to the Senate amendment removing completely the tax on house trailers.

The tax on gasoline will be raised to 2 cents a gallon and will be extended to Diesel fuel used on the highways.

SUMMARY

While the conference agreement does not raise as much revenue as the House bill, it will produce in a full year of operation close to \$6,000,000,000 as follows:;

[In millions]

Individual income taxes.....	\$2,333
Corporate income and excess profits taxes.....	2,195
Excise taxes.....	1,204
Total	5,732

The \$6,000,000,000 imposed by this bill coupled with the increases already provided since the Korean war of \$10,000,000,000, makes the total increase in Federal taxes during the last 12 months almost \$16,000,000,000. The total annual tax bill will now be around \$67,000,000,000, which is \$20,000,000,000 greater than the tax bill for the highest year during World War II.

I, for one, do not believe it will be possible to impose further tax burdens upon the American people unless we get into a third world war. It is essential, therefore, that every effort be made to control Federal spending and bring it in balance with current revenue receipts. I believe that a tax bill of \$67,000,000,000 is as much a burden as the economy can stand under the present conditions.

Mr. Speaker, in recommending adoption of the conference report, I should like to repeat and emphasize what I said on June 21 when I presented H. R. 4473 initially for the consideration of the House:

As I view it, there are three alternatives facing the Congress: First, we must raise taxes even higher than those provided under present law and in the pending bill; or, second, we must reexamine and reduce Federal expenditures wherever possible, including not only the ordinary operations of Government, but the military and foreign aid budgets as well; or third, we must embark upon a heavy program of additional borrowing and deficit financing. Of these three alternatives, I consider it unlikely that we shall be able to increase substantially the yield of the Federal tax system beyond what is included in the present bill. I say this in all frankness and sincerity, for I consider it essential that we face up to the fact that any higher tax rates on either individuals or corporations or excises would be exceedingly burdensome and difficult to impose. On the other hand, the financing through borrowing of any substantial part of the defense

program for an indefinite period in the future would certainly contribute to inflation and might permanently and seriously impair the credit of the Government. The only sound future course, in my opinion, is to reexamine the scope of Federal activities and to cut expenditures to the bone.

Mr. Speaker, with this tax situation we are confronted with a condition and not an opinion. The condition is this, that the Congress has authorized appropriations or will authorize appropriations that will amount to more than the total revenues received under this bill and under existing law. How many think that taxes are already too high; maybe they are but, when the Congress assumes an obligation and creates a debt, it is our duty, regardless of what we may think about the justification for the obligation, to provide the revenues to discharge the obligations which we ourselves have created.

I do not think that anything could be more detrimental to the economy of this country than in peacetime, in time of prosperity, to embark upon a program of deficit financing.

Mr. Speaker, I hope therefore, that this conference report will be adopted. We cannot put it off on the President of the United States on the ground that he should reduce expenditures. The President cannot raise a dollar of revenue himself; he cannot appropriate a dollar. All he can do is to make recommendations for expenditures. In the last analysis, the responsibility rests with the Congress. We have a serious responsibility, not to be shifted aside through political expediency. The solvency of our country must be maintained.

Mr. Speaker, I yield 14 minutes to the gentleman from New York [Mr. REED].

(Mr. REED of New York asked and was given permission to revise and extend his remarks.)

Mr. REED of New York. Mr. Speaker, I want to say at the outset that, if time would permit, I would devote several minutes to expressing my appreciation for the fine way and the fair way in which our distinguished chairman presided over the conference.

Mr. Speaker, on September 23, 1950, the Congress increased Federal taxes by over \$6,000,000,000 a year.

On January 3, 1950, Federal taxes were increased by another \$4,000,000,000.

And today the question before the House is whether to increase Federal taxes by an additional \$6,000,000,000, making a total of \$16,000,000,000 in new taxes levied on the people within the past 13 months.

Mr. Speaker, we are not dealing today with just another revenue bill. We are not debating the merits of minor tax provisions.

No; and make no mistake about this; we are engaged today in a head-on clash between two basic policies—between two diametrically opposed principles—and the issues can be simply stated:

Shall we continue to spend ourselves into bankruptcy and tax the people into poverty or shall we reduce Government spending and preserve the principles of our Republic?

Shall we yield further ground to socialism or shall we hold fast to freedom and progress?

Shall we defy communism abroad but surrender our liberty at home?

These are the real issues involved in this conference report on the Revenue Act of 1951, and these issues should not become beclouded by false and pious talk of curbing inflation, of balancing the budget, or of paying-as-we-go, because this new tax-increase bill will do none of these. The terrible fact is that excessive and uncontrolled Government spending is on the loose, and the bottom of the American tax barrel has already been reached.

The current rate of spending by the Federal Government is accelerating month by month, and cash expenditures for fiscal 1952 will approximate \$70,000,000,000 and expenditures for fiscal 1953 will rise to between \$80 and \$90 billion. And yet at best the increased tax yield from this legislation with all its inequities, its discriminations, and its heavy burden on all our taxpayers will yield less than \$3,000,000,000 in fiscal 1952 and approximately \$5,800,000,000 in a full year's operation. It is clear, therefore, that unless Government spending is cut, we face a substantial deficit in fiscal 1952 and an even larger deficit in fiscal 1953 and it is just as clear that there is no feasible tax program which will raise the amount of money necessary to balance President Truman's budget in either fiscal 1952 or in fiscal 1953. We have reached our limit. Federal, State, and local taxes are now taking approximately one-third of our national income. Our States are in open rebellion against the high rate of Federal taxation and are demanding that a constitutional convention be called to set a limit on the taxing powers of the Federal Government. Indeed, the collection and enforcement of our whole tax system is crumbling under the sheer weight of the high and confiscatory taxes.

It is no longer possible to place the country on a pay-as-we-go basis because this Congress has lost control of its power to determine the amount of Federal expenditures. It has lost the power to protect the savings of the people from the arbitrary demands for money by the executive departments. This Congress has surrendered one of the most basic principles of our Government and the people are now at the mercy of the predatory Truman administration which is already hard at work on an increased tax program for 1952. Higher taxes, higher spending—that is, the appalling policy of this spendthrift administration.

Excessive taxation will never cure inflation. Let us clearly understand this point because it is one of the most dangerous fallacies used by the Truman spenders in support of higher and higher taxes. On the contrary, money taken from the people by taxes and spent non-productively by the Government only increases inflation. Government spending is directly inflationary because the Government does nothing to create wealth while non-Government spending is channeled back into the production of goods and services and used for expan-

sion of both our civilian and military production. And increased production is our first line of defense against inflation. The refusal by President Truman to reduce Government spending, together with the irresponsible fiscal policies of this administration has been one of the major causes of the high cost of living.

Now let us stop fooling the people. Let us tell them the truth. Let us tell them that this legislation to again increase their taxes is here today because the Truman administration wants it.

It is here today because the socialist planners want it.

It is here today because of the waste, inefficiency, bribery, and corruption of the Truman administration.

It is here today because of the disastrous foreign policy of the Truman-Acheson-Jessup clique.

It is here today because we are fighting a war declared by President Truman without authority from the Congress that could have been avoided and should long ago have been ended.

It is here today because the Pendergast machine has moved to Washington.

Already it has cost the honest people of this country \$325,000,000,000 to support President Truman and his cronies. It will cost the people another \$70,000,000,000 before next July.

Except for the Republican Eightieth Congress there has not been one word of Government economy.

There has not been one real attempt by President Truman to balance the budget and reduce the public debt. Instead the Truman administration has promoted socialism, created inflation, encouraged communism, and brought morality in public office to its lowest ebb. For \$400,000,000,000 there is nothing to show but confusion, disaster, and mounting casualties, and indeed the people of the country have good cause to wonder how much of their taxes go for political patronage and party favoritism; how much go for incompetence and dishonesty, how much for waste and extravagance.

As a bare minimum, and if for no other reason, it is unthinkable to me to demand higher taxes from the people before assurance is given that there is no graft in the collection of these taxes.

There is no such assurance and, on the contrary, it now appears that even the Department of Justice has attempted to prevent indictment of one of President Truman's friends for bribery, while serving as a collector of internal revenue.

Mr. Speaker, we are now at the crossroads and unless we cry "Halt" to the excessive spending and waste of this administration, there will be no turning back. If we do not stand fast, but yield instead to President Truman's demand for higher taxes, we have failed in our responsibility to the people. We have served notice that there is no limit to the amount of taxes which President Truman can demand and which the Congress will impose on the people. We have laid the groundwork for another Presidential call for higher taxes next year. We have taken another major step toward socialism.

Of course, Government spending can be reduced and in this period of crisis, programs unrelated to defense can be reduced. Vast savings could be made in the Military Establishment and the Government could exercise the same sacrifices and restraint in the spending of the people's money as the Government has imposed upon the people.

Although the Congress has temporarily bowed to the relentless pressure of the administration we have this last chance to show the American people that they will not be called upon to pay for waste in the spending and bribery in the collection of their earnings and savings. We have this chance to serve notice on the Truman administration that a true pay-as-we-go program as advocated by the Republicans calls, first, for a reduction of Government spending and after that the imposition, insofar as necessary, of new taxes to pay for essential Government spending.

For these reasons, Mr. Speaker, I shall vote against the adoption of this conference report because expressed in its simplest terms this legislation is excessive taxation without justification. It will impose higher taxes on many of our taxpayers than was ever imposed during World War II. It increases the arbitrary selectivity of our excises and raises the tax rate on our productive enterprises, whether or not engaged in war work, to exorbitant and confiscatory rates. It will stifle the ambition and incentive to produce. It will dry the diminishing trickle of venture capital vital for expansion and increased production. It will result in increased prices, promote inflation, and impose an unfair burden on the low-income groups.

The conference report should be rejected.

I am not unmindful, Mr. Speaker, that the conference report contains several provisions of merit. Among these are the excess profits relief provisions, the elimination of the proposal to withhold against dividends and corporate bond interest, and adjustment of some of the more discriminatory excise taxes, and the curbing of the arbitrary authority of Oscar Ewing to deny Federal funds to Indiana and other States which believe in saving the taxpayers' money by efficient and honest administration of the public assistance programs. These are good provisions. They should be incorporated in a separate bill and sent forthwith to the White House.

But although improvements over the House version have been made by the other body and incorporated in the conference report, new provisions have been added which should be deleted. I have in mind, for example, the new tax on mutual savings banks, building and loan associations, and farmers cooperatives.

During the many years I have been privileged to serve as a Member of this distinguished body I have seen our tax law grow and expand and have watched the tentacles creep slowly into every American home. Many, indeed a great many of our tax laws, have been enacted not primarily for revenue but in furtherance of a social or economic policy. Our estate and gift taxes, higher

progressive rates in the individual income, the excess-profits tax, many of our excise taxes—all these have a dual purpose. One of the basic policies which I have long fought to encourage is that of individual thrift as opposed to the Truman program of total reliance on the Federal Government. A tax on the mutual savings banks and building and loan associations is essentially a tax upon thrift, home ownership, and self reliance, and will be a deterrent to all three. The revenue to be derived from this tax is insignificant in comparison to the unfortunate consequences of such a tax. The imposition of more taxes has never solved any problem because two wrongs do not as yet make a right.

And finally, Mr. Speaker, because my time is running out I will call attention to only one more iniquitous feature of the conference report. That is the provision imposing for the first time a tax on small-farmer cooperatives.

Since its inception the Republican Party has always been the champion of the farmer. It always will be, but the Democratic Party has not unfurled for all to see its flag of betrayal to the farmers. I quote from the Democratic Party platform of 1948:

We will encourage farm cooperatives and oppose any revision of Federal law designed to curtail their most effective functioning as a means of achieving economy, stability, and security for American agriculture.

This legislation repudiates the solemn pledge of the Democratic Party. I shall not repudiate my party platform.

Mr. FULTON. Mr. Speaker, will the gentleman yield?

Mr. REED of New York. I yield.

Mr. FULTON. I want to compliment the gentleman on his statement that this bill will cause inflation.

Mr. REED of New York. I thank the gentleman.

Mr. RANKIN. Mr. Speaker, will the gentleman yield?

Mr. REED of New York. I yield.

Mr. RANKIN. I would like to ask the gentleman what the Senate bill does in the way of taxing the cooperative power associations.

Mr. REED of New York. I will come to that in just a moment.

I have never repudiated it in all the years I have been serving in Congress. I firmly believe that is one of the reasons why I have been here for 33 years. The people know exactly when I say that I will stand by something that I will stand by it. No party can ever succeed over many years if they start in repudiating their platform.

I hope when the vote comes today not a person will repudiate the platform of their party, and that includes our own.

The SPEAKER pro tempore. The time of the gentleman from New York [Mr. REED] has expired.

Mr. DOUGHTON. Mr. Speaker, I yield 8 minutes to the gentleman from Tennessee [Mr. COOPER].

(Mr. COOPER asked and was given permission to revise and extend his remarks.)

Mr. COOPER. Mr. Speaker, I ask unanimous consent that all Members

may have permission to revise and extend their remarks at this point on the pending conference report.

The SPEAKER pro tempore. Is there objection to the request of the gentleman from Tennessee?

There was no objection.

Mr. COOPER. Mr. Speaker, I ask unanimous consent that all Members desiring to do so may have five legislative days within which to revise and extend their remarks on this conference report.

The SPEAKER pro tempore. Is there objection to the request of the gentleman from Tennessee?

There was no objection.

Mr. COOPER. Mr. Speaker, as is true in the case of most measures of this type, the pending conference report is a compromise between the House and Senate bills.

Your House conferees worked diligently for many days in conference in an effort to secure the best bill possible under the existing circumstances. The Senate added 264 amendments to the House bill. Of course, many of them were of a clerical or technical nature, but quite a number of them were amendments of real substance. This conference report reflects the best results that we were able to accomplish, and, although there are many provisions with which I am not in accord, yet realizing the urgent necessity for additional revenue, I feel that the conference report should be approved.

There are many provisions included in this bill and the conference report that I voted against in the Ways and Means Committee and in the conference, and there are quite a number of provisions that I supported in the committee and in the conference which are not included in the bill.

The bill as passed by the House was estimated to yield about \$7,200,000,000, and the bill as passed by the Senate was estimated to yield about \$5,500,000,000, and the conference report is estimated to yield about \$5,800,000,000 or nearly \$6,000,000,000 in additional revenue. I had hoped that we would be able to enact a revenue measure that would balance the budget and place our fiscal affairs on a pay-as-you-go basis, but I feel that the adoption of the pending conference report will not accomplish this desired result. However, because of the greatly increased costs of the national defense program, it is vitally important that we secure the additional revenue that will be provided under this conference report.

As I stated during the course of my remarks while the pending bill, H. R. 4473, was under consideration in the House, since the beginning of hostilities in Korea a little more than a year ago, your Committee on Ways and Means has been giving almost constant attention to the requirements of additional revenue and related subjects. We have reported and Congress has passed three important measures during that time. The first was the Revenue Act of 1950. The second was the Excess Profits Tax Act approved about January 3, 1951. The third was the Renegotiation of Government Contracts Act in January of

1951. And now this is the fourth important measure, the Revenue Act of 1951.

The passage of this bill, along with the other two tax acts mentioned, will add about \$16,000,000,000 to the Federal revenue. The Revenue Act of 1950 produced about \$6,100,000,000. The Excess Profits Tax Act of 1950 is expected to produce about \$3,900,000,000, and the pending bill is estimated to yield additional revenue of about \$5,800,000,000.

Although some changes have since occurred, it should be borne in mind that when presented at the beginning of this year the budget for the fiscal year 1952 was \$71,600,000,000. The estimated revenue for the fiscal year 1952 was \$60,900,000,000, leaving a deficit of \$10,700,000,000.

The President requested a revenue measure yielding about \$10,000,000,000 or substantially the amount required to cover this deficit. It is apparent that the pending bill will not meet this request and will only produce a little more than half the amount of revenue that was requested.

I have always been and am now strongly in favor of all reasonable and proper economy in Government, and I shall certainly continue to endeavor to accomplish desired results along this line.

It should be remembered that just four items cover about 83 percent of the Federal budget and they are as follows:

National defense, forty-one and four-tenths billion, or 58 percent.

International affairs, seven and five-tenths billion, or 10 percent.

Veterans' affairs, four and nine-tenths billion, or 7 percent.

Interest on public debt, five and nine-tenths billion or 8 percent.

Thus it will be seen that 83 cents out of every dollar of the Federal budget is covered by these four items, leaving only 17 cents out of every dollar of the Federal budget for all other expenses of the Government.

The limitation of time will not permit a detailed discussion of all of the changes made in the House and Senate bills, or many other important provisions of this conference report, but many of them will be discussed by other Members during this debate.

Your House conferees present this conference report as the best product of its efforts that can be offered, and believe that it is worthy of your support.

Mr. DOUGHTON. Mr. Speaker, I yield 5 minutes to the gentleman from Ohio [Mr. JENKINS].

Mr. JENKINS. Mr. Speaker, this conference report is an improvement over the bill passed by the House on which we voted some 2 or 3 months ago, and which I voted against. It is important in one particular respect in which we Republicans support it, and which was opposed by the Democrats. The original bill that passed the House carried a withholding tax against interest and dividends. That was not to our liking. That provision was included in the bill that went to the Senate and the Senate took it out. It came back again and the House inserted

It again in the bill that is now being considered. And the Senate took it out again and it is not in this conference report that we are considering. The Senate took it out again and it stays out as far as this conference report is concerned. That means there will be no withholding on dividends and interest. That is out and that is due to the work of the Republicans. It was argued by the Democrats that there should be a withholding because we were withholding on wages, but that is not a tenable argument at all. The conditions are not the same. I shall not take your time to develop that fact.

In one other respect this bill is an improvement over the one we passed in the House in that it reduces the amount of the taxes by about \$1,000,000,000. Of course, this is a very important difference and a very important reason why I can say it is a better bill.

In spite of all these nice things I have been trying to say about it I am constrained to vote against the conference report and shall vote against it. This is consistent with my former votes.

Mr. HALLECK. Mr. Speaker, will the gentleman yield?

Mr. JENKINS. I yield to the gentleman from Indiana.

Mr. HALLECK. I appreciate what the gentleman has just said, particularly that part of his statement in which he has pointed out the better things that are in this conference report as against the bill we passed. He has expressed his views as to what he is going to do for whatever they may be worth. But I want to say that as far as I am concerned I expect to vote against the motion to recommit and for the conference report. I am doing that for a number of reasons. I am particularly interested in that provision of this conference report which follows the recommendation of the 46 governors adopted at Gatlinburg, Tenn., the other day to restore to the States a measure of their rights and responsibilities in respect to the handling of wealth.

Mr. JENKINS. I can say to the gentleman that the consensus of opinion of the conferees was in favor of the matter to which the gentleman has directed his attention.

Mr. Speaker, there is another reason why I want to oppose this measure. Although this conference report reduces the taxes by about a billion dollars below what our bill provided, the taxes are still too high. We do not need that \$6,000,000,000 now. The Ohio State Chamber of Commerce, which is the largest State chamber in the country, recently gave special study to the matter of whether another tax bill is necessary now. Their experts, which rank with the best in the country, advised that a tax bill was neither necessary nor advisable now. I understand that many men who are experts on Government financing maintain that we have now a surplus of about \$3,000,000,000 that will carry us along. I received a letter today from a prominent financial adviser on government finances and he says:

Why overtax the American people? * * * All taxes now voted are likely to lead to a pure cash surplus.

I see by the newspapers that the President's right-hand man, Mike DiSalle, claims that the taxes should not be raised. I quote from a newspaper clipping which I cut out a day or two ago:

I am not so sure that higher taxes are the thing we need at this time. Taxes tend to retard business initiative.

This tax matter should have been put over until next year, at which time we could have considered the matter fully and passed upon it. I can cite a very important happening that I think will justify my views in this respect. About 8 months ago the President called the Ways and Means Committee down to the White House to visit with him. We went down there, and he made us a very nice little speech, and at that time he asked for \$10,000,000,000. He said he had to have \$10,000,000,000 right immediately in the first bite, and then he wanted six billion more in the near future as the second bite. We did not give him ten billion. We did not give him the six billion he asked or anything like that. We Republicans would not do so, and in fairness to the Democrats on the committee, they were not in favor of doing that either. Why does the President assume the position all the time that he has to have so much money, such a tremendous lot of money, when he really does not need it? Of course, we Republicans want to maintain the boys in Korea, and we want to maintain taxes to meet Government expenses, whatever they are; but at the same time we do not have to ask for more money than we need all the time. When we visited the President I asked him what he had to suggest as to national economy. He replied that he was a great economizer.

There is another reason why I am opposed to this legislation, and that is this: On the floor of this House we Republicans made what I think was a gallant fight to maintain the building and loan associations and the little mutual savings banks in their present tax position. There was no great demand why they should be brought over the coals and taxed, but under this bill that is just exactly what happened to them, with the result that they are very much dissatisfied and are going to be dissatisfied, and it is going to throw the building and loan associations in direct competition with the banks. There was an article in the New York Times last Sunday accentuating that fact, that with the passage of this bill the building and loan associations and the mutual savings banks are going to have to go out and compete with the banks and enter the other fields of action. Those of us who have had a chance to know the workings of the building and loan associations of this country know that they have been doing a fine job. Ohio has one of the strongest building and loan companies in the Union. Two and a half million people in Ohio are connected in some way with the building and loan companies. I understand that these organizations will acquiesce with the law as it is provided in this conference report, but they would much prefer to be let alone.

(Mr. JENKINS asked and was given permission to revise and extend his remarks.)

Mr. DOUGHTON. Mr. Speaker, I yield 7 minutes to the gentleman from Michigan [Mr. DINGELL].

Mr. DINGELL. Mr. Speaker, some of the ideas I entertain about this bill and about the attitude of some of the governors as expressed at their recent conference are not included in my remarks. The fact of the matter is that they are unprintable. The governors, in their attitude toward their aged pensioners, widows, dependent children as well as the crippled, blind and handicapped, forgot and deserted the people of their States. I refer to the Jenner amendment and make no reservation on that score, and you can come to your own deduction. The governors conference is very largely dominated by one man, a gentleman named Frank Bain. He is the conference, and he tells them what to do. I heard that said publicly at the Chicago conference, which I attended at one time by official invitation. But I am going to vote for this bill. It is better than no bill at all, and the Republicans know it.

The revenue which the tax bill of 1951 will raise is not nearly as much as it should be. The President in his tax message to Congress this year asked that \$16,500,000,000 in additional revenues be raised so as to keep the country on a pay-as-you-go basis and fully solvent. The House bill would have increased revenues by \$7,200,000,000. The Senate bill would have increased them by \$5,500,000,000. The bill as agreed to in conference will raise only \$5,732,000,000.

The inflationary effects of such a small tax increase are obvious. No bill would be even worse. It is estimated that on an annual basis, the total gross national product for the third quarter in 1951 will reach \$328,000,000,000. On an annual basis, corporation profits for the third quarter of 1951, before taxes, are estimated to be \$46,500,000,000, and after taxes, \$21,300,000,000. We have been hearing the hue and cry that corporations can stand no more tax increases. This is certainly not indicated by their record of profits. Even during the war period, corporate profits before taxes were running at about half of the rate which is presently indicated.

Another indication of the ability of corporations to pay far more taxes than they are called upon to pay under this bill can be seen from a look at the report of the Federal Trade Commission on rates of return for 525 identical companies in 25 selected manufacturing industries dated June 27, 1951. That report indicates a rate of return after taxes on stockholders' investments for 1950 ranging from a low of 6.2 percent in the case of cigar manufacturers, to a high of 31.7 percent for manufacturers of motor vehicles.

This means that every 3 years at this rate the motor-car manufacturers earn practically the equivalent of their capitalization.

This bill not only does not increase corporate taxes to a point they should be increased, but it also unfairly distributes the tax burden by increasing present excise taxes, and by adding new items to the list of excise taxes. These are the most regressive types of taxes

known. They have absolutely no relation to ability to pay and, on the contrary, they are intended to fall heaviest on persons in low-income groups.

I do not like that, and you do not, but because we desperately need the revenue we are going to have to swallow it.

Not only did I unsuccessfully fight each and every increase and addition in the excise taxes, but I was defeated in the Committee on Ways and Means on a motion to provide a 2-year termination date for the changes in the excise taxes in this bill, and also the World War II excise taxes. The one thing about the conference report in relation to excise taxes which I am glad to see in the bill is a provision which calls for the termination of the excise tax increases on April 1, 1954.

Another inequity in this bill which originated in the Senate is the means of increasing individual income taxes. The Senate approach again carried out the well-known relief-for-the-rich-man attitude which is unjustified and which we see far too often these days. Unfortunately, we were over the barrel and the Senate conferees knew it. The House conferees had to accede to this demand in order to get any tax bill. Under this approach, the poor little rich man who is single is told that when his income reaches \$28,800, we will levy a special type of tax on his take-home pay of 9 percent, and that we feel that it is not fair to him to have an 11.75 percent increase in his present tax liability as is true of persons in lower-income groups.

One of the fundamental objections that I have to this conference report lies in the so-called Jenner amendment. It is vicious in concept and purpose and Congress condones the sin of Indiana in violating principle by changing the Federal law so as to conform to Indiana's unjustified wishes in this matter. I am referring to the provision in the bill to the effect that a State will not be denied Federal grant-in-aid payments under the public-assistance programs even though access and publication is permitted of the lists of names of recipients of assistance.

Remember, that Jenner proposal marks all your old-age pensioners, all your dependent widows, and their dependent children, the blind, the handicapped, and the crippled; it marks them for scorn and abuse, as suckers and as the object of scorn and abuse on the part of those who never did do anything to build up the Social Security Act and are doing everything they can to destroy it.

The House conferees were able to tone this provision down a bit by the proviso

that the lists of names may not be used for commercial or political purposes, which is just a lot of chaff if the names are permitted to be published. We can all imagine the humiliation which will be brought upon needy persons who will have their misfortunes in life broadcast by every newspaper in the country.

This provision in the bill will amount to a boom to newspapers who will take delight in throwing on their pages the miseries of those unfortunate people who have been reduced to the necessity of asking for public assistance. This includes helpless old pensioners, widowed mothers and their dependent children, the unfortunate blind, the crippled and the handicapped. Nothing in the world can be accomplished by such publication which will lead to better administration to the public assistance programs. This is already a matter which is entirely in the hands of the States and the caliber of the persons who handle public assistance will not be improved by this provision. The State authorities can now as they always could heretofore check, recheck, and double check every recipient of the monies paid out under the social security system. This is in addition to the fact that no person can be placed upon the rolls in the first instance unless and until he is thoroughly investigated. All these functions of control are not in the hands of the Federal Government, but in the hands of the State exclusively. The Federal Government accepts on faith the certified expenditures as they are presented by the State for reimbursement.

On the other hand, this provision will cause those States that do decide to make this information available to the public no end of worry and concern. There will be one continuous stream of recipients clamoring at the doors of welfare offices asking these offices to justify the payment of differing amounts of money to different persons on the public assistance rolls. We all know that varying payments are bound to occur since the needs of recipients differ so widely. You can mark my words that after the States have published these rolls in their papers, it will not be long before they will see the error of their ways and again limit the use of this information to purposes connected with the administration of the social security programs.

I am not at all happy with this conference report, and I vote for it not because I think it is an adequate bill in any sense of the word, but because the need for a pay-as-you-go plan is necessary to narrow the gap between revenue and expenditures and thus to stay as far away from the dangerous and costly idea of deficit spending as possible. This

only piles up the burden of an increased debt upon future generations, while at the same time doubling the cost of its reduction. I call to your attention the fact that every \$1,000,000,000 added to the Nation's debt is likely to cost the taxpayers an added \$1,000,000,000 in interest before it is repaid. Moreover, I am opposed to the meager amount covered in the conference report because of the grave international situation, and because the need of our country at this time for additional revenue is desperate.

Under the circumstances, it was impossible to effectively bargain with the Senate conferees or to arrive at a reasonable compromise as is expected of a conference committee for the reason that the Senate's preference frankly was "no additional revenue," therefore they would rather have no tax bill even as rewritten in the other body. The position of the Senate conferees was strongly reinforced by our own division. The House minority conferees in so many important instances strengthened the unanimous and uncompromising position of the Senate. We of the House majority, too, faced with the problems injected into the bill after it left the House, were not always united and the Senate proposals to that effect were further buttressed toward acceptance or an alternate deadlock, which meant no bill. The attitude of the minority conferees of the House, as expressed by themselves in opposition to the conference report regardless of its final form, indicates how they will vote in the House. Take your cue from the publicized statement of the Republican minority leader, the gentleman from Massachusetts, JOSEPH W. MARTIN, when, according to press reports, he said he would vote against a compromise tax bill, which means the conference report. I believe I am safe in saying that the Republican House conferees will unanimously follow their leader. The minority of this House would like nothing better than to see this conference report voted down and the chances for additional revenue killed, with the dangerous gap of inflation widened by deficit spending and the resultant chaos and high prices placed at our doorstep and charged as being our fault and solely as our responsibility.

That is why I am constrained in spite of my disappointment to vote for the conference report and to urge you to do so in the interests of the people.

I want all my colleagues on this side to hold to the conference report. Do not be fooled by the attitude of the Republicans on that side of the aisle.

Mr. Speaker, I include herewith an interesting table on excise taxes, present versus proposed:

Comparison with present law of excise taxes affected by conference bill

	Present law		Conference bill	
	Tax base	Rate	Change in base	Rate
Alcoholic beverages:				
Distilled spirits.....	Per proof gallon.....	\$9.....	None.....	\$10.50.
Fermented malt liquor.....	Per barrel.....	\$8.....	do.....	\$9.
Wines.....	Per gallon by alcoholic content.....	15 cents, 60 cents, \$2.....	do.....	17 cents, 67 cents, \$2.25.
Occupational taxes:				
Distilled spirits:				
Retailers.....	Per year.....	\$27.50.....	do.....	\$50.
Wholesalers.....	do.....	\$110.....	do.....	\$200.
Fermented malt liquor; Wholesalers.....	do.....	\$55.....	do.....	\$100.

Comparison with present law of excise taxes affected by conference bill—Continued

	Present law		Conference bill	
	Tax base	Rate	Change in base	Rate
Tobacco:				
Small cigarettes	Per 1,000	\$3.50	None	\$4.
Chewing and smoking tobacco	Per pound	18 cents	do.	10 cents.
Snuff	do.	do.	do.	Do.
Manufacturers excise taxes:				
Passenger automobiles	Manufacturers price	7 percent	do.	10 percent.
House trailers	do.	do.	Exempt	
Trucks, busses, tractors	do.	5 percent	None	8 percent.
Parts and accessories	do.	do.	do. 1	Do.
Tires	Per pound	5 cents	Exempt tires for toys, etc.	No change.
Gasoline	Per gallon	1½ cents	None	20 percent.
Diesel fuel	Charge	3¼ percent	Per gallon	2 cents.
Electrical energy	Manufacturers' price	10 percent	Repeal	Do.
Electric, gas and oil appliances	do.	do.	Certain items added to base ²	No change.
Refrigerators, air-conditioners, etc.	do.	do.	Exempt sales to manufacturers	Do.
Radios and equipment	do.	do.	Exempt equipment sold to U. S. Government	Do.
Sporting goods	do.	do.	Exempt certain items	15 percent.
Photographic apparatus and film	do.	25 percent, 15 percent.	Exempt business cost items	20 percent.
Mechanical pens and pencils	do.	do.	Manufacturers' price	15 percent.
Clear, cigarette and pipe mechanical lighters	do.	do.	do.	Do.
Retailers' excise taxes: Baby oils, etc., barber and beauty shop supplies.	Retailers price	20 percent	Exempt	
Transportation and communication:				
Transportation of persons	Charge	15 percent	Exclude fishing trips and certain ocean travel	No change.
Transportation of property	do.	3 percent	Excludes excavation material moved to adjacent area.	Do.
Domestic telegraph	do.	25 percent	None	15 percent.
Toll telephone	do.	do.	Exempt calls from servicemen in combat areas.	No change.
Amusement and recreation:				
Admissions, general	Established prices	20 percent	Certain organizations exempt	Do.
Admissions, cabarets, etc.	Taxable amount	do.	Exclude incidental refreshments sold in ball-rooms.	Do.
Gambling taxes:				
Wagering			Amount wagered	10 percent.
Occupational tax on wagering			Per year	\$50.
Coin-operated gaming devices	Per year	\$150.	None	\$250.

¹ Exempt rebuilt parts, and those used on farm machinery.² Exempt commercial and industrial types, except commercial electric motor driven fans and air circulators.

(Mr. DINGELL asked and was given permission to revise and extend his remarks.)

Mr. DOUGHTON. Mr. Speaker, I yield 5 minutes to the gentleman from Pennsylvania [Mr. SIMPSON].

(Mr. SIMPSON of Pennsylvania asked and was given permission to revise and extend his remarks.)

Mr. MORANO. Mr. Speaker, will the gentleman yield?

Mr. SIMPSON of Pennsylvania. I yield.

Mr. MORANO. Mr. Speaker, I ask unanimous consent to extend my remarks at this point.

The SPEAKER. Is there objection to the request of the gentleman from Connecticut?

There was no objection.

Mr. MORANO. Mr. Speaker, Casco Products, the largest heating pad manufacturer in the country, has a plant in Bridgeport, Conn., which is in the district I represent.

This conference report removes the excise tax on electric heating pads. There is no provision whatsoever in this report for protection to thousands of dealers and distributors across the Nation covering inventories on which the excise tax has already been paid. This will cause a great hardship to Casco Products because all its customers are looking to it for refunds. Likewise, manufacturers of the heating pad, industrywide, are being besieged by the jobbers and wholesalers for refunds.

Since manufacturers have already paid the excise tax on the inventories, if they are required to reimburse their customers they stand to lose tens of thousands of dollars, because 75 percent of

the entire year's business has been shipped during the last 90 days. And if manufacturers are required to issue refunds to their wholesalers and dealers, this would result in a double payment of a tax which is being repealed. Obviously, this should not be the intent of the Congress.

The inventories above referred to are those goods shipped to distributors and dealers by manufacturers since June that have not been sold to the consumer.

What action other than to amend the code can your committee take to avoid complete confusion, chaos, and hardship in the entire heating pad manufacturing industry and the unjust loss of tens of thousands of dollars. Is there administrative recourse to remove this inequity. In my opinion it might be better not to repeal this excise tax on heating pads until March 31, 1952. Action of this kind would remove hardship and chaos in the industry.

Mr. SIMPSON of Pennsylvania. Mr. Speaker, I have no idea how long it is going to take the American people to realize we have reached the utmost limit of sensible and reasonable taxation in this country. Why is it, do you suppose, that the Committee on Ways and Means of the House of Representatives has worked since last February on a tax-increase bill? Why, you might reasonably ask, did we not get together and simply pass a tax-increase bill and raise at least a substantial portion of the money for which the President of the United States asked? Certainly this Congress has indicated a willingness to work along with the President in the war emergency in which we find ourselves. The Congress is willing to do it, it is anxious to do it,

but we cannot do it, with respect to taxation, because we members of the committee know that we have reached the upper limits beyond which the imposition of more and more taxes is going to cause undue and unnecessary suffering upon our low-income groups. Increased taxes are going to retard production at the very time we need increased production of materials for the conduct of war. So our committee spent days, weeks, and months trying to work out some means by which taxes could be increased to the extent of at least part of the amount asked by the President. We have failed to increase taxes to the amount he asked because, as I said earlier, we know that such a thing would be disastrous to the economic life of our country. We have failed because we know that the tax burden today upon the American citizen, the greatest tax burden in history in peacetime, has reached the point where production will suffer at the very time we want to have it increased.

Mr. EBERHARTER. Mr. Speaker, will the gentleman yield?

Mr. SIMPSON of Pennsylvania. I yield.

Mr. EBERHARTER. Mr. Speaker, I am particularly thankful to the gentleman from Pennsylvania for yielding to me inasmuch as I could get no time whatever from my chairman. I want to say to the membership of the House, Mr. Speaker, that I am unalterably opposed and most sincerely opposed to this conference report, and the provisions of the bill. It is my firm conviction, Mr. Speaker, that if the membership of the House really were generally acquainted with the various provisions of this bill, the conference report would not have a

ghost of a chance of passing this body. I hope the membership will recommit the conference report so that the Committee on Ways and Means, if they want to bring out a tax bill, can bring out a tax bill that can be supported.

Mr. SIMPSON of Pennsylvania. Mr. Speaker, I think if the Congress looks to the future and recognizes the true facts and realizes that we are going to have a very large deficit in our financial picture next year, they will consider the effect of heavier and heavier taxes very carefully. We have reached a crisis where very prominent Members of the other body, as well as prominent Members of this body, have said that we have reached the ceiling and that there should be no more tax bills raising individual tax rates so long as we remain out of a real war. I use the expression real war advisedly, and not to express my opinion, because I know that we are in the midst of a deadly war today. Of course, if and when a real war comes, we must keep our economy strong here at home if we are to lead other nations to strength and freedom. Higher taxes will break down the economic life of this country, from which we get the tanks and guns and ships, and from which we get our own resources.

From these resources, we have thus far been able to send help abroad.

If we in this country, through unwise taxation, seek to do more than the economy of the country will stand, we will be broke. In the final analysis there is a limit to which even the richest person, the richest Nation can extend himself.

I believe, and I think a majority of the two financial committees of the Congress are of the opinion that we have about reached that limit; that we must have economy, and if we do not have economy we are certain to have deficit financing, with the ills that will be attributable to it.

The SPEAKER. The time of the gentleman from Pennsylvania [Mr. SIMPSON] has expired.

Mr. EBERHARTER. Mr. Speaker, before we vote on the conference report on the tax bill, I think the Members of the House should understand how the bill we passed last June was butchered in the other body and in conference. I do not object to butchering quite so much if everybody gets a fair cut of the hog. But when a favored few get all the ham and pork chops, and the rest of the people get just plain old sow belly, at least the people are entitled to know what they are swallowing.

This is what has happened. The conference bill raises almost a billion and a half dollars a year less than the House bill. Now, just who is going to save this \$1,500,000,000 that would have been paid under the House bill? Let us see how much of the tax load was lifted from people with incomes below \$5,000, and how much went to those who are better able to pay.

First, take the cut in individual income taxes of \$254,000,000 a year agreed to in conference. Of this amount \$66,000,000, or 23 percent, went to people with net incomes of less than \$5,000. This leaves \$218,000,000, or 77 percent of

this relief for people above \$5,000 annual income.

Then consider the complete exemption from any share of the defense-tax load accorded to people with capital gains. These lucky people, provided they have net income of \$18,000 a year, if single, or \$36,000 a year, if married, pay no additional tax whatever on their capital gains under this bill. They receive an extra tax dividend of \$54,000,000 that would have been due under the House bill. Of course, people with less income pay an additional 11¾ percent on their capital gains. You have to be in the chips to qualify.

The next bonus for the coupon clippers was the \$300,000,000 lost from exempting dividends and interest from withholding. The man or woman who works for a living has his income taxes deducted from the pay check. But the coupon clippers have been forgetting to report for tax purposes nearly \$3,000,000,000 of dividends and interest every year. The House bill would have made them pay just like the people who have to work for a living. The Senate bill and the conference report allows them to continue to dodge their taxes.

A final morsel for a few people over 65 is the more generous deduction for medical expenses. The only catch is that 85 percent of the people over 65 do not have enough income to get any benefit from this scheme. But the elder Morgans and the Rockefellers, and the Pews, all will be able to pay their doctor bills with a smile—knowing they get a full deduction for Federal income-tax purposes.

Then, let us take a look at the tax relief for corporations under the conference bill as compared with the bill we passed in June. Although corporations generally will still have to pay an extra \$2,000,000,000 a year, the most prosperous companies are given excess-profits tax benefits of nearly \$500,000,000 a year.

Think of it—when corporate profits for the first quarter of 1951, before taxes reached an all-time high rate of \$52,000,000,000 a year, more than 25 percent higher than just before the Korean invasion—and while corporate profits after taxes are more than double the profits for 1944, the banner year during World War II—this bill, in effect, hands back to the corporations which have profited most from the defense effort a tax bonanza of half a billion dollars.

And then they tried to make up a part of the loss by taxing the workingman's savings banks and the building and loan associations through which he bought his home. Even the farmer's cooperatives are attacked in an effort to disguise the real tax favoritism extended to upper-bracket individuals and the corporations owing excess-profits taxes.

It is easy to hide a lot of private relief measures in a big bill like this. How many taxpayers under \$5,000 do you suppose will be aided by the Senate amendment to give capital gain treatment on receipts of certain termination payments by employee, as section 329 of the bill is entitled.

Yes, the average taxpayer pays at the going rate. But the well-financed smart boys legalize their tax-dodge schemes

through stock options, family partnerships, multiple corporations, and dozens of other technical sounding loopholes reopened or widened by the conference bill.

You have got to have money—a lot of money—for them to do you any good. But, boy, is it ever worth while when you get there.

As might be expected, there was no cut made in the excise tax increase made by the House bill. Excises are sales taxes—and are not based on ability to pay. So the pack-a-day smoker will pay \$3.65 a year more for cigarettes—whether he makes \$3,000 a year or \$3,000,000.

Does this sound like a square shake or a fair deal?

Even the poor man over 65 and the needy blind receiving public assistance will have to pay this increase in tax out of their meager pensions.

And that is not the only penalty paid by the poor under this bill. When Congress passed the Social Security Act in 1935 and improved it in 1939, I thought we had removed forever in this country the degradation of poverty and want in old age.

But now this bill—through the so-called Jenner amendment—would turn back the clock just as the Eightieth Congress removed nearly a million workers and their families from the old-age and survivors' insurance rolls.

Once again the privacy of the poor would be invaded. The published poor list would give up the humiliating secret that up till now has been shared only with the postman. The misery and remorse of poverty and failure in old age would be laid bare for all to see.

Mr. Speaker, such a provision could never become law as a separate bill under the present administration. That such an abominable and irrelevant rider should be inserted in a major tax bill is an outrage.

It has helped me, however, in arriving at a decision to vote against this bill. When I couple this Jenner amendment with the 14 to 1 ratio of the tax relief granted to wealthy individuals, and great corporations, I cannot in good conscience vote to adopt the conference report.

The bill should be defeated.

Mr. DOUGHTON. Mr. Speaker, I yield 1 minute to the gentleman from Nebraska [Mr. CURTIS].

Mr. CURTIS of Nebraska. Mr. Speaker, I shall vote against this conference report, and I hope it is defeated and that no tax bill at all is passed. We have reached the point, and far beyond, of irresponsible spending and taxation. If you believe that this great and marvelous economy of ours can be destroyed by taxation, you must come to the conclusion that that point has been reached now. The rates imposed by this bill on business and on individuals can only promote further socialism, further nationalization of industry, and more inflation. It is a destructive move. By better and more efficient collection of taxes we can improve the Treasury by a billion dollars. We should also rescind appropriations heretofore made by

enough billions to balance the budget and save this economy.

The SPEAKER. The time of the gentleman from Nebraska has expired.

Mr. DOUGHTON. Mr. Speaker, I yield the remainder of my time, 8 minutes, to the gentleman from Arkansas [Mr. MILLS].

Mr. MILLS. Mr. Speaker, it seems from what has been said today that we do not like to have to face up to realities on occasions. As the chairman of the Ways and Means Committee already stated, we are faced with a situation. It is not a theory.

We come to the closing days of this session of the Eighty-second Congress. Practically every appropriation bill for fiscal 1952 has been passed. Is there a Member present on this floor now who feels that the Treasury will take in, under existing tax laws, a sufficient amount of revenue to meet those appropriations which have been passed by this House? Not one. You cannot find an individual who is conversant with fiscal matters who will advise you that we will.

Now, it is fine to have your cake, but we are now at the point where we have to pay. That is distasteful. There is no one in the world who dislikes to support or advocate increased taxes more than I, but we have to be honest and sincere with ourselves and with the people whom we represent in the halls of the Congress of the United States.

Now, why should this conference report be accepted? First of all, I see friends of mine on the Appropriations Committee before me who will admit that, on the basis of what we have already appropriated, it is quite evident that this additional amount of some \$2,700,000,000 in fiscal 1952 will be needed. On the basis of what all of us anticipate the burdens will be on the Federal Government in fiscal 1953, we know that the additional \$5,800,000,000 under a full year's operation will be needed then, unless there is a general disarmament program throughout the world. We know that.

It is fine to talk about reducing expenditures; we are all for reducing expenditures. I take my hat off to my friend the gentleman from New York [Mr. TABER], who has made a noble fight in that direction, but the Congress of the United States has spoken; these appropriations have been made: Whatever may have been our personal desires, it is an event that has occurred.

What is the other point in opposition to the conference report? Somebody distributed some information that disturbed a lot of my colleagues on the Democratic side. It is charged that this conference report is unfair, vicious, that it discriminates against the low income groups. Let us see just what this conference report does for just a minute. The House passed a provision for increasing rates on individuals; the Senate acting within its own discretion and in its own judgment lowered that provision; the conference committee found a happy meeting ground right halfway between the 12½ percent Senate rate and the 11 percent House rate, bringing in a rate of 11.75 percent as a compromise.

Oh, yes, they say it increases the taxes on those in the low brackets excessively over those in the upper brackets. Well, yes, to a degree this may be true. So did the House bill. You cannot, Mr. Speaker, increase rates in certain brackets under our present law, applying the same percentage increase that you do in the lower brackets, without taking about 105 cents out of every dollar that is received in those brackets. You have to look at existing law and consider that in relation to whatever rates you propose to increase in a tax bill.

The Senate gave us practically in toto the corporation rate contained in the House bill. The effective date in the House bill was January 1 next year, in the Senate bill April 1. We considered it a pretty fair trade on our part when we were in conference. They gave us practically in toto what we provided in the House bill on excises and then they included some 200 more amendments to the bill, many of them without substantive effect.

Mr. TABER. Mr. Speaker, will the gentleman yield?

Mr. MILLS. I yield.

Mr. TABER. Does the gentleman realize that the cuts that the House made in the appropriations amounted to \$4,900,000,000? And that if the amendments offered had been adopted it would have been in the neighborhood of \$5,800,000,000?

Mr. MILLS. Yes; that has been the reduction, and I am proud of it. But the fact remains, in spite of that reduction, that we have already approved through this House appropriations that will go in excess of the \$63,000,000,000 that we will take in during fiscal 1952 if we pass this conference report.

I am more concerned, however, about the charges that the bill is unfair. It is not entirely in keeping with my own thinking, but when you come out of a conference on any legislation it has been my experience that you do not get it just as you want it; you have to give a little here and take a little some place else. It is just as fair as a conference report on this tax bill can be made.

Some talk about sending the bill back to conference. Mr. Speaker, there are things in here that the House Democratic conferees went along on in the hope that it would be possible to get acceptance of the conference report by all those interested in a sound fiscal position for our Government. If the bill goes back to conference, and there are no instructions on what is to be done, some of those provisions may not come back in the next conference report.

This conference report is the best we can get. Cast aside this thought that it is discriminatory, that it is unfair, that it is vicious.

Mr. Speaker, the House should accept the conference report as the best job that we can do now or in the future. It should be adopted in the hope that this amount of revenue that we would bring into the Treasury in 1952 will permit us to remain on a pay-as-you-go basis.

One of the greatest speeches made on the floor of the other body was made last fall by a very distinguished Member

who said that we must remain on a pay-as-you-go basis. This is a step in that direction, Mr. Speaker, and each Member should think long, and should consider his own best judgment before voting to recommit this conference report.

Mr. MARTIN of Massachusetts. Mr. Speaker, it is never pleasant to vote for a tax-increase bill, yet in the last 15 years I have voted for every major tax bill which the Congress has passed. The times and the circumstances, particularly during World War II, made it necessary that the Federal Government increase its revenue.

Tomorrow the House will consider a conference report on a bill to increase personal income taxes approximately 12 percent and altogether to raise an additional \$5,700,000,000. The Congress is faced with a serious problem. There is not a Member of either the Senate or House who does not know deep in his heart that this administration is wasting billions of dollars annually in probably the most reckless spending spree in the history of all nations.

The President's attitude on spending was made unmistakably clear at the beginning of this session of Congress when he publicly dared the Congress to attempt to cut so much as a penny from his budget request. No effort has been made to bring about economy, efficiency, and elimination of waste under plans recommended by the Hoover Commission, Senator BYRD, and others. There are other ways than higher tax bills to stop inflation and balance budgets.

The redress of the American people is at the polls, but I cannot see why they should be penalized in the interim by having their taxes raised to an all-time record high. A real drive for economies should have preceded this tax bill. It was essential for national solvency.

There is more at stake than the burden of taxes. If this tax bill becomes law, approximately one-third of the income of the American people will be going to Government—Federal, State, and local. The history of monarchies and the Communists and Socialist dictatorships has demonstrated conclusively that no people can be free when the citizen has less and less of his own money to spend and the Government spends more and more of it for him.

When taxes reach the point that they are depriving the American citizen of one-third of his income, simply to meet the cost of Government, then the citizen is approaching the point of no return. Because I am convinced that the only hope of stopping the irresponsible spending of this administration lies in cutting off new tax sources, I shall vote against the tax bill when the conference report is brought up in the House tomorrow. This administration will never start to economize until forced to do so.

Mr. MARTIN of Iowa. Mr. Speaker, I voted against H. R. 4473 when it was before the House for consideration June 22. Since that time the Senate Committee on Finance, the Senate, and the committee on conference between the House and the Senate have made many changes in the proposed legislation. Most of these changes have been improvements in the bill but I am still

opposed to the enactment of this bill into law.

During my service in Congress I have witnessed the enactment of appropriation bills providing for tremendous increases in Federal spending and likewise tax laws calling for tremendous increases in our taxes. Practically every new increase in taxes has been heralded as the means for stopping inflation through reducing funds available for private spending, yet total spending has gone merrily on, augmented primarily by greatly increased Federal spending. Deficit spending is undoubtedly one of the factors contributing to inflation, but higher taxation has not stopped deficit financing because Federal spending has habitually exceeded Federal revenues. I have become thoroughly convinced that the only hope of stopping the irresponsible and extravagant spending of this administration lies in our refusal further to increase our tax rates.

We have already hit the ceiling of bearable taxation, even though Truman administration backers refuse to recognize that fact. And we now are witnessing a determined effort by the Truman administration to pyramid still higher tax rates upon our already overburdened taxpayers.

I do not have time in this brief discussion to recite in detail the revenues of all the countries of the world, but I requested the staff of the Joint Committee on Internal Revenue Taxation to prepare an estimate of tax revenues of the central government of each country and to translate that revenue into American dollars to enable us to compare our total Federal tax revenue with the other nations. The latest year for which such estimate can be made is 1949 and I know that Congress and the Nation will be interested to hear that in the fiscal year 1949 the total tax revenue of the 72 other countries is estimated to be \$68,800,000,000. In 1949 our own total Federal tax revenue was \$40,000,000,000. Looking ahead, their estimate of the total United States Federal tax revenue for fiscal 1951 is \$61,000,000,000, for 1942, \$64,000,000,000, and for 1953, \$67,000,000,000. If we are to weigh the Federal revenues of 1953 against the revenues of 1949, I understand that inflation would require our reduction of the 1953 revenues by approximately 15 percent, so that our 1953 revenues will actually stand at approximately \$57,000,000,000 on 1949 values. There is another factor involved in this comparison, however, that we cannot estimate, namely, the increases in tax rates in other countries subsequent to 1949. But we know that the total tax revenue of the 72 other countries has not been increased since 1949 as much as our own. Consequently, our ratio of the total world tax revenues has increased to the point where we will soon be carrying close to half of the total world tax load.

Our carrying of such a tremendous proportion of the total world tax load has imposed a tremendous burden upon our people. Even prior to the enactment of the bill now before us our tax experts have told us that the total confiscation of all taxable individual in-

comes over \$4,000 would increase our total Federal revenue only \$9,720,000,000. I do not have at hand the adjustment of that figure to fit the new tax rates provided in the bill now before us, but we know that the proposed increase of the personal income taxes in this bill will take away a part of that \$9,000,000,000 so that such confiscation hereafter would not produce even that much additional revenue. But who wants total confiscation above \$4,000? We have already cut deeply into the incentive of our people to assume the hazards of industry and business. Our Federal Government cannot go on indefinitely playing this tax game on a "heads I win, tails you lose" basis without killing incentive.

Yes, we have already hit the tax ceiling, but in the words of Burke:

Taxing is an easy business. Any projector can contrive new impositions; any bungler can add to the old; but is it altogether wise to have no other bounds to your impositions than the patience of those who are to bear them?

THE JENNER AMENDMENT

Mr. DENTON. Mr. Speaker, coming from the State of Indiana, as I do, I have no alternative but to vote for this tax bill, which includes the Jenner amendment. But I must say that I hope that none of the other Members of this House ever find themselves in such a position as that in which the dominant faction of the Indiana Legislature has placed me.

A vote against the Jenner amendment would allow the continuance in effect of the provision of the Federal Social Security Act which requires that the welfare records of cooperating States be kept confidential. But, at the same time, because the Indiana Legislature this year passed a State law conflicting with the Federal requirement, the rejection of the Jenner amendment would result in the continued denial to Indiana of Federal-aid funds necessary to a workable State welfare-assistance program, and bring undeserved hardship and misery to the needy persons of my State.

A vote for the Jenner amendment would remove the Federal restriction, thus, of course, permitting the restoration of Federal welfare aid to Indiana and insuring again deprivation and want among the ranks of the needy. That is necessary, in the immediate interests of humaneness and decency. However, there are many who maintain that the opening of welfare records ignore another consideration of humaneness and decency, and who have asked to be given a hearing on any question of changing the Federal law.

But the Indiana Legislature chose to take the State out of conformity with the Federal law, and keep it out, before Congress had an opportunity to take any kind of action. This deliberate and continued nonconformance has compelled Congress to act in haste, under the pressure of a local emergency forced upon it by a State legislature.

As a Member of Congress, I think I should be expected, and entitled, to consider this matter on its merits, hear the arguments for and against changing the

confidential-records law, and then vote as my conscience dictates. But the dominant faction in the Indiana Legislature has denied me that privilege.

As it is I can only consider the fact that, if the Federal welfare law is not changed, the people of my State will be subjected to double taxation, the State's finances jeopardized, and the welfare of the aged and needy imperiled.

I was a member of the Indiana Legislature in 1941 when a bill was introduced by the then State Republican leader, to amend the State welfare law. When the bill reached the lower house, it was amended to include the confidential-records provision. We were told by the Republican leaders of the legislature at that time that the provision was necessary in order to conform with the Federal law.

If conformance with the Federal law in 1951 involved "dictatorship," as some people have loudly maintained, then the Republican leaders of the Indiana Legislature sold the State into that "dictatorship" in 1941. I voted against the 1941 welfare law, because of another provision which it contained. All the Republicans voted for it. The governor vetoed the bill, because of the same provision which I had found objectionable, but the Republicans, to a man, voted to override his veto. That is how the Indiana welfare records came to be made confidential.

For 10 years, this law remained in force, but when the Indiana Legislature met this year, a great hue and cry went up to repeal the State law and open the welfare records. It was repeatedly pointed out to the State legislature that, if they did that, the State law would conflict with Federal law, and Indiana would not be entitled to participate in the distribution of Federal welfare funds.

Notwithstanding this knowledge, the open-records bill was passed by a strict party vote, and enacted into law over the Governor's veto. As a consequence, Federal welfare aid to Indiana was cut off. The case was taken to court, and the court decided against Indiana and upheld the Federal ruling. The court admitted the predicament of Indiana's welfare programs, but it pointed out that the fault rested entirely with the State legislature.

The Governor called a special session of the legislature to study the situation, and work out a solution. But the legislature has apparently become hopelessly deadlocked. One group urged that the State law be suspended until Congress would consider the question. But the dominant faction blocked the suspension. This group was willing to impair the State's conformity with the Federal law further, by adopting a so-called home rule welfare law, which would have placed Indiana irretrievably beyond recovery of Federal funds.

At this stage of affairs, the Jenner amendment was tacked onto the tax bill. I realize that this was done in the Senate, and that the House conferees were charged with the duty of effecting a compromise. But I think it unfortunate that this legislation was handled by way

of an amendment which was not considered in a House or Senate committee. There are many groups who feel that a Federal confidential-records law should not be altered. They can justly protest now that they were not permitted to state their views to Congress.

This whole proceeding demonstrates the ill-considered and unwise action of the Indiana legislature, and I am afraid that it sets a dangerous precedent for tampering with the Federal-State relationship. Our existence as a Nation demands that the Federal Government be supreme over the States. Many will remember that, more than 120 years ago, Andrew Jackson cautioned that "our Federal Union, it must be preserved." Let us remember that admonition whenever the Federal authority and congressional prerogatives are challenged.

After this whole proceeding, I might liken myself to a player on a baseball team managed by the people of Indiana. I feel like a runner on second base when the runner on first attempts to steal second, and I am forced to try for third base. Maybe I will make it to third, but I assure you, if I was manager of that team, the man on first would be taken out of the game and he would never try that trick again. And I think the manager would be backed up by the citizens of the whole country sitting in the bleachers.

Probably you boys on the other side for the time being have won a battle, and I congratulate you. But I think you will find in the long run that you have lost a war.

Mr. BLATNIK. Mr. Speaker, I rise to speak in protest against this tax-increase bill (H. R. 4473) in the form as it has been reported by the House-Senate conferees, and to express my belief that the House should vote to send this measure back to committee.

Let me say at the outset that I have no quarrel with the proposition that Congress must find ways and means of raising more Federal revenues. However, I do want to say for the record that it is the obligation of Congress, in approving new tax legislation, to see to it that any tax increases shall be distributed equitably among all groups of our population. The bill now under consideration is unequitable and unsound. It fails to observe the basic principles of equity of sacrifice and it is my sincere belief that Congress has done a great injustice to the American people in reporting out a bill of this nature.

I will summarize briefly what I consider to be the basic defects in the bill. First, the bill increases the individual income tax rate by 11¾ percent. This across-the-board tax increase is most unsound because it tends to break down the progressive principle of Federal taxation and because it means in effect that a greater percentage of the Federal tax burden is being shifted from the big incomes to the low-income groups. In other words, the incidents of this new tax increase falls most heavily on the low-income individuals.

Second, I also want to object to the excise tax increases imposed by this new legislation. As we all know, an excise

tax is nothing more than a hidden sales tax which is borne chiefly by the low- and middle-income families. This proposal could well lead us through the back door into a national sales tax which taxes away the basic essentials of ordinary daily living.

Third, while this bill imposes new burdens upon low-income families, it is most considerate with the big corporations. Corporate profits today are running at the all-time high of about \$50,000,000,000 a year before taxes and \$22,000,000,000 a year after taxes. It is estimated that the provisions of this bill will take about \$2,000,000,000 of the \$22,000,000,000 profit remaining after present taxes. Therefore, even if we pass this bill, the big corporations of America will still be left with \$20,000,000,000 a year in profits.

In other words, Mr. Speaker, H. R. 4473 soaks the common people but permits the big corporations to escape their fair share of taxes. It is the same old story "penalize the poor but everything to the rich and powerful."

Finally, I wish to call attention to the vicious rider attached to this bill which permits State governments to publicize the names of persons on the public assistance rolls. To do this is a cruel injustice to the millions of old people, orphans, and dependent children now on public assistance because it exposes them to public ridicule and embarrassment. It is bad enough to shirk its duty by refusing to adopt a decent old-age pension system to give real economic security to the aged and the disabled. Now the Congress proposes that their names be publicized in the newspapers as recipients of old-age assistance and thus add insult to injury. I must protest this provision of the bill in the strongest terms at my command.

Mr. Speaker, there can be no doubt that tax increases are inevitable and that the Federal Treasury needs more revenues, but I say that if there must be sacrifice in the form of necessary taxes, let there be equality of sacrifice. What we need is a tax bill which gives needed tax relief to that low-income group in the form of increased personal and dependency exceptions and at the same time chiefly increases corporate and excess profits taxes and thus tax more heavily those most able to pay. Such a bill would have my wholehearted support, but I cannot in good faith vote for this unsound and unequitable measure which violates every principle of tax justice. I urge the Congress to vote down this bill and direct the House Ways and Means Committee to write a new tax bill which conforms to the elementary principles of tax justice.

Mr. VORYS. Mr. Speaker, in a lot of ways I hate to vote for this conference report; it contains a number of inequities and it lays a heavy burden on everybody. But this Congress has already appropriated, with and without my vote, more money than will come in under our present tax laws. I am opposed in principle to deficit spending; we ought to approximate pay as we go, even in a period like this. We cannot do it with this year's spending without another tax bill. This

bill is more than \$4,000,000,000 below the President's request. That will be a deterrent to extravagance in spending. I do not think another report from these conferees will come very soon, or be much better.

It is easy to vote for pet appropriations and let somebody else vote the taxes, but if a majority of us do this we will never balance the budget. I am voting for this conference report.

Mr. PHILBIN. Mr. Speaker, I cannot and will not support this tax bill. In my opinion, it is a wholly unnecessary and unconscionable raid upon the meager earnings of the rank and file of the American people who would be compelled under its provisions to pay the overwhelming portion of its huge levies.

It also would impose a most destructive and repressive load upon our great American productive machine which must at all cost be kept healthy and vigorous to enable this Nation to produce the weapons, matériel, and equipment so vital to our national security at this critical time.

The power to tax is the power to destroy. Unless we can maintain our free enterprise and the unequaled incentive of our businessmen and people at the highest possible level of efficiency and productivity we cannot possibly hope to stand up successfully against the challenge of ruthless Communist dictatorship. This bill would place handcuffs upon our great, free productive potential.

In addition, it is not necessary unless and until we are directly engaged in all-out war. As a member of the House Armed Services Committee, it is my studied conviction that we are providing practically all our Armed Forces with more money than they can possibly spend. It is asserted by competent authority that at the end of the current fiscal year, the Armed Forces will have to their account in the neighborhood of \$40,000,000,000 that they cannot possibly spend.

I am strongly of the view that one of the great and crying needs of the hour is insistence by the Congress of the meticulous elimination of waste, extravagance, and improvident spending by the military and every other branch of this Government. We must scrupulously inspect and justify every single item of the budget to insure economy and efficiency and conserve our great national resources as against the day when we may have to mobilize and use them for the defense of the Nation.

Let me repeat, I cannot and will not in conscience vote to place this great additional and needless burden upon the backs of the American people and for that reason I must vote against this absolutely indefensible bill.

Mr. DOUGHTON. Mr. Speaker, I move the previous question on the conference report.

The previous question was ordered.

CALL OF THE HOUSE

Mr. RABAUT. Mr. Speaker, I make the point of order that a quorum is not present.

The SPEAKER. Evidently a quorum is not present.

Mr. McCORMACK. Mr. Speaker, I move a call of the House. A call of the House was ordered.

The Clerk called the roll, and the following members failed to answer to their names:

[Roll No. 204]

Allen, Calif.	Dempsey	Morrison
Allen, La.	D'Ewart	Murphy
Angell	Dorn	Murray, Wis.
Baring	Durham	Norrell
Bates, Ky.	Hébert	Patman
Blackney	Herlong	Phillips
Boggs, La.	Hess	Powell
Bosone	Holifield	Redden
Boykin	Irving	Regan
Bramblett	Jackson, Calif.	Ribicoff
Brown, Ohio	Johnson	Roosevelt
Buckley	Kelley, Pa.	Sabath
Burleson	Kelly, N. Y.	Scott
Busbey	Kennedy	Hugh D., Jr.
Byrnes, Wis.	Keogh	Shelley
Camp	Kersten, Wis.	Taylor
Celler	Kilburn	Thompson, Tex.
Chatham	Lantaff	Thornberry
Cole, N. Y.	Lucas	Watts
Combs	McDonough	Werdel
Crawford	Mack, Ill.	Wilson, Tex.
Dague	Madden	Wood, Ga.
Deane	Miller, Calif.	

The SPEAKER. On this roll call 363 Members have answered to their names. A quorum is present.

By unanimous consent, further proceedings under the call were dispensed with.

REVENUE ACT OF 1952—CONFERENCE REPORT

Mr. REED of New York. Mr. Speaker, I offer a motion to recommit.

The SPEAKER. Is the gentleman opposed to the conference report?

Mr. REED of New York. I am, Mr. Speaker.

The SPEAKER. The Clerk will report the motion.

The Clerk read as follows:

Mr. REED of New York moves to recommit the conference report on the bill H. R. 4473 to the committee of conference.

Mr. COOPER. Mr. Speaker, I move the previous question on the motion to recommit.

The previous question was ordered.

The SPEAKER. The question is on agreeing to the motion to recommit.

The motion to recommit was rejected. The SPEAKER. The question is on agreeing to the conference report.

Mr. REED of New York. Mr. Speaker, on that I demand the yeas and nays.

The yeas and nays were ordered.

The question was taken; and there were—yeas 157, nays 204, not voting 67, as follows:

[Roll No. 205]

YEAS—157

Abbitt	Bonner	Cox
Abernethy	Bray	Crumpacker
Adair	Brown, Ga.	Davis, Ga.
Albert	Brownson	Davis, Tenn.
Andersen,	Bryson	Davis, Wis.
H. Carl	Burnside	Dawson
Andrews	Burton	DeGraffenried
Anfuso	Byrne, N. Y.	Denton
Aspinall	Carlyle	Dingell
Bailey	Case	Doughton
Bakewell	Celler	Doyle
Barden	Chelf	Durham
Battle	Cole, Kans.	Elliott
Beamer	Colmer	Engle
Beckworth	Cooley	Evins
Bennett, Fla.	Cooper	Fernandez
Bennett, Mich.	Corbett	Fine
Bentsen	Cotton	Fisher

Ford	Judd
Forrester	Kean
Frazier	Kee
Fugate	Kelly, N. Y.
Gary	Kerr
Gathings	Kilday
Gordon	King
Gore	Kluczynski
Granger	Lanham
Grant	Larcade
Greenwood	Lesinski
Gregory	Lind
Hale	Lyle
Halleck	McCormack
Harden	McGrath
Hardy	McKinnon
Harris	McMullen
Harrison, Va.	Mahon
Hart	Marrow
Harvey	Mills
Havenner	Morris
Hays, Ark.	Morrison
Hedrick	Morton
Hillings	Multer
Holmes	Murdock
Hope	Murray, Tenn.
Hunter	Norblad
Ikard	Norrell
Jarman	O'Brien, Ill.
Javits	Patten
Jones, Ala.	Perkins
Jones, Mo.	Pickett
Jones,	Poage
Hamilton C.	Preston
Jones,	Priest
Woodrow W.	Prouty

NAYS—204

Aandahl	Furcolo	Miller, N. Y.
Addonizio	Gamble	Mitchell
Allen, Ill.	Garmatz	Morano
Anderson, Calif.	Gavin	Morgan
Andresen,	George	Moulder
August H.	Golden	Mumma
Arends	Goodwin	Nelson
Armstrong	Graham	Nicholson
Auchincloss	Granahan	O'Brien, Mich.
Ayres	Green	O'Hara
Baker	Gross	O'Konski
Barrett	Gwinn	O'Neill
Bates, Mass.	Hagen	Ostertag
Beall	Hall	O'Toole
Belcher	Edwin Arthur	Passman
Bender	Hall,	Patterson
Berry	Leonard W.	Philbin
Betts	Hand	Polk
Bishop	Harrison, Wyo.	Potter
Blatnik	Hays, Ohio	Poulson
Boggs, Del.	Heffernan	Price
Bolling	Heller	Quinn
Bolton	Herter	Radwan
Bow	Heseltan	Rankin
Brehm	Hill	Reece, Tenn.
Buchanan	Hinshaw	Reed, Ill.
Budge	Hoeven	Reed, N. Y.
Buffett	Hoffman, Ill.	Rees, Kans.
Burdick	Hoffman, Mich.	Rhodes
Bush	Horan	Riehlman
Butler	Hull	Rodion
Canfield	Jackson, Wash.	Rogers, Colo.
Cannon	James	Rogers, Mass.
Carnahan	Jenison	Rogers, Tex.
Chenoweth	Jenkins	Rooney
Chiferfield	Jensen	Sadlak
Chudoff	Jonas	St. George
Church	Karsten, Mo.	Saylor
Clemente	Kearns	Schwabe
Clevenger	Keating	Scott, Hardie
Coudert	Kersten, Wis.	Scrivner
Crosser	Kirwan	Scudder
Cunningham	Klein	Secrest
Curtis, Mo.	Lane	Shafer
Curtis, Nebr.	Latham	Sheehan
Delaney	LeCompte	Short
Denny	Love	Sieminski
Devereux	McCarthy	Simpson, Ill.
Dollinger	McConnell	Simpson, Pa.
Dolliver	McCulloch	Sittler
Dondero	McGregor	Smith, Kans.
Donohue	McGuire	Smith, Wis.
Donovan	McVey	Springer
Eaton	Machrowicz	Sutton
Eberhart	Mack, Wash.	Taber
Ellsworth	Magee	Talle
Elston	Mansfield	Thompson,
Fallon	Marshall	Mich.
Feighan	Martin, Iowa	Vail
Fenton	Martin, Mass.	Van Pelt
Flood	Mason	Van Zandt
Fogarty	Meader	Velde
Forand	Miller, Md.	Vursell
Fulton	Miller, Nebr.	Weichel

Welch	Williams, N. Y.	Wood, Idaho
Wheeler	Wilson, Ind.	Woodruff
Widnall	Winstead	Yates
Wier	Withrow	Yorty
Wigglesworth	Wolcott	
Williams, Miss.	Wolverton	

NOT VOTING—67

Allen, Calif.	Dempsey	Murphy
Allen, La.	D'Ewart	Murray, Wis.
Angell	Dorn	Patman
Baring	Hébert	Phillips
Bates, Ky.	Herlong	Powell
Blackney	Hess	Redden
Boggs, La.	Holifield	Regan
Bosone	Howell	Ribicoff
Boykin	Irving	Rivers
Bramblett	Jackson, Calif.	Roosevelt
Brooks	Johnson	Sabath
Brown, Ohio	Kearney	Scott
Buckley	Kelley, Pa.	Hugh D. Jr.
Burleson	Kennedy	Shelley
Busbey	Keogh	Sikes
Byrnes, Wis.	Kilburn	Taylor
Camp	Lantaff	Thompson, Tex.
Chatham	Lucas	Thornberry
Cole, N. Y.	McDonough	Watts
Combs	McMillan	Werdel
Crawford	Mack, Ill.	Wilson, Tex.
Dague	Madden	Wood, Ga.
Deane	Miller, Calif.	

So the conference report was not agreed to.

The Clerk announced the following pairs:

On this vote:

Mr. Byrnes of Wisconsin for, with Mr. Hess against.

Mr. Lantaff for, with Mr. McDonough against.

Mr. Madden for, with Mr. Brown of Ohio against.

Mr. Keogh for, with Mr. Howell against.

Mr. Sabath for, with Mr. Kelley of Pennsylvania against.

Mr. Herlong for, with Mr. Shelley against.

Mr. Bates of Kentucky for, with Mr. Taylor against.

Mr. Hébert for, with Mr. Angell against.

Mr. Watts for, with Mr. Phillips against.

Mr. Camp for, with Mr. Busbey against.

Mr. Chatham for, with Mr. Regan against.

Mr. Patman for, with Mr. Werdel against.

Mrs. Bosone for, with Mr. Dempsey against.

Until further notice:

Mr. Buckley with Mr. Allen of California.

Mr. Murphy with Mr. Blackney.

Mr. Roosevelt with Mr. Bramblett.

Mr. Powell with Mr. Crawford.

Mr. Deane with Mr. Cole of New York.

Mr. Redden with Mr. Dague.

Mr. Rivers with Mr. Jackson of California.

Mr. Sikes with Mr. Johnson.

Mr. Baring with Mr. Kilburn.

Mr. Holifield with Mr. Hugh D. Scott, Jr.

Mr. Miller of California with Mr. Murray of Wisconsin.

Mr. Mack of Illinois with Mr. Kearney.

Mr. Boykin with Mr. D'Ewart.

Mr. IKARD changed his vote from "nay" to "yea."

Mr. DOYLE changed his vote from "nay" to "yea."

Mr. MOULDER changed his vote from "yea" to "nay."

The result of the vote was announced as above recorded.

Mr. DOUGHTON. Mr. Speaker, I move that the House insist on its disagreement to the Senate amendments to the bill H. R. 4473, and request a further conference on the disagreeing votes to the two Houses thereon.

The SPEAKER. The question is on the motion.

The motion was agreed to.

The SPEAKER. The Chair appoints the following conferees: Mr. DOUGHTON, Mr. COOPER, Mr. DINGELL, Mr. MILLS, Mr. REED of New York, Mr. JENKINS, Mr. SIMPSON of Pennsylvania.

EXTENSION OF REMARKS

Mr. EBERHARTER. Mr. Speaker, I ask unanimous consent that I may extend my remarks in the RECORD on the tax bill conference report immediately following the remarks of the gentleman from Pennsylvania [Mr. SIMPSON].

The SPEAKER. Is there objection to the request of the gentleman from Pennsylvania?

There was no objection.

SPECIAL ORDER GRANTED

Mr. REED of New York asked and was given permission to address the House on tomorrow for 30 minutes, following the legislative business of the day and any other special orders heretofore entered.

AMENDING HOUSING LEGISLATION TO GRANT PREFERENCES TO VETERANS OF THE KOREAN CONFLICT

Mr. SPENCE. Mr. Speaker, by direction of the Committee on Banking and Currency, I ask unanimous consent for the immediate consideration of the bill (S. 2244) to amend certain housing legislation to grant preferences to veterans of the Korean conflict.

The Clerk read the title of the bill.

The SPEAKER. Is there objection to the request of the gentleman from Kentucky?

Mr. WOLCOTT. Mr. Speaker, reserving the right to object, may I ask the gentleman to briefly explain the bill?

Mr. SPENCE. Mr. Speaker, the purpose of this bill is to give member of the Armed Forces in Korea the same privileges with reference to housing, under housing legislation that comes under the jurisdiction of the Committee on Banking and Currency, as was given to veterans of World War II. It gives to those engaged in the Korean conflict the same privileges and priorities that the veterans of World War II have in regard to FHA housing, public low-rent housing, Lanham Act housing, and the Greentown housing projects when they are disposed of.

Certainly there should be no discrimination against the heroic men who are now carrying on the conflict in Korea. I think none can read of the valor that was displayed at Heartbreak Ridge and not say that those fine men are entitled to every privilege that veterans of every other war have received.

Mr. WOLCOTT. Mr. Speaker, will the gentleman yield?

Mr. SPENCE. I yield to the gentleman from Michigan.

Mr. WOLCOTT. Mr. Speaker, the minority on the committee are in hearty accord with the position taken by the gentleman from Kentucky [Mr. SPENCE]. This bill was reported out of the committee unanimously and I withdraw my reservation of objection.

Mr. FULTON. Reserving the right to object, Mr. Speaker, may I ask why the present administration limits the rights of Korean veterans only to housing?

Why do you not give them the same rights otherwise?

Mr. SPENCE. We give them everything within the jurisdiction of our committee.

Mr. FULTON. But why does not the administration give the Korean war veterans all the same rights of education, housing, and all other rights as were given to World War II veterans?

Mr. SPENCE. I am heartily in favor of that, but all that this committee could give them was the rights within the jurisdiction of this committee.

Mr. FULTON. One further question: Why has it taken so long since the Korean war started to bring this legislation up. Why has it not been done earlier?

Mr. SPENCE. I do not know why it has not been done earlier, but it is done now. There is no use going into questions that do not arise at this time. The question is whether we are going to give them the rights provided in this bill at this time.

Mr. FULTON. One further question, I have not seen a copy of the bill and it is not here on the floor. In what words technically does the bill refer to the Korean conflict? Does it call it a war or a conflict?

Mr. SPENCE. It refers to those who were in service on or after June 27, 1950. The bill has just been reported. Why delay it? The sooner we pass this bill the better it will be for our servicemen. We should agree to the Senate bill.

Mr. FULTON. Will the gentleman accept an amendment to insert the words "Korean war" after the date "1950"?

Mr. SPENCE. No; I do not accept any amendment. The bill has been passed by the Senate and will become law if the House passes it.

Mr. FULTON. Mr. Speaker, I offer such an amendment.

The SPEAKER. The bill is not before the House yet.

Is there objection to the present consideration of the bill? [After a pause.] The Chair hears none.

(The bill reads as follows:)

Be it enacted, etc., That paragraph (14) of section 2 of the United States Housing Act of 1937 (50 Stat. 388, as amended; 42 U. S. C. 1402) is amended to read as follows:

"(14) The term 'veterans' shall mean a person who has served in the active military or naval service of the United States at any time (i) on or after September 16, 1940, and prior to July 26, 1947, (ii) on or after April 6, 1917, and prior to November 11, 1918, or (iii) on or after June 27, 1950, and prior to such date thereafter as shall be determined by the President, and who shall have been discharged or released therefrom under conditions other than dishonorable. The term 'serviceman' shall mean a person in the active military or naval service of the United States who has served therein at any time (i) on or after September 16, 1940, and prior to July 26, 1947, (ii) on or after April 6, 1917, and prior to November 11, 1918, or (iii) on or after June 27, 1950, and prior to such date thereafter as shall be determined by the President."

Sec. 2. The act of October 14, 1940, as amended (54 Stat. 1125, as amended; 42 U. S. C. 1521), is hereby amended (1) by striking out in paragraph (c) of section 505 and in paragraph (c) of section 602 the phrase "of World War II" wherever such

phrase occurs; and (ii) by striking out in paragraph (b) of section 601 the phrase "during World War II", and substituting therefor the words "at any time on or after September 16, 1940, and prior to July 26, 1947, or on or after June 27, 1950, and prior to such date thereafter as shall be determined by the President."

Sec. 3. Public Law 65, Eighty-first Congress (63 Stat. 68), is hereby amended by adding, after the phrase "July 26, 1947," in section 2 thereof, the phrase "or on or after June 27, 1950, and prior to such date thereafter as shall be determined by the President."

Sec. 4. The National Housing Act, as amended, is amended by striking out the phrase "of World War II" wherever it occurs in paragraph (b) of section 213, and by adding the following proviso before the period at the end of said paragraph: "Provided, That for purposes of this section the word 'veteran' shall mean a person who has served in the active military or naval service of the United States at any time on or after September 16, 1940, and prior to July 26, 1947, or on or after June 27, 1950, and prior to such date thereafter as shall be determined by the President."

The SPEAKER. Without objection, the bill is engrossed, read a third time and passed, and a motion to reconsider laid on the table.

Mr. FULTON. Mr. Speaker, a parliamentary inquiry.

The SPEAKER. The gentleman will state it.

Mr. FULTON. At what time was the bill open for amendment?

The SPEAKER. When unanimous consent for its consideration was given. The Chair waited. No one rose. Then the Chair put the question on engrossment, third reading, and passage of the bill.

Without objection, a motion to reconsider is laid upon the table.

There was no objection.

AMENDMENT TO RAILROAD RETIREMENT ACT AND THE RAILROAD RETIREMENT TAX ACT

The SPEAKER. The gentleman from Ohio [Mr. CROSSER] is recognized.

Mr. CROSSER. Mr. Speaker, I move that the House resolve itself into the Committee of the Whole House on the State of the Union for the further consideration of the bill (H. R. 3669) to amend the Railroad Retirement Act and the Railroad Retirement Tax Act, and for other purposes.

The motion was agreed to.

Accordingly the House resolved itself into the Committee of the Whole House on the State of the Union for the further consideration of the bill H. R. 3669, with Mr. DAVIS of Tennessee in the chair.

The Clerk read the title of the bill.

The CHAIRMAN. General debate having been concluded, the Clerk will read the bill for amendment.

The Clerk read as follows:

Be it enacted, etc., That section 1 of the Railroad Retirement Act of 1937, as amended, is amended by substituting in the last sentence of subsection (f) thereof the phrase "one hundred twenty-six" for the phrase "fifty-four" and by adding after subsection (p) thereof a new subsection as follows:

"(q) The terms 'Social Security Act' and 'Social Security Act, as amended,' shall mean the Social Security Act as amended in 1950."

Sec. 2. Subsection (a) of section 2 of the Railroad Retirement Act of 1937, as amended,

Mr. BUTLER of Maryland. Mr. President, I suggest the absence of a quorum.

Mr. LANGER. Mr. President, the suggestion of the absence of a quorum comes too late; I raise the point of order that the vote is in process of being taken.

Mr. CASE. Mr. President, a parliamentary inquiry.

The PRESIDING OFFICER. The Senator from South Dakota will state it.

Mr. CASE. The point of order raised by the distinguished chairman of the Appropriations Committee disposed of the amendment proposed by the distinguished Senator from Missouri [Mr. HENNINGS]; did it not?

The PRESIDING OFFICER. That is correct.

The question is on the passage of the joint resolution.

Mr. BUTLER of Maryland. Mr. President, I withdraw my suggestion of the absence of a quorum.

The PRESIDING OFFICER. The suggestion of the absence of a quorum has been withdrawn.

The question is, Shall the joint resolution pass?

The joint resolution (H. J. Res. 341) was passed.

REVENUE ACT OF 1951—APPOINTMENT OF CONFEREES

The PRESIDING OFFICER laid before the Senate a message from the House of Representatives insisting upon its disagreement to the amendments of the Senate to the bill (H. R. 4473) to provide revenue, and for other purposes, and requesting a further conference with the Senate on the disagreeing votes of the two Houses thereon.

Mr. GEORGE. I move that the Senate insist upon its amendments, agree to the request of the House for a further conference, and that the Chair appoint the conferees on the part of the Senate.

In that connection, I should like to say that the Senator from Colorado [Mr. JOHNSON], who has served as a conferee, is absent from the city, and request is made that the Senator from Virginia [Mr. BYRD] be appointed in the place of the Senator from Colorado [Mr. JOHNSON].

The PRESIDING OFFICER. The question is on agreeing to the motion of the Senator from Georgia [Mr. GEORGE].

Mr. SALTONSTALL. Mr. President, will the Senator from Georgia yield?

Mr. GEORGE. Yes.

Mr. SALTONSTALL. The purpose of the action which the Senator from Georgia suggests is that a further conference may be had on the tax bill, the conference report on which was rejected yesterday by the House. Is that correct?

Mr. GEORGE. The House asks for a further conference. The purpose of my motion is that the Senate insist upon its amendments, agree to the request of the House for a further conference, and that the Chair appoint conferees on the part of the Senate.

The PRESIDING OFFICER. The question is on agreeing to the motion of the Senator from Georgia [Mr. GEORGE].

The motion was agreed to; and the Presiding Officer appointed Mr. GEORGE, Mr. CONNALLY, Mr. BYRD, Mr. MILLIKIN, and Mr. TAFT conferees on the part of the Senate.

MESSAGE FROM THE HOUSE

A message from the House of Representatives, by Mr. Snader, its assistant reading clerk, announced that the House had agreed to the report of the committee of conference on the disagreeing votes of the two Houses on the amendments of the House to the bill (S. 1335) to readjust the size and weight limitations on fourth-class (parcel-post) mail.

The message also announced that the House had agreed to the report of the committee of conference on the disagreeing votes of the two Houses on the amendments of the Senate to the bill (H. R. 4386) making appropriations for the civil functions administered by the Department of the Army for the fiscal year ending June 30, 1952, and for other purposes, and that the House had receded from its disagreement to the amendment of the Senate numbered 9 to the bill, and concurred therein.

APPROPRIATIONS FOR CIVIL FUNCTIONS—CONFERENCE REPORT

Mr. McKELLAR. Mr. President, I submit a report of the committee of conference on the disagreeing votes of the two Houses on the amendments of the Senate to the bill (H. R. 4386) making appropriations for the civil functions administered by the Department of the Army for the fiscal year ending June 30, 1952, and for other purposes. I ask for its immediate consideration.

The PRESIDING OFFICER. The report will be read for the information of the Senate.

The report was read, as follows:

The committee of conference on the disagreeing votes of the two Houses on the amendments of the Senate to the bill (H. R. 4386) making appropriations for the civil functions administered by the Department of the Army for the fiscal year ending June 30, 1952, and for other purposes, having met, after full and free conference, have agreed to recommend and do recommend to their respective Houses as follows:

That the Senate recede from its amendments numbered 3, 13, and 14.

That the House recede from its disagreement to the amendments of the Senate numbered 1, 8, 10, 12, and 15, and agree to the same.

Amendment numbered 2: That the House recede from its disagreement to the amendment of the Senate numbered 2, and agree to the same with an amendment as follows: Restore the matter proposed to be stricken by said amendment amended to read as follows: "Provided further, That, during the current fiscal year, such appropriations shall not be transferred to or used to start or resume any project for which funds were not allocated for construction in the preceding fiscal year; but this proviso shall not apply to any project for which funds are provided in this act"; and the Senate agree to the same.

Amendment numbered 4: That the House recede from its disagreement to the amendment of the Senate numbered 4, and agree to the same with an amendment as follows: In lieu of the matter proposed by said amendment insert "for payment annually of tuition fees of not to exceed eighteen student officers of the Corps of Engineers at civil technical institutions under the provisions

of section 127a of the National Defense Act, as amended (10 U. S. C. 535)"; and the Senate agree to the same.

Amendment numbered 5: That the House recede from its disagreement to the amendment of the Senate numbered 5, and agree to the same with an amendment as follows: In lieu of the sum proposed by said amendment insert "\$192,657,613"; and the Senate agree to the same.

Amendment numbered 6: That the House recede from its disagreement to the amendment of the Senate numbered 6, and agree to the same with an amendment as follows: In lieu of the sum proposed by said amendment insert "\$1,725,000"; and the Senate agree to the same.

Amendment numbered 7: That the House recede from its disagreement to the amendment of the Senate numbered 7, and agree to the same with an amendment as follows: In lieu of the sum proposed by said amendment insert "\$316,544,100"; and the Senate agree to the same.

Amendment numbered 11: That the House recede from its disagreement to the amendment of the Senate numbered 11, and agree to the same with an amendment as follows: In lieu of the sum proposed by said amendment insert "\$60,500,000"; and the Senate agree to the same.

Amendment numbered 16: That the House recede from its disagreement to the amendment of the Senate numbered 16, and agree to the same with an amendment as follows: In lieu of the matter proposed by said amendment insert:

"Sec. 105. No part of the money appropriated by this Act which is in excess of 75 per centum of the amount required to pay the compensation of all persons the budget estimates for personal services heretofore submitted to the Congress for the fiscal year 1952 contemplated would be employed by the Department of the Army from appropriations for civil functions during such fiscal year in the performance of—

"(1) functions performed by a person designated as an information specialist, information and editorial specialist, publications and information coordinator, press relations officer or counsel, photographer, radio expert, television expert, motion-picture expert, or publicity expert, or designated by any similar title, or

"(2) functions performed by persons who assist persons performing the functions described in (1) in drafting, preparing, editing, typing, duplicating, or disseminating public information publications or releases, radio or television scripts, magazine articles, photographs, motion pictures, and similar material,

shall be available to pay the compensation of persons performing the functions described in (1) or (2)."

And the Senate agree to the same.

The committee of conference report in disagreement amendment numbered 9.

KENNETH MCKELLAR,

CARL HAYDEN,

ALLEN J. ELLENDER,

SPESSARD L. HOLLAND,

MILTON R. YOUNG,

GUY CORDON,

WILLIAM F. KNOWLAND,

Managers on the Part of the Senate.

CLARENCE CANNON,

JOHN H. KERR,

LOUIS C. RABAUT,

Managers on the Part of the House.

Mr. SALTONSTALL. Mr. President, I inquire if the conference report is a unanimous one on the part of the conferees?

Mr. McKELLAR. I understand that it is unanimous, insofar as the report on the bill is concerned. Some suggestion was made about another bill, and

the conferees may not have been unanimous as to that.

Mr. SALTONSTALL. I have no objection to the consideration of the conference report at this time.

The PRESIDING OFFICER. Is there objection to the request of the Senator from Tennessee?

There being no objection the Senate proceeded to consider the report.

The PRESIDING OFFICER. The question is on agreeing to the report.

Mr. CASE. Mr. President, I should like to ask one or two questions about the conference report.

Mr. McKELLAR. Yes, indeed.

Mr. CASE. I should like to ask the distinguished chairman of the Appropriations Committee what the conferees agreed upon with respect to the Missouri Basin flood-control projects known as the Gavin's Point Dam; at the edge of Nebraska and South Dakota; the Oahe Dam and the Fort Randall Dam, in South Dakota; and the Garrison Dam, in North Dakota.

As the Senator from Tennessee knows, those dams are the backbone of the program to prevent future floods of the kind which recently occurred. This is a flood-prevention program, and I should like to have the RECORD show just what the conferees did in regard to those matters.

Mr. McKELLAR. For the Gavins Point Dam, \$2,000,000 is appropriated to initiate the work.

Mr. CASE. That appropriation will initiate the work on that dam, will it not?

Mr. McKELLAR. Yes; it will initiate the work.

Mr. CASE. That is the regulating dam which is necessary below the high dams.

Mr. McKELLAR. Yes; it is the necessary dam there.

I think the Senator will be pleased with what was done by the conferees; at any rate, I hope he will be.

Mr. CASE. I appreciate what the conferees did.

Mr. McKELLAR. The conferees had very vigorous and active sessions—not merely one session, but probably a half a dozen or more sessions. There were quite a number of them. However, finally we reached agreement.

I will say that the main source of trouble was what was called the Tuttle Creek Dam, in northern Kansas. That particular dam is regarded by the Corps of Engineers as, shall I say, the central part of our defense against high waters in all the area which was flooded recently. However, as we had to say to the Senator from Kansas a little while ago, there was no budget estimate in that case and there was no authorization in that case. So the conferees on the part of the Senate had to yield.

I see in the Chamber at this time the very distinguished Senator from Oregon [Mr. CORDON] who is my very fine friend. He takes a great deal of interest in all these matters, and he took a great deal of interest in this particular measure. I am sure he will endorse what I say about it.

We had more trouble in the case of that particular dam than we had in the case of any other item in the bill. In-

deed, we came close to failing to arrive at a conference report because of that particular dam. However, finally the conferees got together, by leaving out at this time the provision in regard to that dam, but with the understanding that the Corps of Engineers will immediately take up this proposal and will report it to the Congress at the very earliest moment, and with the assurance that the Congress would undertake to give those who may be affected the protection they are entitled to have.

We were in constant touch with the Senators from Kansas, who were helpful in every way possible, and with other Senators who were interested, including the Senator from South Dakota [Mr. CASE], who, although more interested in another dam, was interested in the whole question.

Mr. CASE. Yes. Mr. President, the dams on the upper reaches of the Missouri River are involved, because if those dams are completed and closed, then the water will be held back, so that when the water comes in from the Kaw and the other tributaries to the Missouri lower down, the channel will be able to accommodate it. So the dams on the upper Missouri will operate beneficially in two ways.

Mr. McKELLAR. Yes, they will help very much.

Mr. CASE. Mr. President, I now have in my hand a copy of the printed conference report on the bill. In view of the very wide and great interest in the individual allocations of funds, with respect both to rivers and harbors and flood control in general, I think it would be most appropriate in considering the conference report to have those two tables appear in the RECORD. I realize that the report will be printed as a whole.

Mr. McKELLAR. I think I shall ask unanimous consent at this point that the entire report in regard to this matter be printed in the body of the RECORD, and I think it will be better for the project and better for the country to have everyone know exactly what the conferees did. I hope I may have unanimous consent to do that.

The PRESIDING OFFICER. Is there objection?

Mr. CORDON. Reserving the right to object—and I shall not object—I call attention to the fact that the full conference report appears on pages 13576 to 13578, inclusive, of yesterday's RECORD of the House proceedings. I hope that may be sufficient.

Mr. McKELLAR. I now understand that the report will be printed again in the Senate proceedings of today. I withdraw my request, of course, and I shall merely refer to the report.

Mr. CASE. I know the report was printed in the RECORD as of yesterday, but we are here considering the report. I did not suggest that the entire report be reprinted in the RECORD at this point, but it seems to me it would answer the direct question I have raised with respect to two or three dams if only the two tables might here appear as a part of our consideration of the report. I ask unanimous consent that the two tables only appear at this point in the RECORD.

There being no objection, the two tables were ordered to be printed in the RECORD, as follows:

2. For rivers and harbors, \$192,657,613, to be allocated in the following manner:

Rivers and harbors	Amount recommended
Project	
Alabama:	
Apalachicola, Chattahoochee, and Flint Rivers, Ala., Fla., and Ga.: Jim Woodruff lock and dam, Florida.....	\$6,300,000
Buford Dam, Ga.....	900,000
Black Warrior, Warrior, and Tombigbee Rivers, Ala., and Miss.: Demopolis lock and dam, Alabama.....	4,000,000
Alaska: Wrangell Narrows.....	247,000
Arkansas: Arkansas River and tributaries, Arkansas and Oklahoma.....	4,100,000
California: San Diego River and Mission Bay.....	510,000
Florida:	
Jacksonville to Miami waterway.....	2,150,000
Jacksonville Harbor.....	1,787,000
Lake Worth Inlet (Palm Beach Harbor).....	238,843
Georgia: Savannah Harbor.....	370,000
Illinois:	
Illinois waterway (exclusive of Calumet-Sag Channel).....	300,000
Mississippi River between Ohio and Missouri Rivers: Chain of Rocks Canal.....	5,000,000
Mississippi River between Missouri and Minneapolis:	
(A) St. Anthony Falls, Minn.....	1,500,000
(B) Other work, including Clinton, Iowa.....	357,770
Ohio River open-channel work.....	175,000
Iowa: Missouri River from Kansas City, Mo., to Sioux City, Iowa.....	4,000,000
Louisiana:	
Calcasieu River and Pass.....	1,025,000
Gulf Intracoastal Waterway.....	4,400,000
Pearl River, La. and Miss.....	987,000
Maryland: Baltimore Harbor and channels.....	800,000
Massachusetts: Fall River Harbor.....	200,000
Michigan: St. Marys River.....	750,000
Mississippi: Harrison County shore protection.....	773,000
Missouri: Missouri River, Kansas City to mouth.....	2,300,000
Montana: Missouri River at Fort Peck.....	944,000
New Jersey:	
Newark Bay, Hackensack and Passaic Rivers.....	732,000
New York and New Jersey Channels.....	1,414,000
New York:	
Buffalo Harbor.....	305,000
Hudson River Channel.....	250,000
New York Harbor, entrance channels and anchorage areas.....	400,000
Ohio: Cleveland Harbor.....	1,000,000
Oregon:	
McNary lock and dam, Oregon and Washington.....	42,900,000
The Dalles lock and dam, Oregon and Washington.....	4,000,000
Pennsylvania:	
Monongahela River, Pa. and W. Va.: Locks 2, Pennsylvania and Morgantown lock and dam, West Virginia.....	4,000,000
Schuylkill River (culm removal).....	1,900,000

82D CONGRESS <i>1st Session</i>	}	HOUSE OF REPRESENTATIVES	}	REPORT No. 1213
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REVENUE ACT OF 1951

OCTOBER 18, 1951.—Ordered to be printed

Mr. DOUGHTON, from the committee of conference, submitted the following

CONFERENCE REPORT

[To accompany H. R. 4473]

The committee of conference on the disagreeing votes of the two Houses on the amendments of the Senate to the bill (H. R. 4473), to provide revenue, and for other purposes, having met, after full and free conference, have agreed to recommend and do recommend to their respective Houses as follows:

That the Senate recede from its amendments numbered 2, 3, 5, 94, 98, 119, 120, 123, 124, 125, 126, 130, 132, 133, 134, 135, 136, 138, 139, 140, 144, 145, 146, 147, 148, 149, 150, 152, 155, 157, 158, 159, 160, 161, 162, 164, 165, 170, 177, 182, 183, 201, 202, and 203.

That the House recede from its disagreement to the amendments of the Senate numbered 9, 14, 15, 16, 17, 18, 19, 20, 21, 22, 23, 24, 25, 26, 27, 29, 30, 31, 32, 33, 34, 35, 36, 37, 38, 39, 40, 41, 42, 44, 47, 48, 49, 50, 51, 52, 56, 57, 58, 60, 61, 62, 63, 65, 66, 68, 69, 70, 71, 72, 73, 74, 75, 76, 87, 95, 103, 105, 106, 108, 109, 112, 113, 114, 115, 116, 117, 153, 169, 171, 176, 180, 181, 186, 187, 189, 190, 192, 195, 196, 204, 205, 206, 207, 208, 209, 212, 218, 223, 229, 230, 232, 233, 242, 243, and 244 and agree to the same.

Amendment numbered 1:

That the House recede from its disagreement to the amendment of the Senate numbered 1, and agree to the same with the following amendments:

Strike out the surtax table beginning on page 1 of the Senate engrossed amendments and insert the following:

"If the surtax net income is:**The surtax shall be:**

Not over \$2,000-----	17.4% of the surtax net income.
Over \$2,000 but not over \$4,000-----	\$348, plus 19.4% of excess over \$2,000.
Over \$4,000 but not over \$6,000-----	\$736, plus 24% of excess over \$4,000.
Over \$6,000 but not over \$8,000-----	\$1,216, plus 27% of excess over \$6,000.
Over \$8,000 but not over \$10,000-----	\$1,756, plus 32% of excess over \$8,000.
Over \$10,000 but not over \$12,000-----	\$2,396, plus 36% of excess over \$10,000.
Over \$12,000 but not over \$14,000-----	\$3,116, plus 40% of excess over \$12,000.
Over \$14,000 but not over \$16,000-----	\$3,916, plus 45% of excess over \$14,000.
Over \$16,000 but not over \$18,000-----	\$4,816, plus 48% of excess over \$16,000.
Over \$18,000 but not over \$20,000-----	\$5,776, plus 51% of excess over \$18,000.
Over \$20,000 but not over \$22,000-----	\$6,796, plus 54% of excess over \$20,000.
Over \$22,000 but not over \$26,000-----	\$7,876, plus 57% of excess over \$22,000.
Over \$26,000 but not over \$32,000-----	\$10,156, plus 60% of excess over \$26,000.
Over \$32,000 but not over \$38,000-----	\$13,756, plus 63% of excess over \$32,000.
Over \$38,000 but not over \$44,000-----	\$17,536, plus 66% of excess over \$38,000.
Over \$44,000 but not over \$50,000-----	\$21,496, plus 70% of excess over \$44,000.
Over \$50,000 but not over \$60,000-----	\$25,696, plus 72% of excess over \$50,000.
Over \$60,000 but not over \$70,000-----	\$32,896, plus 75% of excess over \$60,000.
Over \$70,000 but not over \$80,000-----	\$40,396, plus 79% of excess over \$70,000.
Over \$80,000 but not over \$90,000-----	\$48,296, plus 81% of excess over \$80,000.
Over \$90,000 but not over \$100,000-----	\$56,396, plus 84% of excess over \$90,000.
Over \$100,000 but not over \$150,000--	\$64,796, plus 86% of excess over \$100,000.
Over \$150,000 but not over \$200,000--	\$107,796, plus 87% of excess over \$150,000.
Over \$200,000-----	\$151,296, plus 88% of excess over \$200,000.

Strike out the surtax table on page 3 of the Senate engrossed amendments and insert the following:

"If the surtax net income is:

The surtax shall be:

Not over \$2,000-----	19.2% of the surtax net income.
Over \$2,000 but not over \$4,000-----	\$384, plus 21.6% of excess over \$2,000.
Over \$4,000 but not over \$6,000-----	\$816, plus 26% of excess over \$4,000.
Over \$6,000 but not over \$8,000-----	\$1,336, plus 31% of excess over \$6,000.
Over \$8,000 but not over \$10,000-----	\$1,956, plus 35% of excess over \$8,000.
Over \$10,000 but not over \$12,000-----	\$2,656, plus 39% of excess over \$10,000.
Over \$12,000 but not over \$14,000-----	\$3,436, plus 45% of excess over \$12,000.
Over \$14,000 but not over \$16,000-----	\$4,336, plus 50% of excess over \$14,000.
Over \$16,000 but not over \$18,000-----	\$5,336, plus 53% of excess over \$16,000.
Over \$18,000 but not over \$20,000-----	\$6,396, plus 56% of excess over \$18,000.
Over \$20,000 but not over \$22,000-----	\$7,516, plus 59% of excess over \$20,000.
Over \$22,000 but not over \$26,000-----	\$8,696, plus 63% of excess over \$22,000.
Over \$26,000 but not over \$32,000-----	\$11,216, plus 64% of excess over \$26,000.
Over \$32,000 but not over \$38,000-----	\$15,056, plus 65% of excess over \$32,000.
Over \$38,000 but not over \$44,000-----	\$18,956, plus 69% of excess over \$38,000.
Over \$44,000 but not over \$50,000-----	\$23,096, plus 72% of excess over \$44,000.
Over \$50,000 but not over \$60,000-----	\$27,416, plus 74% of excess over \$50,000.
Over \$60,000 but not over \$70,000-----	\$34,816, plus 77% of excess over \$60,000.
Over \$70,000 but not over \$80,000-----	\$42,516, plus 80% of excess over \$70,000.
Over \$80,000 but not over \$90,000-----	\$50,516, plus 82% of excess over \$80,000.
Over \$90,000 but not over \$100,000---	\$58,716, plus 85% of excess over \$90,000.
Over \$100,000 but not over \$150,000--	\$67,216, plus 87% of excess over \$100,000.
Over \$150,000 but not over \$200,000--	\$110,716, plus 88% of excess over \$150,000.
Over \$200,000-----	\$154,716, plus 89% of excess over \$200,000.

Strike out the tables on pages 7 and 8 of the Senate engrossed amendments and insert the following:

"Table II

"Taxable years beginning after October 31, 1951, and before January 1, 1954

If adjusted gross income is—		And the number of exemptions is—				If adjusted gross income is—		And the number of exemptions is—											
At least	But less than	1	2	3	4 or more	At least	But less than	1		2		3		4	5	6	7	8	9
								And tax-payer is single or married filing separately	And tax-payer is head of household	And tax-payer is single or married filing separately	And tax-payer is head of household	And a joint return is filed	And tax-payer is single or married filing separately						
The tax shall be—						The tax shall be—													
\$0	\$675	\$0	\$0	\$0	\$0	\$2,325	\$2,350	\$334	\$334	\$201	\$201	\$201	\$67	\$67	\$67	\$0	\$0	\$0	\$0
675	700	4	0	0	0	2,350	2,375	339	339	206	206	206	72	72	72	0	0	0	0
700	725	9	0	0	0	2,375	2,400	344	344	211	211	211	77	77	77	0	0	0	0
725	750	14	0	0	0	2,400	2,425	349	349	216	216	216	82	82	82	0	0	0	0
750	775	19	0	0	0	2,425	2,450	354	354	221	221	221	87	87	87	0	0	0	0
775	800	24	0	0	0	2,450	2,475	359	359	226	226	226	92	92	92	0	0	0	0
800	825	29	0	0	0	2,475	2,500	364	364	231	231	231	97	97	97	0	0	0	0
825	850	34	0	0	0	2,500	2,525	369	369	236	236	236	102	102	102	0	0	0	0
850	875	39	0	0	0	2,525	2,550	374	374	241	241	241	107	107	107	0	0	0	0
875	900	44	0	0	0	2,550	2,575	379	379	246	246	246	112	112	112	0	0	0	0
900	925	49	0	0	0	2,575	2,600	384	384	251	251	251	117	117	117	0	0	0	0
925	950	54	0	0	0	2,600	2,625	389	389	256	256	256	122	122	122	0	0	0	0
950	975	59	0	0	0	2,625	2,650	394	394	261	261	261	127	127	127	0	0	0	0
975	1,000	64	0	0	0	2,650	2,675	399	399	266	266	266	132	132	132	0	0	0	0
1,000	1,025	69	0	0	0	2,675	2,700	404	404	271	271	271	137	137	137	4	0	0	0
1,025	1,050	74	0	0	0	2,700	2,725	409	409	276	276	276	142	142	142	9	0	0	0
1,050	1,075	79	0	0	0	2,725	2,750	414	414	281	281	281	147	147	147	14	0	0	0
1,075	1,100	84	0	0	0	2,750	2,775	419	419	286	286	286	152	152	152	19	0	0	0
1,100	1,125	89	0	0	0	2,775	2,800	424	424	291	291	291	157	157	157	24	0	0	0
1,125	1,150	94	0	0	0	2,800	2,825	429	429	296	296	296	162	162	162	29	0	0	0
1,150	1,175	99	0	0	0	2,825	2,850	434	434	301	301	301	167	167	167	34	0	0	0
1,175	1,200	104	0	0	0	2,850	2,875	439	439	306	306	306	172	172	172	39	0	0	0
1,200	1,225	109	0	0	0	2,875	2,900	444	444	311	311	311	177	177	177	44	0	0	0
1,225	1,250	114	0	0	0	2,900	2,925	449	449	316	316	316	182	182	182	49	0	0	0
1,250	1,275	119	0	0	0	2,925	2,950	455	454	321	321	321	187	187	187	54	0	0	0
1,275	1,300	124	0	0	0	2,950	2,975	460	459	326	326	326	192	192	192	59	0	0	0
1,300	1,325	129	0	0	0	2,975	3,000	466	465	331	331	331	197	197	197	64	0	0	0
1,325	1,350	134	1	0	0	3,000	3,050	474	473	338	338	338	205	205	205	72	0	0	0
1,350	1,375	139	6	0	0	3,050	3,100	485	483	348	348	348	215	215	215	82	0	0	0
1,375	1,400	144	11	0	0	3,100	3,150	496	494	358	358	358	225	225	225	92	0	0	0
1,400	1,425	149	16	0	0	3,150	3,200	507	504	368	368	368	235	235	235	102	0	0	0
1,425	1,450	154	21	0	0	3,200	3,250	518	515	378	378	378	245	245	245	112	0	0	0
1,450	1,475	159	26	0	0	3,250	3,300	529	525	388	388	388	255	255	255	122	0	0	0
1,475	1,500	164	31	0	0	3,300	3,350	541	536	398	398	398	265	265	265	132	0	0	0
1,500	1,525	169	36	0	0	3,350	3,400	552	546	408	408	408	275	275	275	142	8	0	0
1,525	1,550	174	41	0	0	3,400	3,450	563	557	418	418	418	285	285	285	152	18	0	0
1,550	1,575	179	46	0	0	3,450	3,500	574	567	428	428	428	295	295	295	162	28	0	0
1,575	1,600	184	51	0	0	3,500	3,550	585	578	438	438	438	305	305	305	171	38	0	0
1,600	1,625	189	56	0	0	3,550	3,600	596	588	448	448	448	315	315	315	181	48	0	0
1,625	1,650	194	61	0	0	3,600	3,650	607	599	459	459	458	325	325	325	191	58	0	0
1,650	1,675	199	66	0	0	3,650	3,700	618	610	470	469	468	335	335	335	201	68	0	0
1,675	1,700	204	71	0	0	3,700	3,750	629	620	482	480	478	345	345	345	211	78	0	0
1,700	1,725	209	76	0	0	3,750	3,800	640	631	493	490	488	355	355	355	221	88	0	0
1,725	1,750	214	81	0	0	3,800	3,850	651	641	504	501	498	365	365	365	231	98	0	0
1,750	1,775	219	86	0	0	3,850	3,900	662	652	515	511	508	375	375	375	241	108	0	0
1,775	1,800	224	91	0	0	3,900	3,950	673	662	526	522	518	385	385	385	251	118	0	0
1,800	1,825	229	96	0	0	3,950	4,000	684	673	537	532	528	395	395	395	261	128	0	0
1,825	1,850	234	101	0	0	4,000	4,050	696	683	548	543	538	405	405	405	271	138	5	0
1,850	1,875	239	106	0	0	4,050	4,100	707	694	559	553	548	415	415	415	281	148	15	0
1,875	1,900	244	111	0	0	4,100	4,150	718	704	570	564	558	425	425	425	291	158	25	0
1,900	1,925	249	116	0	0	4,150	4,200	729	715	581	574	568	435	435	435	301	168	35	0
1,925	1,950	254	121	0	0	4,200	4,250	740	725	592	585	578	445	445	445	311	178	45	0
1,950	1,975	259	126	0	0	4,250	4,300	751	736	603	596	588	456	456	456	321	188	55	0
1,975	2,000	264	131	0	0	4,300	4,350	762	746	614	606	598	467	466	466	331	198	65	0
2,000	2,025	269	136	2	0	4,350	4,400	773	757	625	617	608	478	476	476	341	208	75	0
2,025	2,050	274	141	7	0	4,400	4,450	784	768	636	627	618	489	487	486	351	218	85	0
2,050	2,075	279	146	12	0	4,450	4,500	795	778	648	638	628	500	497	495	361	228	95	0
2,075	2,100	284	151	17	0	4,500	4,550	806	789	659	648	638	511	508	504	371	238	105	0
2,100	2,125	289	156	22	0	4,550	4,600	817	799	670	659	648	522	518	514	381	248	115	0
2,125	2,150	294	161	27	0	4,600	4,650	828	810	681	669	658	533	529	524	391	258	125	0
2,150	2,175	299	166	32	0	4,650	4,700	839	820	692	680	668	544	539	534	401	268	135	2
2,175	2,200	304	171	37	0	4,700	4,750	851	831	703	690	678	555	550	544	411	278	145	12
2,200	2,225	309	176	42	0	4,750	4,800	862	841	714	701	688	566	560	554	421	288	155	22
2,225	2,250	314	181	47	0	4,800	4,850	873	852	725	711	698	577	571	564	431	298	165	32
2,250	2,275	319	186	52	0	4,850	4,900	884	862	736	722	708	589	581	574	441	308	175	42
2,275	2,300	324	191	57	0	4,900	4,950	895	873	747	732	718	600	592	584	451	318	185	52
2,300	2,325	329	196	62	0	4,950	5,000	906	883	758	743	728	611	603	594	461	328	195	62

"Table III

"Taxable years beginning after December 31, 1953

adjusted gross income is—		And the number of exemptions is—				If adjusted gross income is—		And the number of exemptions is—													
At least	But less than	1	2	3	4 or more	At least	But less than	1		2		3				4	5	6	7	8 or more	
								And tax-payer is single or married filing separately	And tax-payer is head of household	And tax-payer is single or married filing separately	And tax-payer is head of household	And a joint return is filed	And tax-payer is single or married filing separately	And tax-payer is head of household	And a joint return is filed						
The tax shall be—								The tax shall be—													
\$0	\$675	\$0	\$0	\$0	\$0	\$0	\$2,325	\$2,350	\$301	\$301	\$181	\$181	\$181	\$61	\$61	\$61	\$0	\$0	\$0	\$0	\$0
675	700	4	0	0	0	0	2,350	2,375	305	305	185	185	185	65	65	65	0	0	0	0	0
700	725	8	0	0	0	0	2,375	2,400	310	310	190	190	190	70	70	70	0	0	0	0	0
725	750	12	0	0	0	0	2,400	2,425	314	314	194	194	194	74	74	74	0	0	0	0	0
750	775	17	0	0	0	0	2,425	2,450	319	319	199	199	199	79	79	79	0	0	0	0	0
775	800	22	0	0	0	0	2,450	2,475	323	323	203	203	203	83	83	83	0	0	0	0	0
800	825	26	0	0	0	0	2,475	2,500	328	328	208	208	208	88	88	88	0	0	0	0	0
825	850	31	0	0	0	0	2,500	2,525	332	332	212	212	212	92	92	92	0	0	0	0	0
850	875	35	0	0	0	0	2,525	2,550	337	337	217	217	217	97	97	97	0	0	0	0	0
875	900	40	0	0	0	0	2,550	2,575	341	341	221	221	221	101	101	101	0	0	0	0	0
900	925	44	0	0	0	0	2,575	2,600	346	346	226	226	226	106	106	106	0	0	0	0	0
925	950	49	0	0	0	0	2,600	2,625	350	350	230	230	230	110	110	110	0	0	0	0	0
950	975	53	0	0	0	0	2,625	2,650	355	355	235	235	235	115	115	115	0	0	0	0	0
975	1,000	58	0	0	0	0	2,650	2,675	359	359	239	239	239	119	119	119	0	0	0	0	0
1,000	1,025	62	0	0	0	0	2,675	2,700	364	364	244	244	244	124	124	124	4	0	0	0	0
1,025	1,050	67	0	0	0	0	2,700	2,725	368	368	248	248	248	128	128	128	8	0	0	0	0
1,050	1,075	71	0	0	0	0	2,725	2,750	373	373	253	253	253	133	133	133	12	0	0	0	0
1,075	1,100	76	0	0	0	0	2,750	2,775	377	377	257	257	257	137	137	137	17	0	0	0	0
1,100	1,125	80	0	0	0	0	2,775	2,800	382	382	262	262	262	142	142	142	22	0	0	0	0
1,125	1,150	85	0	0	0	0	2,800	2,825	386	386	266	266	266	146	146	146	26	0	0	0	0
1,150	1,175	89	0	0	0	0	2,825	2,850	391	391	271	271	271	151	151	151	31	0	0	0	0
1,175	1,200	94	0	0	0	0	2,850	2,875	395	395	275	275	275	155	155	155	35	0	0	0	0
1,200	1,225	98	0	0	0	0	2,875	2,900	400	400	280	280	280	160	160	160	40	0	0	0	0
1,225	1,250	103	0	0	0	0	2,900	2,925	405	404	284	284	284	164	164	164	44	0	0	0	0
1,250	1,275	107	0	0	0	0	2,925	2,950	410	409	289	289	289	169	169	169	49	0	0	0	0
1,275	1,300	112	0	0	0	0	2,950	2,975	415	414	293	293	293	173	173	173	53	0	0	0	0
1,300	1,325	116	0	0	0	0	2,975	3,000	420	419	298	298	298	178	178	178	58	0	0	0	0
1,325	1,350	121	1	0	0	0	3,000	3,050	427	426	305	305	305	185	185	185	65	0	0	0	0
1,350	1,375	125	5	0	0	0	3,050	3,100	437	436	314	314	314	194	194	194	74	0	0	0	0
1,375	1,400	130	10	0	0	0	3,100	3,150	447	445	323	323	323	203	203	203	83	0	0	0	0
1,400	1,425	134	14	0	0	0	3,150	3,200	457	454	332	332	332	212	212	212	92	0	0	0	0
1,425	1,450	139	19	0	0	0	3,200	3,250	467	464	341	341	341	221	221	221	101	0	0	0	0
1,450	1,475	143	23	0	0	0	3,250	3,300	476	473	350	350	350	230	230	230	110	0	0	0	0
1,475	1,500	148	28	0	0	0	3,300	3,350	486	482	359	359	359	239	239	239	119	0	0	0	0
1,500	1,525	152	32	0	0	0	3,350	3,400	496	492	368	368	368	248	248	248	128	8	0	0	0
1,525	1,550	157	37	0	0	0	3,400	3,450	506	501	377	377	377	257	257	257	137	17	0	0	0
1,550	1,575	161	41	0	0	0	3,450	3,500	516	511	386	386	386	266	266	266	146	26	0	0	0
1,575	1,600	166	46	0	0	0	3,500	3,550	526	520	395	395	395	275	275	275	155	35	0	0	0
1,600	1,625	170	50	0	0	0	3,550	3,600	536	530	404	404	404	284	284	284	164	44	0	0	0
1,625	1,650	175	55	0	0	0	3,600	3,650	546	539	414	413	413	293	293	293	173	53	0	0	0
1,650	1,675	179	59	0	0	0	3,650	3,700	556	549	424	423	422	302	302	302	182	62	0	0	0
1,675	1,700	184	64	0	0	0	3,700	3,750	566	558	434	432	431	311	311	311	191	71	0	0	0
1,700	1,725	188	68	0	0	0	3,750	3,800	575	567	443	441	440	320	320	320	200	80	0	0	0
1,725	1,750	193	73	0	0	0	3,800	3,850	585	577	453	451	449	329	329	329	209	89	0	0	0
1,750	1,775	197	77	0	0	0	3,850	3,900	595	586	463	460	458	338	338	338	218	98	0	0	0
1,775	1,800	202	82	0	0	0	3,900	3,950	605	596	473	470	467	347	347	347	227	107	0	0	0
1,800	1,825	206	86	0	0	0	3,950	4,000	615	605	483	479	476	356	356	356	236	116	0	0	0
1,825	1,850	211	91	0	0	0	4,000	4,050	625	615	493	489	485	365	365	365	245	125	5	0	0
1,850	1,875	215	95	0	0	0	4,050	4,100	635	624	503	498	494	374	374	374	254	134	14	0	0
1,875	1,900	220	100	0	0	0	4,100	4,150	645	634	513	508	503	383	383	383	263	143	23	0	0
1,900	1,925	224	104	0	0	0	4,150	4,200	655	645	523	517	512	392	392	392	272	152	32	0	0
1,925	1,950	229	109	0	0	0	4,200	4,250	665	655	533	527	521	401	401	401	281	161	41	0	0
1,950	1,975	233	113	0	0	0	4,250	4,300	674	662	542	536	530	410	410	410	290	170	50	0	0
1,975	2,000	238	118	0	0	0	4,300	4,350	684	671	552	545	539	420	419	419	299	179	59	0	0
2,000	2,025	242	122	2	0	0	4,350	4,400	694	681	562	555	548	430	429	429	308	188	68	0	0
2,025	2,050	247	127	7	0	0	4,400	4,450	704	690	572	564	557	440	438	438	317	197	77	0	0
2,050	2,075	251	131	11	0	0	4,450	4,500	714	700	582	574	566	450	448	448	326	206	86	0	0
2,075	2,100	256	136	16	0	0	4,500	4,550	724	709	592	583	575	460	457	457	335	215	95	0	0
2,100	2,125	260	140	20	0	0	4,550	4,600	734	719	602	593	584	470	467	467	344	224	104	0	0
2,125	2,150	265	145	25	0	0	4,600	4,650	744	728	612	602	593	480	476	476	353	233	113	0	0
2,150	2,175	269	149	29	0	0	4,650	4,700	754	738	622	612	602	490	486	486	362	242	122	2	0
2,175	2,200	274	154	34	0	0	4,700	4,750	764	747	632	621	611	500	496	496	371	251	131		

And the Senate agree to the same.

Amendment numbered 4:

That the House recede from its disagreement to the amendment of the Senate numbered 4, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

“(b) *IMPOSITION OF TAX.*—*There shall be levied, collected, and paid for each taxable year upon the normal-tax net income of every corporation (except a corporation subject to a tax imposed by section 231 (a), Supplement G, or Supplement Q)—*

“(1) *CALENDAR YEAR 1951.*—*In the case of a taxable year beginning on January 1, 1951, and ending on December 31, 1951, a tax of 28¾ per centum of the normal-tax net income.*

“(2) *TAXABLE YEARS BEGINNING AFTER MARCH 31, 1951, AND BEFORE APRIL 1, 1954.*—*In the case of taxable years beginning after March 31, 1951, and before April 1, 1954, a tax of 30 per centum of the normal-tax income.*

“(3) *TAXABLE YEARS BEGINNING AFTER MARCH 31, 1954.*—*In the case of taxable years beginning after March 31, 1954, a tax of 25 per centum of the normal-tax net income.”*

And the Senate agree to the same.

Amendment numbered 6:

That the House recede from its disagreement to the amendment of the Senate numbered 6, and agreed to the same with the following amendments:

On page 13, line 13, of the Senate engrossed amendments, strike out “(c)” and insert (b).

On page 13, line 24, of the Senate engrossed amendments strike out “16½” and insert 17¼.

On page 14, line 12, of the Senate engrossed amendments strike out “17” and insert 18.

And the Senate agree to the same.

Amendment numbered 7:

That the House recede from its disagreement to the amendment of the Senate numbered 7, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

(c) *MUTUAL INSURANCE COMPANIES OTHER THAN LIFE OR MARINE.*—

(1) *Section 207 (a) (1) (relating to normal tax and surtax on mutual insurance companies, other than life or marine) is hereby amended by striking out subparagraphs (A) and (B) and inserting in lieu thereof the following:*

“(A) *Taxable Years Beginning After December 31, 1950, and Before April 1, 1951.*—*In the case of taxable years beginning after December 31, 1950, and before April 1, 1951, and ending after March 31, 1951—*

“(i) *Normal tax.*—*A normal tax of 28¾ per centum of the normal-tax net income, or 57½ per centum of the amount*

by which the normal-tax net income exceeds \$3,000, whichever is the lesser; plus

“(ii) Surtax.—A surtax of 22 per centum of the corporation surtax net income in excess of \$25,000.

“(B) Taxable Years Beginning After March 31, 1951, and Before April 1, 1954.—In the case of taxable years beginning after March 31, 1951, and before April 1, 1954—

“(i) Normal tax.—A normal tax of 30 per centum of the normal-tax net income, or 60 per centum of the amount by which the normal-tax net income exceeds \$3,000, whichever is the lesser; plus

“(ii) Surtax.—A surtax of 22 per centum of the corporation surtax net income in excess of \$25,000.

“(C) Taxable Years Beginning After March 31, 1954.—In the case of a taxable year beginning after March 31, 1954—

“(i) Normal tax.—A normal tax of 25 per centum of the normal-tax net income, or 50 per centum of the amount by which the normal-tax net income exceeds \$3,000, whichever is the lesser; plus

“(ii) Surtax.—A surtax of 22 per centum of the corporation surtax net income in excess of \$25,000.”

(2) Section 207 (a) (3) (relating to a normal tax and surtax on interinsurers and reciprocal underwriters) is hereby amended by striking out subparagraphs (A) and (B) and inserting in lieu thereof the following:

“(A) Taxable Years Beginning After December 31, 1950, and before April 1, 1951.—In the case of taxable years beginning after December 31, 1950, and before April 1, 1951, and ending after March 31, 1951—

“(i) Normal tax.—A normal tax of 28¾ per centum of the normal-tax net income, or 57½ per centum of the amount by which the normal-tax net income exceeds \$50,000, whichever is the lesser; plus

“(ii) Surtax.—A surtax of 22 per centum of the corporation surtax net income in excess of \$25,000, or 33 per centum of the amount by which the corporation surtax net income exceeds \$50,000, whichever is the lesser.

“(B) Taxable Years Beginning After March 31, 1951, and Before April 1, 1954.—In the case of taxable years beginning after March 31, 1951, and before April 1, 1954—

“(i) Normal tax.—A normal tax of 30 per centum of the normal-tax net income, or 60 per centum of the amount by which the normal-tax net income exceeds \$50,000, whichever is the lesser; plus

“(ii) Surtax.—A surtax of 22 per centum of the corporation surtax net income in excess of \$25,000, or 33 per centum of the amount by which the corporation surtax net income exceeds \$50,000, whichever is the lesser.

“(C) Taxable Years Beginning After March 31, 1954.—In the case of a taxable year beginning after March 31, 1954—

“(i) Normal tax.—A normal tax of 25 per centum of the normal-tax net income, or 50 per centum of the amount by which the normal-tax net income exceeds \$50,000, whichever is the lesser; plus

“(ii) *Surtax*.—A surtax of 22 per centum of the corporation surtax net income in excess of \$25,000, or 33 per centum of the amount by which the corporation surtax net income exceeds \$50,000, whichever is the lesser.”

(d) *REGULATED INVESTMENT COMPANIES*.—Section 362 (b) (relating to tax on regulated investment companies) is hereby amended by striking out paragraphs (3) and (4) and inserting in lieu thereof the following:

“(3) In the case of taxable years beginning after December 31, 1950, and before April 1, 1951, and ending after March 31, 1951, there shall be levied, collected, and paid for each taxable year upon its Supplement Q net income a tax equal to 28¾ per centum of the amount thereof. In the case of taxable years beginning after March 31, 1951, and before April 1, 1954, there shall be levied, collected, and paid for each taxable year upon its Supplement Q net income a tax equal to 30 per centum of the amount thereof. In the case of taxable years beginning after March 31, 1954, there shall be levied, collected, and paid for each taxable year upon its Supplement Q net income a tax equal to 25 per centum of the amount thereof.

“(4) In the case of taxable years beginning after December 31, 1950, there shall be levied, collected, and paid for each taxable year upon its Supplement Q surtax net income a tax equal to 22 per centum of the amount thereof in excess of \$25,000.”

(e) *BUSINESS INCOME OF CERTAIN SECTION 101 ORGANIZATIONS*.—Section 421 (a) (1) (relating to imposition of tax on business income of certain section 101 organizations) is hereby amended by inserting before the period at the end thereof the following: “; except that (A) in the case of taxable years beginning before April 1, 1951, and ending after March 31, 1951, the normal tax shall be 28¾ per centum of the Supplement U net income, and (B) in the case of taxable years beginning after March 31, 1951, and before April 1, 1954, the normal tax shall be 30 per centum of the Supplement U net income”.

(f) *AMENDMENT OF SECTION 15*.—Section 15 (relating to surtax on corporations) is hereby amended to read as follows:

“SEC. 15. SURTAX ON CORPORATIONS.

“(a) *CORPORATION SURTAX NET INCOME*.—For the purposes of this chapter, the term ‘corporation surtax net income’ means the net income minus the sum of the following credits:

“(1) The credit for dividends received provided in section 26 (b);

“(2) In the case of a public utility, the credit for dividends paid on its preferred stock provided in section 26 (h);

“(3) In the case of a western hemisphere trade corporation (as defined in section 109), the credit provided in section 26 (i).

“(b) *IMPOSITION OF TAX*.—There shall be levied, collected, and paid for each taxable year upon the corporation surtax net income of every corporation (except a corporation subject to a tax imposed by section 231 (a), Supplement G, or Supplement Q) a surtax of 22 per centum of the amount of the corporation surtax net income in excess of \$25,000.

“(c) *DISALLOWANCE OF SURTAX EXEMPTION AND MINIMUM EXCESS PROFITS CREDIT*.—If any corporation transfers, on or after January 1, 1951, all or part of its property (other than money) to another corporation which was created for the purpose of acquiring such property or which was not actively engaged in business at the time of such acquisition, and if after such transfer the transferor corporation or its stockholders,

or both, are in control of such transferee corporation during any part of the taxable year of such transferee corporation, then such transferee corporation shall not for such taxable year (except as may be otherwise determined under section 129 (b)) be allowed either the \$25,000 exemption from surtax provided in subsection (b) or the \$25,000 minimum excess profits credit provided in the last sentence of section 431, unless such transferee corporation shall establish by the clear preponderance of the evidence that the securing of such exemption or credit was not a major purpose of such transfer. For the purposes of this subsection, control means the ownership of stock possessing at least 80 per centum of the total combined voting power of all classes of stock entitled to vote or at least 80 per centum of the total value of shares of all classes of stock of the corporation. In determining the ownership of stock for the purpose of this subsection, the ownership of stock shall be determined in accordance with the provisions of section 503, except that constructive ownership under section 503 (a) (2) shall be determined only with respect to the individual's spouse and minor children. The provisions of section 129 (b), and the authority of the Secretary under such section, shall, to the extent not inconsistent with the provisions of this subsection, be applicable to this subsection. This subsection shall not apply to any taxable year with respect to which the tax imposed by subchapter D of this chapter is not in effect."

(g) **TECHNICAL AMENDMENT.**—Section 14 (relating to normal tax on special classes of corporations in the case of taxable years beginning before July 1, 1950) is hereby repealed.

And the Senate agree to the same.

Amendment numbered 8:

That the House recede from its disagreement to the amendment of the Senate numbered 8, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

SEC. 122. CREDITS OF CORPORATIONS.

(a) **DIVIDENDS RECEIVED CREDIT.**—Paragraphs (1) and (2) of section 26 (b) (relating to credit for dividends received) are hereby amended to read as follows:

"(1) **IN GENERAL.**—85 per centum of the amount received as dividends (other than dividends described in paragraph (2) on the preferred stock of a public utility) from a domestic corporation which is subject to taxation under this chapter.

"(2) **CERTAIN PREFERRED STOCK.**—

"(A) **Calendar Year 1951.**—In the case of a taxable year beginning on January 1, 1951, and ending on December 31, 1951, 61 per centum of the amount received as dividends on the preferred stock of a public utility which is subject to taxation under this chapter and with respect to which the credit provided in section 26 (h) for dividends paid is allowable.

"(B) **Taxable Years Beginning After March 31, 1951, and Before April 1, 1954.**—In the case of taxable years beginning after March 31, 1951, and before April 1, 1954, 62 per centum of the amount received as dividends on the preferred stock of a public utility which is subject to taxation under this chapter and

with respect to which the credit provided in section 26 (h) for dividends paid is allowable.

“(C) *Taxable Years Beginning After March 31, 1954.*—In the case of taxable years beginning after March 31, 1954, 59 per centum of the amount received as dividends on the preferred stock of a public utility which is subject to taxation under this chapter and with respect to which the credit provided in section 26 (h) for dividends paid is allowable.”

(b) *CREDIT FOR DIVIDENDS PAID ON CERTAIN PREFERRED STOCK.*—The first sentence of section 26 (h) (1) (relating to amount of credit for dividends paid on certain preferred stock) is hereby amended to read as follows: “In the case of a public utility, (A) for a taxable year beginning on January 1, 1951, and ending on December 31, 1951, an amount equal to 28 per centum of the lesser of (i) the amount of dividends paid during the taxable year on its preferred stock or (ii) the adjusted net income for such taxable year minus the credit for dividends received provided in subsection (b) for such year, (B) for a taxable year beginning after March 31, 1951, and before April 1, 1954, an amount equal to 27 per centum of the lesser of (i) the amount of dividends paid during the taxable year on its preferred stock or (ii) the adjusted net income for such taxable year minus the credit for dividends received provided in subsection (b) for such year, and (C) for a taxable year beginning after March 31, 1954, an amount equal to 30 per centum of the lower of (i) the amount of dividends paid during the taxable year on its preferred stock or (ii) the adjusted net income for such taxable year minus the credit for dividends received provided in subsection (b) for such year.”

(c) *WESTERN HEMISPHERE TRADE CORPORATIONS.*—Section 26 (i) (relating to credit of a western hemisphere trade corporation) is hereby amended to read as follows:

“(i) *WESTERN HEMISPHERE TRADE CORPORATIONS.*—In the case of a western hemisphere trade corporation (as defined in section 109)—

“(1) *CALENDAR YEAR 1951.*—In the case of a taxable year beginning on January 1, 1951, and ending on December 31, 1951, an amount equal to 28 per centum of its normal-tax net income computed without regard to the credit provided in this subsection.

“(2) *TAXABLE YEARS BEGINNING AFTER MARCH 31, 1951, AND BEFORE APRIL 1, 1954.*—In the case of a taxable year beginning after March 31, 1951, and before April 1, 1954, an amount equal to 27 per centum of its normal-tax net income computed without regard to the credit provided in this subsection.

“(3) *TAXABLE YEARS BEGINNING AFTER MARCH 31, 1954.*—In the case of a taxable year beginning after March 31, 1954, an amount equal to 30 per centum of its normal-tax net income computed without regard to the credit provided in this subsection.”

And the Senate agree to the same.

Amendment numbered 10:

That the House recede from its disagreement to the amendment of the Senate numbered 10, and agree to the same with an amendment as follows:

Strike out the matter proposed to be stricken out by the Senate amendment and insert the following:

SEC. 123. COMPUTATION OF ALTERNATIVE CAPITAL GAINS TAX.

Section 117 (c) (1) (relating to alternative tax on corporations) is hereby amended by striking out the second paragraph and inserting in lieu thereof the following:

"(A) A partial tax shall first be computed upon the net income reduced by the amount of such excess, at the rates and in the manner as if this subsection had not been enacted.

"(B) There shall then be ascertained an amount equal to 25 per centum of such excess, except that in the case of any taxable year beginning after March 31, 1951, and before April 1, 1954, there shall be ascertained an amount equal to 26 per centum of such excess.

"(C) The total tax shall be the partial tax computed under subparagraph (A) plus the amount computed under subparagraph (B)."

And the Senate agree to the same.

Amendment numbered 11:

That the House recede from its disagreement to the amendment of the Senate numbered 11, and agree to the same with an amendment as follows:

On page 24, line 16, of the Senate engrossed amendments, strike out "123" and insert 124; and the Senate agree to the same.

Amendment numbered 12:

That the House recede from its disagreement to the amendment of the Senate numbered 12, and agree to the same with an amendment as follows:

On page 25, line 21, of the Senate engrossed amendments, strike out "124" and insert 125; and the Senate agree to the same.

Amendment numbered 13:

That the House recede from its disagreement to the amendment of the Senate numbered 13, and agree to the same with the following amendments:

On page 27 of the Senate engrossed amendments strike out lines 1 to 5, inclusive, and insert in lieu thereof the following:

"(3) that portion of a tentative tax consisting of—

"(A) a tentative normal tax of 30 per centum of the normal-tax net income, plus

"(B) a tentative surtax of 20 per centum of the surtax net income in excess of \$25,000,

On page 31 of the Senate engrossed amendments strike out subsection (k) and insert in lieu thereof the following:

"(k) *TAXABLE YEARS OF CORPORATIONS BEGINNING BEFORE APRIL 1, 1954, AND ENDING AFTER MARCH 31, 1954.*—In the case of a taxable year of a corporation beginning before April 1, 1954, and ending after March 31, 1954, the tax imposed by sections 13 and 15, or section 421 (a) (1), shall be an amount equal to the sum of—

"(1) that portion of a tentative tax, computed under the provisions of sections 13 and 15, or section 421 (a) (1), applicable to years beginning on January 1, 1953, which the number of days in such taxable year prior to April 1, 1954, bears to the total number of days in such taxable year, plus

"(2) that portion of a tentative tax, computed under the provisions of sections 13 and 15, or section 421 (a) (1), applicable to years beginning on April 1, 1954, as if such provisions were applicable to such taxable year, which the number of days in such taxable year after March 31, 1954, bears to the total number of days in such taxable year."

And the Senate agree to the same.

Amendment numbered 28:

That the House recede from its disagreement to the amendment of the Senate numbered 28, and agree to the same with the following amendments:

Strike out the surtax table beginning on page 39 of the Senate engrossed amendments and insert the following:

"If the surtax net income is:

The surtax shall be:

Not over \$2,000-----	19.2% of the surtax net income.
Over \$2,000 but not over \$4,000-----	\$384, plus 20.4% of excess over \$2,000.
Over \$4,000 but not over \$6,000-----	\$792, plus 24% of excess over \$4,000.
Over \$6,000 but not over \$8,000-----	\$1,272, plus 26% of excess over \$6,000.
Over \$8,000 but not over \$10,000-----	\$1,792, plus 31% of excess over \$8,000.
Over \$10,000 but not over \$12,000-----	\$2,412, plus 32% of excess over \$10,000.
Over \$12,000 but not over \$14,000-----	\$3,052, plus 38% of excess over \$12,000.
Over \$14,000 but not over \$16,000-----	\$3,812, plus 41% of excess over \$14,000.
Over \$16,000 but not over \$18,000-----	\$4,632, plus 44% of excess over \$16,000.
Over \$18,000 but not over \$20,000-----	\$5,512, plus 45% of excess over \$18,000.
Over \$20,000 but not over \$22,000-----	\$6,412, plus 49% of excess over \$20,000.
Over \$22,000 but not over \$24,000-----	\$7,392, plus 51% of excess over \$22,000.
Over \$24,000 but not over \$28,000-----	\$8,412, plus 54% of excess over \$24,000.
Over \$28,000 but not over \$32,000-----	\$10,572, plus 57% of excess over \$28,000.
Over \$32,000 but not over \$38,000-----	\$12,852, plus 60% of excess over \$32,000.
Over \$38,000 but not over \$44,000-----	\$16,452, plus 63% of excess over \$38,000.
Over \$44,000 but not over \$50,000-----	\$20,232, plus 68% of excess over \$44,000.
Over \$50,000 but not over \$60,000-----	\$24,312, plus 69% of excess over \$50,000.
Over \$60,000 but not over \$70,000-----	\$31,212, plus 70% of excess over \$60,000.
Over \$70,000 but not over \$80,000-----	\$38,212, plus 74% of excess over \$70,000.
Over \$80,000 but not over \$90,000-----	\$45,612, plus 76% of excess over \$80,000.
Over \$90,000 but not over \$100,000-----	\$53,212, plus 78% of excess over \$90,000.
Over \$100,000 but not over \$150,000--	\$61,012, plus 82% of excess over \$100,000.
Over \$150,000 but not over \$200,000--	\$102,012, plus 85% of excess over \$150,000.
Over \$200,000 but not over \$300,000--	\$144,512, plus 88% of excess over \$200,000.
Over \$300,000-----	\$232,512, plus 89% of excess over \$300,000.

Strike out the surtax table beginning on page 41 of the Senate engrossed amendments and insert the following:

"If the surtax net income is:

Not over \$2,000-----
 Over \$2,000 but not over \$4,000-----
 Over \$4,000 but not over \$6,000-----
 Over \$6,000 but not over \$8,000-----
 Over \$8,000 but not over \$10,000-----
 Over \$10,000 but not over \$12,000-----
 Over \$12,000 but not over \$14,000-----
 Over \$14,000 but not over \$16,000-----
 Over \$16,000 but not over \$18,000-----
 Over \$18,000 but not over \$20,000-----
 Over \$20,000 but not over \$22,000-----
 Over \$22,000 but not over \$24,000-----
 Over \$24,000 but not over \$28,000-----
 Over \$28,000 but not over \$32,000-----
 Over \$32,000 but not over \$38,000-----

Over \$38,000 but not over \$44,000----

Over \$44,000 but not over \$50,000----

Over \$50,000 but not over \$60,000----

Over \$60,000 but not over \$70,000----

Over \$70,000 but not over \$80,000----

Over \$80,000 but not over \$90,000----

Over \$90,000 but not over \$100,000---

Over \$100,000 but not over \$150,000--

Over \$150,000 but not over \$200,000--

Over \$200,000 but not over \$300,000--

Over \$300,000-----

The surtax shall be:

17% of the surtax net income.
 \$340, plus 18% of excess over \$2,000.
 \$700, plus 21% of excess over \$4,000.
 \$1,120, plus 23% of excess over \$6,000.
 \$1,580, plus 27% of excess over \$8,000.
 \$2,120, plus 29% of excess over \$10,000.
 \$2,700, plus 33% of excess over \$12,000.
 \$3,360, plus 36% of excess over \$14,000.
 \$4,080, plus 39% of excess over \$16,000.
 \$4,860, plus 40% of excess over \$18,000.
 \$5,660, plus 44% of excess over \$20,000.
 \$6,540, plus 46% of excess over \$22,000.
 \$7,460, plus 49% of excess over \$24,000.
 \$9,420, plus 51% of excess over \$28,000.
 \$11,460, plus 55% of excess over \$32,000.
 \$14,760, plus 59% of excess over \$38,000.
 \$18,300, plus 63% of excess over \$44,000.
 \$22,080, plus 65% of excess over \$50,000.
 \$28,580, plus 68% of excess over \$60,000.
 \$35,380, plus 71% of excess over \$70,000.
 \$42,480, plus 73% of excess over \$80,000.
 \$49,780, plus 77% of excess over \$90,000.
 \$57,480, plus 80% of excess over \$100,000.
 \$97,480, plus 84% of excess over \$150,000.
 \$139,480, plus 87% of excess over \$200,000.
 \$226,480, plus 88% of excess over \$300,000.

And the Senate agree to the same.

Amendment numbered 43:

That the House recede from its disagreement to the amendment of the Senate numbered 43, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

SEC. 311. CREDIT FOR DIVIDENDS RECEIVED.

(a) *DIVIDENDS FROM FOREIGN CORPORATION ENGAGED IN TRADE OR BUSINESS IN THE UNITED STATES.*—Section 26 (b) (relating to dividends received credit) is hereby amended by inserting after paragraph (2) the following new paragraph:

“(3) *DIVIDENDS RECEIVED FROM CERTAIN FOREIGN CORPORATIONS.*—In the case of dividends received from a foreign corporation (other than a foreign personal holding company) which is subject to taxation under this chapter, if, for an uninterrupted period of not less than 36 months ending with the close of such foreign corporation's taxable year in which such dividends are paid (or, if the corporation has not been in existence for 36 months at the close of such taxable year, for the period the foreign corporation has been in existence as of the close of such taxable year) such foreign corporation has been engaged in trade or business within the United States and has derived 50 per centum or more of its gross income from sources within the United States—

“(A) an amount equal to 85 per centum of the dividends received out of its earnings or profits specified in clause (2) of the first sentence of section 115 (a), but such amount shall not exceed an amount which bears the same ratio to 85 per centum of such dividends received out of such earnings or profits as the gross income of such foreign corporation for the taxable year from sources within the United States bears to its gross income from all sources for such taxable year, and

“(B) an amount equal to 85 per centum of the dividends received out of that part of its earnings or profits specified in clause (1) of the first sentence of section 115 (a) accumulated after the beginning of such uninterrupted period, but such amount shall not exceed an amount which bears the same ratio to 85 per centum of such dividends received out of such accumulated earnings or profits as the gross income of such foreign corporation from sources within the United States for the portion of such uninterrupted period ending at the beginning of such taxable year bears to its gross income from all sources for such portion of such uninterrupted period.

For determination of earnings or profits distributed in any taxable year, see section 115 (b).”

(b) *TECHNICAL AMENDMENT.*—Section 119 (a) (2) (B) (relating to rules as to source of income in the case of dividends) is hereby amended by inserting before the semicolon at the end thereof the following: “to the extent exceeding the amount which is 100/85ths of the amount of the credit allowable under section 26 (b) in respect of such dividends”.

(c) *EFFECTIVE DATE.*—The amendments made by this section shall be applicable only with respect to taxable years beginning after December 31, 1950.

And the Senate agree to the same.

Amendment numbered 45:

That the House recede from its disagreement to the amendment of the Senate numbered 45, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

SEC. 313. MUTUAL SAVINGS BANKS, BUILDING AND LOAN ASSOCIATIONS, COOPERATIVE BANKS.

(a) *MUTUAL SAVINGS BANKS.*—Section 101 (2) (relating to exemption from tax of mutual savings banks) is hereby repealed.

(b) *BUILDING AND LOAN ASSOCIATIONS AND COOPERATIVE BANKS.*—Section 101 (4) (relating to exemption from tax of building and loan associations and cooperative banks) is hereby amended to read as follows:

“(4) Credit unions without capital stock organized and operated for mutual purposes and without profit; and corporations or associations without capital stock organized prior to September 1, 1951, and operated for mutual purposes and without profit for the purpose of providing reserve funds for, and insurance of, shares or deposits in—

“(A) domestic building and loan associations,

“(B) cooperative banks without capital stock organized and operated for mutual purposes and without profit, or

“(C) mutual savings banks not having capital stock represented by shares,”.

(c) *EXEMPTIONS FROM EXCESS PROFITS TAX.*—Section 454 (corporations exempt from the excess profits tax) is hereby amended by adding at the end thereof the following:

“(h) Any mutual savings bank not having capital stock represented by shares, any domestic building and loan association (as defined in section 3797 (a) (19)), and any cooperative bank without capital stock organized and operated for mutual purposes and without profit.”

(d) *FEDERAL SAVINGS AND LOAN ASSOCIATIONS.*—Section 5 (h) of the Home Owners' Loan Act of 1933, as amended (12 U. S. C. 1464 (h)), is hereby amended by striking out “date)” and inserting in lieu thereof the following: “date, and except, in the case of taxable years beginning after December 31, 1951, income, war-profits, and excess-profits taxes”.

(e) *BAD DEBT RESERVES.*—Section 23 (k) (1) (relating to deduction from gross income of bad debts) is hereby amended by adding at the end thereof the following: “In the case of a mutual savings bank not having capital stock represented by shares, a domestic building and loan association, and a cooperative bank without capital stock organized and operated for mutual purposes and without profit, the reasonable addition to a reserve for bad debts shall be determined with due regard to the amount of the taxpayer's surplus or bad debt reserves existing at the close of December 31, 1951. In the case of a taxpayer described in the preceding sentence, the reasonable addition to a reserve for bad debts for any taxable year shall in no case be less than the amount determined by the taxpayer as the reasonable addition for such year; except that the amount determined by the taxpayer under this sentence shall not be greater than the lesser of (A) the amount of its net income for the taxable year, computed without regard to this subsection, or (B) the amount by which 12 per centum of the total deposits or withdrawable accounts of its depositors

at the close of such year exceeds the sum of its surplus, undivided profits, and reserves at the beginning of the taxable year."

(f) *DIVIDENDS PAID TO DEPOSITORS.*—Section 23 (r) (relating to the deduction from gross income of certain dividends paid by banking corporations) is hereby amended to read as follows:

"(r) *DIVIDENDS PAID BY BANKING CORPORATIONS.*—

"(1) In the case of mutual savings banks, cooperative banks, and domestic building and loan associations, amounts paid to, or credited to the accounts of, depositors or holders of accounts as dividends on their deposits or withdrawable accounts, if such amounts paid or credited are withdrawable on demand subject only to customary notice of intention to withdraw.

"(2) For deduction of dividends paid by certain other banking corporations, see section 121."

(g) *DEDUCTION FOR REPAYMENT OF CERTAIN LOANS.*—Section 23 (relating to deductions from gross income) is hereby amended by adding at the end thereof the following:

"(dd) *REPAYMENT BY MUTUAL SAVINGS BANKS, ETC., OF CERTAIN LOANS.*—In the case of a mutual savings bank not having capital stock represented by shares, a domestic building and loan association, or a cooperative bank without capital stock organized and operated for mutual purposes and without profit, amounts paid by the taxpayer during the taxable year in repayment of loans made prior to September 1, 1951, by (1) the United States or any agency or instrumentality thereof which is wholly owned by the United States, or (2) any mutual fund established under the authority of the laws of any State."

(h) *DEFINITION OF BANK.*—Section 104 (a) (relating to definition of bank) is hereby amended by inserting at the end thereof the following: "Such term also means a domestic building and loan association."

(i) *DEFINITION OF DOMESTIC BUILDING AND LOAN ASSOCIATION.*—Section 3797 (a) (relating to definitions for the purposes of the Internal Revenue Code) is hereby amended by adding at the end thereof the following new paragraph:

"(19) *DOMESTIC BUILDING AND LOAN ASSOCIATION.*—The term 'domestic building and loan association' means a domestic building and loan association, a domestic savings and loan association, and a Federal savings and loan association, substantially all the business of which is confined to making loans to members."

(j) *EFFECTIVE DATE.*—The amendments made by this section shall be applicable only with respect to taxable years beginning after December 31, 1951.

And the Senate agree to the same.

Amendment numbered 46:

That the House recede from its disagreement to the amendment of the Senate numbered 46, and agree to the same with the following amendments:

On page 67, line 8, of the Senate engrossed amendments, insert after the period the following: *Allocations made after the close of the taxable year and on or before the fifteenth day of the ninth month following the close of such year shall be considered as made on the last day of such taxable year to the extent the allocations are attributable to income derived before the close of such year.*

On page 67, line 10, of the Senate engrossed amendments, insert after "patronage" the following: *in the same or preceding years*

On page 68, line 25, of the Senate engrossed amendments, strike out the quotation marks and insert the following: *This subsection shall not apply in the cases of any corporation (including any cooperative or nonprofit corporation engaged in rural electrification) exempt from taxation under section 101 (10) or (11) or in the case of any corporation subject to a tax imposed by supplement G."*

On page 69 of the Senate engrossed amendments strike out line 1 and all that follows through line 9.

On page 69, line 10, of the Senate engrossed amendments, strike out "(e)" and insert (d)

And the Senate agree to the same.

Amendment numbered 53:

That the House recede from its disagreement to the amendment of the Senate numbered 53, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

"(i) *in the case of sand, gravel, slate, stone (including pumice and scoria), brick and tile clay, shale, oyster shell, clam shell, granite, marble, sodium chloride, and, if from brine wells, calcium chloride, magnesium chloride, and bromine, 5 per centum,*

"(ii) *in the case of coal, asbestos, brucite, dolomite, magnesite, perlite, wollastonite, calcium carbonates, and magnesium carbonates, 10 per centum,*

"(iii) *in the case of metal mines, aplite, bauxite, fluor spar, flake graphite, vermiculite, beryl, garnet, feldspar, mica, talc (including pyrophyllite), lepidolite, spodumene, barite, ball clay, sagger clay, china clay, phosphate rock, rock asphalt, trona, bentonite, gilsonite, thenardite, borax, fuller's earth, tripoli, refractory and fire clay, quartzite, diatomaceous earth, metallurgical grade limestone, chemical grade limestone, and potash, 15 per centum, and*

And the Senate agree to the same.

Amendment numbered 54:

That the House recede from its disagreement to the amendment of the Senate numbered 54, and agree to the same with an amendment as follows:

On page 74 of the Senate engrossed amendments strike out lines 12 and 13 and insert the following: *taxes) is hereby amended by striking out "50 per centum of the value of the net estate" and inserting in lieu thereof "35 per centum of the value of the gross estate".;* and the Senate agree to the same.

Amendment numbered 55:

That the House recede from its disagreement to the amendment of the Senate numbered 55, and agree to the same with an amendment as follows:

On page 74, line 21, of the Senate engrossed amendments strike out "EXCLUSIVE" and insert *EXCLUSION*; and the Senate agree to the same.

Amendment numbered 59:

That the House recede from its disagreement to the amendment of the Senate numbered 59, and agree to the same with an amendment as follows:

Strike out the matter proposed to be stricken out by the Senate amendment and insert the following: *In the case of any taxable year beginning after October 31, 1951, and before November 1, 1953, there shall be ascertained, in lieu of the amount computed under the preceding sentence, an amount equal to 26 per centum of the excess of the net long-term capital gain over the net short-term capital loss.*

And the Senate agree to the same.

Amendment numbered 64:

That the House recede from its disagreement to the amendment of the Senate numbered 64, and agree to the same with an amendment as follows:

On page 79 of the Senate engrossed amendments strike out all after "poultry" in line 14 to and including "acquisition" in line 17; and the Senate agree to the same.

Amendment numbered 67:

That the House recede from its disagreement to the amendment of the Senate numbered 67, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following: *This paragraph shall not apply to income realized by the owner as a co-adventurer, partner, or principal in the mining of such coal. The date of disposal of such coal shall be deemed to be the date such coal is mined. In determining the gross income, the adjusted gross income, or the net income of the lessee, the deductions allowable with respect to rents and royalties shall be determined without regard to the provisions of this paragraph. This paragraph shall have no application, in the case of coal, for the purposes of applying section 102 or subchapter A of chapter 2 (including the computation under section 117 (c) (1) of a tax in lieu of the tax imposed by section 500)*

And the Senate agree to the same.

Amendment numbered 77:

That the House recede from its disagreement to the amendment of the Senate numbered 77, and agree to the same with an amendment as follows:

Strike out the matter proposed to be stricken out by the Senate amendment and insert the following:

SEC. 328. TREATMENT OF GAIN ON SALES OF CERTAIN PROPERTY BETWEEN SPOUSES AND BETWEEN AN INDIVIDUAL AND A CONTROLLED CORPORATION.

(a) *DISALLOWANCE OF CAPITAL GAIN TREATMENT.*—Section 117 (relating to capital gains and losses) is hereby amended by adding at the end thereof the following new subsection:

"(o) *GAIN FROM SALE OF CERTAIN PROPERTY BETWEEN SPOUSES OR BETWEEN AN INDIVIDUAL AND A CONTROLLED CORPORATION.*—

“(1) *TREATMENT OF GAIN AS ORDINARY INCOME.*—In the case of a sale or exchange, directly or indirectly, of property described in paragraph (2)—

“(A) between a husband and wife; or

“(B) between an individual and a corporation more than 80 per centum in value of the outstanding stock of which is owned by such individual, his spouse, and his minor children and minor grandchildren;

any gain recognized to the transferor from the sale or exchange of such property shall be considered as gain from the sale or exchange of property which is neither a capital asset nor property described in subsection (j).

“(2) *SUBSECTION APPLICABLE ONLY TO SALES OR EXCHANGES OF DEPRECIABLE PROPERTY.*—This subsection shall apply only in the case of a sale or exchange of property by a transferor which in the hands of the transferee is property of a character which is subject to the allowance for depreciation provided in section 23 (l).”

(b) *EFFECTIVE DATE.*—The amendment made by subsection (a) shall be applicable with respect to taxable years ending after April 30, 1951, but shall apply only with respect to sales or exchanges made after May 3, 1951.

And the Senate agree to the same.

Amendment numbered 78:

That the House recede from its disagreement to the amendment of the Senate numbered 78, and agree to the same with the following amendments:

On page 83, line 4, of the Senate engrossed amendments, strike out “328” and insert 329

On page 83, line 10, of the Senate engrossed amendments, strike out “(o)” and insert (p)

On page 83, line 14, of the Senate engrossed amendments insert after “employment” and before the comma the following: *and for a period of not less than 5 years (or for a period ending with his death)*

And the Senate agree to the same.

Amendment numbered 79:

That the House recede from its disagreement to the amendment of the Senate numbered 79, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

SEC. 330. NET OPERATING LOSS CARRY-OVER.

(a) *LOSS FOR TAXABLE YEAR BEGINNING BEFORE 1948.*—So much of subparagraph (A) of section 122 (b) (2) (relating to the amount of carry-overs) as precedes “the taxpayer” is hereby amended to read as follows:

“(A) *Loss for Taxable Year Beginning Before 1948.*—Except as provided in subparagraph (D), if for any taxable year beginning before January 1, 1948,”.

(b) *ALLOWANCE OF THREE-YEAR LOSS CARRY-OVER FROM TAXABLE YEARS 1948-1949.*—Section 122 (b) (2) (relating to the amount of carry-over) is hereby amended by adding after subparagraph (B) the following new subparagraphs:

“(C) *Loss for Taxable Year Beginning After December 31, 1947, and Before January 1, 1950.*—If for any taxable year beginning after December 31, 1947, and before January 1, 1950, the taxpayer has a net operating loss, such net operating loss shall be a net operating loss carry-over for each of the three succeeding taxable years, except that the carry-over in the case of each such succeeding taxable year (other than the first succeeding taxable year) shall be the excess, if any, of the amount of such net operating loss over the sum of the net income for each of the intervening years computed—

“(i) with the exceptions, additions, and limitations provided in subsection (d) (1), (2), (4), and (6), and

“(ii) by determining the net operating loss deduction for each intervening taxable year without regard to such net operating loss or to the net operating loss for any succeeding taxable year and without regard to any reduction specified in subsection (c). For the purpose of the preceding sentence, the net operating loss for any taxable year beginning after December 31, 1947, and before January 1, 1950, shall be reduced by the sum of the net income for each of the two preceding taxable years computed—

“(iii) with the exceptions, additions, and limitations provided in subsection (d) (1), (2), (4), and (6), and

“(iv) by determining the net operating loss deduction without regard to such net operating loss or to the net operating loss for the succeeding taxable year, and without regard to any reduction specified in subsection (c).

“(D) *Loss for Taxable Year Beginning After December 31, 1946, and Before January 1, 1948, in the Case of a Corporation Which Commenced Business After December 31, 1945.*—If for any taxable year beginning after December 31, 1946, and before January 1, 1948, a corporation which commenced business after December 31, 1945, has a net operating loss, such net operating loss shall be a net operating loss carry-over for each of the three succeeding taxable years, except that the carry-over in the case of each such succeeding taxable year (other than the first succeeding taxable year) shall be the excess, if any, of the amount of such net operating loss over the sum of the net income for each of the intervening years computed—

“(i) with the exceptions, additions, and limitations provided in subsection (d) (1), (2), (4), and (6), and

“(ii) by determining the net operating loss deduction for each intervening taxable year without regard to such net operating loss or to the net operating loss for any succeeding taxable year and without regard to any reduction specified in subsection (c). For the purpose of the preceding sentence, the net operating loss for any taxable year beginning after December 31, 1946, shall be reduced by the sum of the net income for each of the two preceding taxable years computed—

“(iii) with the exceptions, additions, and limitations provided in subsection (d) (1), (2), (4), and (6), and

“(iv) by determining the net operating loss deduction without regard to such net operating loss or to the net operating loss for

the succeeding taxable year, and without regard to any reduction specified in subsection (c)."

(c) *EFFECTIVE DATE.*—*The amendments made by this section shall be applicable in computing the net operating loss deduction for taxable years beginning after December 31, 1948.*

And the Senate agree to the same.

Amendment numbered 80:

That the House recede from its disagreement to the amendment of the Senate numbered 80, and agree to the same with an amendment as follows:

On page 87, line 17, of the Senate engrossed amendments, strike out "330" and insert 331; and the Senate agree to the same.

Amendment numbered 81:

That the House recede from its disagreement to the amendment of the Senate numbered 81, and agree to the same with the following amendments:

On page 88, line 7, of the Senate engrossed amendments, strike out "331" and insert 332

On page 88, line 21, of the Senate engrossed amendments, strike out "a majority" and insert the following: *50 per centum or more*

And the Senate agree to the same.

Amendment numbered 82:

That the House recede from its disagreement to the amendment of the Senate numbered 82, and agree to the same with an amendment as follows:

On page 89, line 5, of the Senate engrossed amendments, strike out "332" and insert 333; and the Senate agree to the same.

Amendment numbered 83:

That the House recede from its disagreement to the amendment of the Senate numbered 83, and agree to the same with an amendment as follows:

On page 89, line 19, of the Senate engrossed amendments, strike out "333" and insert 334; and the Senate agree to the same.

Amendment numbered 84:

That the House recede from its disagreement to the amendment of the Senate numbered 84, and agree to the same with the following amendments:

On page 90, line 22, of the Senate engrossed amendments, strike out "334" and insert 335

On page 91 of the Senate engrossed amendments strike out line 14 and insert the following: *coupons or in registered form, and the term 'securities of the employer corporation' includes securities of a parent or subsidiary corporation (as defined in section 130A (d) (2) and (3)) of the employer corporation.*"; and the Senate agree to the same.

Amendment numbered 85:

That the House recede from its disagreement to the amendment of the Senate numbered 85, and agree to the same with an amendment as follows:

On page 91, line 20, of the Senate engrossed amendments, strike out "335" and insert 336; and the Senate agree to the same.

Amendment numbered 86:

That the House recede from its disagreement to the amendment of the Senate numbered 86, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following: 337; and the Senate agree to the same.

Amendment numbered 88:

That the House recede from its disagreement to the amendment of the Senate numbered 88, and agree to the same with an amendment as follows:

On page 97, line 4, of the Senate engrossed amendments, strike out "337" and insert 338; and the Senate agree to the same.

Amendment numbered 89:

That the House recede from its disagreement to the amendment of the Senate numbered 89, and agree to the same with an amendment as follows:

On page 98, line 4, of the Senate engrossed amendments, strike out "338" and insert 339; and the Senate agree to the same.

Amendment numbered 90:

That the House recede from its disagreement to the amendment of the Senate numbered 90, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following: 340; and the Senate agree to the same.

Amendment numbered 91:

That the House recede from its disagreement to the amendment of the Senate numbered 91, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

(c) *EFFECTIVE DATE.*—*The amendments made by this section shall be applicable with respect to taxable years beginning after December 31, 1950. The determination as to whether a person shall be recognized as a partner for income tax purposes for any taxable year beginning before January 1, 1951, shall be made as if this section had not been enacted and without inferences drawn from the fact that this section is not expressly made applicable with respect to taxable years beginning before January 1, 1951. In applying this subsection where the taxable year of any family partner is different from the taxable year of the partnership—*

(1) if a taxable year of the partnership beginning in 1950 ends within or with, as to all of the family partners, taxable years which begin in 1951, then the amendments made by this section shall be applicable with respect to all distributive shares of income derived by the family partners from such taxable year of the partnership beginning in 1950, and

(2) if a taxable year of the partnership ending in 1951 ends within or with a taxable year of any family partner which began in 1950, then the amendments made by this section shall not be applicable with respect to any of the distributive shares of income derived by the family partners from such taxable year of the partnership.

And the Senate agree to the same.

Amendment numbered 92:

That the House recede from its disagreement to the amendment of the Senate numbered 92, and agree to the same with the following amendments:

On page 103, line 5, of the Senate engrossed amendments, strike out "340" and insert 341.

On page 106 of the Senate engrossed amendments, strike out all after line 3 over to and including line 23 on page 110 and insert:

"(3) TAX ADJUSTMENT MEASURED BY PRIOR BENEFITS.—If the provisions of this paragraph are applicable to the taxable year pursuant to an election made by the taxpayer under the provisions of paragraph (5)—

"(A) Amount of Recovery.—The amount of the recovery in the taxable year of any money or property in respect of property considered under subsection (a) as destroyed or seized in any prior taxable year shall be an amount equal to the aggregate of such money and the fair market value of such property, determined as of the date of the recovery. For the purpose of this paragraph, in the case of the recovery of the same property or interest considered under subsection (a) as destroyed or seized, the fair market value of such property or interest shall, at the option of the taxpayer, be considered an amount equal to the adjusted basis (for determining loss) of such property or interest in the hands of the taxpayer on the date such property or interest was considered under subsection (a) as destroyed or seized. The amount of the recovery determined under this subparagraph shall be reduced for the purposes of subparagraphs (B) and (C) by the amount of the obligations or liabilities with respect to the property considered under subsection (a) as destroyed or seized in respect of which the recovery was received, if the taxpayer for any previous taxable year chose under subsection (b) (2) to treat such obligations or liabilities as discharged or satisfied out of such property, and such obligations or liabilities were not so discharged or satisfied prior to the date of the recovery.

"(B) Adjustment for Prior Tax Benefits.—That part of the amount of the recovery, in respect of any property considered under subsection (a) as destroyed or seized, which is not in excess of the allowable deductions in prior taxable years on account of such destruction or seizure of the property (the amount of such allowable deductions being first reduced by the aggregate amount of any prior recoveries in respect of the same property) shall be excluded from gross income for the taxable year of the recovery for the purpose of computing the tax under this chapter and chapter 2; but there shall be added to, and assessed and collected as a part of, the tax under this chapter for the taxable year of the recovery the total increase in the tax under this chapter and chapter 2 for all taxable years which would result by decreasing, in an amount equal to such part of the recovery so excluded, such deductions allowable in the prior taxable years with respect to the destruction or seizure of the property. Such increase in the tax for each such year so resulting shall be computed in accordance with regulations prescribed by the Secretary. Such regulations shall give effect

to previous recoveries of any kind (including recoveries described in section 22 (b) (12)) with respect to any prior year, and shall provide for the case where there was no tax for the prior year, but shall otherwise treat the tax previously determined for any year in accordance with the principles set forth in section 3801 (d). All credits allowable against the tax for any year and all carry-overs and carry-backs affected by so decreasing the allowable deductions shall be taken into account in computing the increase in the tax, except that the computation of the excess profits credit under chapter 2 E for any taxable year shall not be affected.

“(C) *Gain Upon Recovery.*—The amount of any recovery or part thereof, in respect of property considered under subsection (a) as destroyed or seized, which is not excluded from gross income under the provisions of subparagraph (B) shall be considered for the taxable year of the recovery as gain on the involuntary conversion of property as a result of its destruction or seizure and shall be recognized or not recognized as provided in section 112 (f).

“(D) *Recoveries Treated as Gross Income for Certain Purposes.*—For the purposes of sections 51, 52, and 3801 (b) the recovery in the taxable year of any money or property in respect of property considered under subsection (a) as destroyed or seized in any prior taxable year shall be deemed to be an item includible in gross income for the taxable year in which the recovery is made.

“(4) *RESTORATION OF VALUE OF INVESTMENTS REFERABLE TO DESTROYED OR SEIZED PROPERTY.*—For the purpose of this subsection the restoration in whole or in part of the value of any interest described in subsection (a) (3) by reason of any recovery of money or property in respect of property to which such interest related and which was considered under subsection (a) (1) or (2) as destroyed or seized shall be deemed a recovery of property in respect of property considered under subsection (a) as destroyed or seized. In applying paragraph (3) of this subsection such restoration shall be treated as the recovery of the same interest considered under subsection (a) as destroyed or seized.

“(5) *ELECTION BY TAXPAYER FOR APPLICATION OF PARAGRAPH (3).*—If the taxpayer elects to have the provisions of paragraph (3) applicable to any taxable year in which he recovered any money or property in respect of property considered under subsection (a) as destroyed or seized, the provisions of paragraph (3) shall be applicable to all taxable years of the taxpayer beginning after December 31, 1941, and such election, once made, shall be irrevocable. The election shall be made in such manner and at such time as the Secretary may by regulations prescribe, except that no election under this paragraph may be made after December 31, 1952, unless the taxpayer recovers money or property (in respect of property considered under subsection (a) as destroyed or seized) during a taxable year ending after the date of the enactment of the Revenue Act of 1951. If pursuant to such election the provisions of paragraph (3) are applicable to any taxable year—

“(A) the period of limitations provided in sections 275 and 276 on the making of assessments and the beginning of distraint

or a proceeding in court for collection shall not, with respect to—

“(i) the amount to be added to the tax for such taxable year under the provisions of paragraph (3), and

“(ii) any deficiency for such taxable year or for any other taxable year, to the extent attributable to the basis of the recovered property being determined under the provisions of subsection (d) (2),

expire prior to the expiration of two years following the date of the making of such election, and such amount and such deficiency may be assessed at any time prior to the expiration of such period notwithstanding any law or rule of law which would otherwise prevent such assessment and collection, and

“(B) in case refund or credit of any overpayment resulting from the application of the provisions of paragraph (3) to such taxable year is prevented on the date of the making of such election, or within one year from such date, by the operation of any law or rule of law (other than section 3761, relating to compromises), refund or credit of such overpayment may, nevertheless, be made or allowed if claim therefor is filed within one year from such date.

In the case of any taxable year ending before the date of the making by the taxpayer of an election under this paragraph, no interest shall be paid on any overpayment resulting from the application of the provisions of paragraph (3) to such taxable year, and no interest shall be assessed or collected with respect to any amount or any deficiency specified in clause (A), for any period prior to the expiration of six months following the date of the making of such election by the taxpayer.”

On page 112 of the Senate engrossed amendments strike out line 6 and all that follows through line 17 and insert:

“(2) *PROPERTY RECOVERED IN TAXABLE YEAR TO WHICH SUBSECTION (C) (3) IS APPLICABLE.*—*In the case of a taxpayer who has made an election under the provisions of subsection (c) (5), the basis of property recovered shall be an amount equal to the value at which such property is included in the amount of the recovery under subsection (c) (3) (A) (determined without regard to the last sentence thereof), reduced by such part of the gain under subsection (c) (3) (C) which is not recognized as provided in section 112 (f).”*

On page 113, line 2, of the Senate engrossed amendments, strike out “1940” and insert 1941

And the Senate agree to the same.

Amendment numbered 93:

That the House recede from its disagreement to the amendment of the Senate numbered 93, and agree to the same with an amendment as follows:

On page 113, line 4, of the Senate engrossed amendments, strike out “341” and insert 342; and the Senate agree to the same.

Amendment numbered 96:

That the House recede from its disagreement to the amendment of the Senate numbered 96, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

SEC. 344. NONBUSINESS CASUALTY LOSSES.

(a) *REMOVAL OF LIMITATION.*—Section 122 (d) (5) (relating to net operating loss deduction) is hereby amended by inserting at the end thereof the following new sentence: "This paragraph shall not apply with respect to deductions allowable for losses sustained after December 31, 1950, in respect of property, if the losses arise from fire, storm, shipwreck, or other casualty, or from theft."

(b) *EFFECTIVE DATE.*—The amendment made by this section shall be applicable in computing the net operating loss deduction for taxable years ending after December 31, 1948.

And the Senate agree to the same.

Amendment numbered 97:

That the House recede from its disagreement to the amendment of the Senate numbered 97, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

SEC. 345. ABATEMENT OF TAX ON CERTAIN TRUSTS FOR MEMBERS OF ARMED FORCES DYING IN SERVICE.

In the case of a trust which accumulated income for a beneficiary who died on or after December 7, 1941, and before January 1, 1948, while in active service as a member of the military or naval forces of the United States or of any of the other United Nations, there shall be allowed as a deduction in computing the net income of such trust (in addition to other deductions allowable under sections 23 and 162 of the Internal Revenue Code) income of the trust for any taxable year (before diminution for income tax) which was accumulated for such beneficiary if—

(1) *the income accumulated was for a taxable year of the trust which ended with or within a taxable year (ending on or after December 7, 1941) of such beneficiary during any part of which he was a member of such military or naval forces, or, in the case of the taxable year of the trust during which such beneficiary died, the income accumulated was for the period in such taxable year prior to the death of such beneficiary; and*

(2) *the amount of such accumulated income was, without regard to this section, taxable to the trust, and*

(3) *the income for such taxable year accumulated for the beneficiary, if not distributed to him prior to his death, was payable by the trust at or after his death only to his estate, spouse, or lineal ancestors or descendants.*

And the Senate agree to the same.

Amendment numbered 99:

That the House recede from its disagreement to the amendment of the Senate numbered 99, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

SEC. 346. LIFE INSURANCE DEPARTMENTS OF MUTUAL SAVINGS BANKS.

(a) *COMPUTATION OF TAX.*—Supplement A of chapter 1 is hereby amended by adding at the end thereof the following new section:

“SEC. 110. MUTUAL SAVINGS BANKS CONDUCTING LIFE INSURANCE BUSINESS.

“(a) *ALTERNATIVE TAX.*—In the case of a mutual savings bank not having capital stock represented by shares, authorized under State law to engage in the business of issuing life insurance contracts, and which conducts a life insurance business in a separate department the accounts of which are maintained separately from the other accounts of the mutual savings bank, there shall be levied, collected, and paid, in lieu of the taxes imposed by sections 13 and 15, or section 117 (c) (1), a tax consisting of the sum of the partial taxes determined under paragraphs (1) and (2):

“(1) A partial tax computed upon the net income determined without regard to any items of gross income or deductions properly allocable to the business of the life insurance department, at the rates and in the manner as if this section has not been enacted; and

“(2) a partial tax computed upon the net income (as defined in section 201 (c) (7)) of the life insurance department determined without regard to any items of gross income or deductions not properly allocable to such department, at the rates and in the manner provided in Supplement G with respect to life insurance companies.

“(b) *LIMITATIONS OF SECTION.*—The provisions of subsection (a) shall be applicable only if the life insurance department would, if it were treated as a separate corporation, qualify as a life insurance company under section 201 (b).”

(b) *TECHNICAL AMENDMENT.*—Section 13 (relating to normal tax on corporations) is hereby amended by adding at the end thereof the following new subsection:

“(f) *MUTUAL SAVINGS BANKS CONDUCTING LIFE INSURANCE BUSINESS.*—For special tax, in lieu of the taxes imposed by this section and section 15, in the case of a mutual savings bank conducting a life insurance business, see section 110.”

(c) *EFFECTIVE DATE.*—The amendments made by this section shall be applicable only with respect to taxable years beginning after December 31, 1951.

And the Senate agree to the same.

Amendment numbered 100:

That the House recede from its disagreement to the amendment of the Senate numbered 100, and agree to the same with the following amendments:

On page 120, line 17, of the Senate engrossed amendments, strike out “348” and insert 347.

On page 120, line 23, of the Senate engrossed amendments, strike out “the taxable year” and insert a taxable year beginning before January 1, 1953

And the Senate agree to the same.

Amendment numbered 101:

That the House recede from its disagreement to the amendment of the Senate numbered 101, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

SEC. 348. DEDUCTION WITH RESPECT TO CERTAIN UNRELATED BUSINESS NET INCOME.

(a) *UNRELATED BUSINESS NET INCOME.*—Section 422 (a) (relating to unrelated business net income) is hereby amended by adding at the end thereof the following: “In the case of an organization described in section 3813 (a) (2) which is a member of a partnership all of whose members are organizations described in section 3813 (a) (2), if a trade or business regularly carried on by such partnership is an unrelated trade or business with respect to such organization, such organization shall, for taxable years beginning before January 1, 1954, be allowed a deduction in an amount equal to the portion of the gross income of such partnership from such unrelated trade or business which such organization is required (by a provision of a written contract executed by such organization prior to January 1, 1950, which provision expressly deals with the disposition of the gross income of the partnership) to pay within the taxable year in discharge of indebtedness incurred by such organization in acquiring its share of such trade or business, or to irrevocably set aside within the taxable year for the discharge of such indebtedness (to the extent that such amount has been so paid or set aside) if (i) such partnership was formed prior to January 1, 1950, for the purpose of carrying on such trade or business, and (ii) substantially all the assets used in carrying on such trade or business were acquired by it or by its members prior to such date. As used in the preceding sentence, the word ‘indebtedness’ does not include indebtedness incurred after January 1, 1950.”

(b) *EFFECTIVE DATE.*—The amendment made by this section shall be applicable with respect to taxable years beginning after December 31, 1950, and prior to January 1, 1954.

And the Senate agree to the same.

Amendment numbered 102:

That the House recede from its disagreement to the amendment of the Senate numbered 102, and agree to the same with an amendment as follows:

On page 122, line 8, of the Senate engrossed amendments, strike out “350” and insert 349; and the Senate agree to the same.

Amendment numbered 104:

That the House recede from its disagreement to the amendment of the Senate numbered 104, and agree to the same with the following amendments:

On page 124, line 11, of the Senate engrossed amendments, strike out “contributions—” and insert the following: *contributions*;

On page 124 of the Senate engrossed amendments, after line 11, insert the following:

“(v) an organization (organized prior to October 1, 1951) which is exempt under section 101 (6) and which is operated for the purpose of conducting an annual cha-
tauqua program of educational, cultural, and religious
activities at a permanent location—

And the Senate agree to the same.

Amendment numbered 107:

That the House recede from its disagreement to the amendment of the Senate numbered 107, and agree to the same with an amendment as follows:

On page 126 of the Senate engrossed amendments strike out "January" in lines 18 and 19 and insert *April*; and the Senate agree to the same.

Amendment numbered 110:

That the House recede from its disagreement to the amendment of the Senate numbered 110, and agree to the same with the following amendments:

On page 127 of the Senate engrossed amendments strike out "January" in lines 8, 16, 22, and 23 and insert *April*

On page 127, line 18, of the Senate engrossed amendments strike out "April" and insert *July*

On page 128 of the Senate engrossed amendments strike out "January" in lines 6 and 9 and insert *April*

And the Senate agree to the same.

Amendment numbered 111:

That the House recede from its disagreement to the amendment of the Senate numbered 111, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

SEC. 423. REDUCTION OF TAX ON TOBACCO AND SNUFF.

(a) *REDUCTION IN RATE.*—Section 2000 (a) (relating to tax on tobacco and snuff) is hereby amended by striking out "18 cents per pound", wherever it appears therein, and inserting in lieu thereof "10 cents per pound".

(b) *EFFECTIVE DATE.*—The amendment made by subsection (a) shall take effect on the first day of the first month which begins more than ten days after the date of the enactment of this Act.

And the Senate agree to the same.

Amendment numbered 118:

That the House recede from its disagreement to the amendment of the Senate numbered 118, and agree to the same with an amendment as follows:

Restore the matter proposed to be stricken out by the Senate amendment and on page 111 of the House engrossed bill, after line 16, insert: *On and after April 1, 1954, the tax imposed by this section shall be 1½ cents a gallon in lieu of 2 cents a gallon.*

And the Senate agree to the same.

Amendment numbered 121:

That the House recede from its disagreement to the amendment of the Senate numbered 121, and agree to the same with an amendment as follows:

On page 130, line 18, of the Senate engrossed amendments, strike out "January" and insert *April*; and the Senate agree to the same.

Amendment numbered 122:

That the House recede from its disagreement to the amendment of the Senate numbered 122, and agree to the same with an amendment as follows:

On page 131, line 1, of the Senate engrossed amendments, strike out "January" and insert *April*; and the Senate agree to the same.

Amendment numbered 127:

That the House recede from its disagreement to the amendment of the Senate numbered 127, and agree to the same with an amendment as follows:

On page 131, line 8, of the Senate engrossed amendments, strike out "January" and insert *April*; and the Senate agree to the same.

Amendment numbered 128:

That the House recede from its disagreement to the amendment of the Senate numbered 128, and agree to the same with an amendment as follows:

On page 131, line 11, of the Senate engrossed amendments, strike out "January" and insert *April*; and the Senate agree to the same.

Amendment numbered 129:

That the House recede from its disagreement to the amendment of the Senate numbered 129, and agree to the same with an amendment as follows:

On page 131, line 14, of the Senate engrossed amendments, strike out "January" and insert *April*; and the Senate agree to the same.

Amendment numbered 131:

That the House recede from its disagreement to the amendment of the Senate numbered 131, and agree to the same with an amendment as follows:

On page 132 of the Senate engrossed amendments strike out "January" in lines 1 and 8 and insert *April*; and the Senate agree to the same.

Amendment numbered 137:

That the House recede from its disagreement to the amendment of the Senate numbered 137, and agree to the same with an amendment as follows:

On page 132, line 17, of the Senate engrossed amendments, strike out "January" and insert *April*; and the Senate agree to the same.

Amendment numbered 141:

That the House recede from its disagreement to the amendment of the Senate numbered 141, and agree to the same with the following amendments:

On page 133, line 3, of the Senate engrossed amendments, strike out "444" and insert 454

On page 133 of the Senate engrossed amendments strike out "January" in lines 11 and 18 and insert *April*

On page 133, line 20, of the Senate engrossed amendments, strike out "February" and insert *May*

On page 134, line 2, of the Senate engrossed amendments, strike out "January" and insert *April*

And the Senate agree to the same.

Amendment numbered 142:

That the House recede from its disagreement to the amendment of the Senate numbered 142, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following: *455*; and the Senate agree to the same.

Amendment numbered 143:

That the House recede from its disagreement to the amendment of the Senate numbered 143, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following: *456*; and the Senate agree to the same.

Amendment numbered 151:

That the House recede from its disagreement to the amendment of the Senate numbered 151, and agree to the same with the following amendments:

On page 135, of the Senate engrossed amendments, strike out "452" in lines 8 and 13 and insert *462*

On page 135, line 16, of the Senate engrossed amendments, strike out "December 31, 1953" and insert *March 31, 1954*

And the Senate agree to the same.

Amendment numbered 154:

That the House recede from its disagreement to the amendment of the Senate numbered 154, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following: *464*; and the Senate agree to the same.

Amendment numbered 156:

That the House recede from its disagreement to the amendment of the Senate numbered 156, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following: *461 and 463*; and the Senate agree to the same.

Amendment numbered 163:

That the House recede from its disagreement to the amendment of the Senate numbered 163, and agree to the same with the following amendments:

On page 136, line 18, of the Senate engrossed amendments, strike out "461" and insert *471*

On page 137, line 5, of the Senate engrossed amendments, strike out "461" and insert *471*

And the Senate agree to the same.

Amendment numbered 166:

That the House recede from its disagreement to the amendment of the Senate numbered 166, and agree to the same with an amendment as follows:

On page 137, line 13, of the Senate engrossed amendments, strike out "January" and insert *April*; and the Senate agree to the same.

Amendment numbered 167:

That the House recede from its disagreement to the amendment of the Senate numbered 167, and agree to the same with an amendment as follows:

On page 137, line 23, of the Senate engrossed amendments, strike out "January" and insert *April*; and the Senate agree to the same.

Amendment numbered 168:

That the House recede from its disagreement to the amendment of the Senate numbered 168, and agree to the same with an amendment as follows:

On page 138, line 5, of the Senate engrossed amendments, strike out "January" and insert *April*; and the Senate agree to the same.

Amendment numbered 172:

That the House recede from its disagreement to the amendment of the Senate numbered 172, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following: *490*; and the Senate agree to the same.

Amendment numbered 173:

That the House recede from its disagreement to the amendment of the Senate numbered 173, and agree to the same with the following amendments:

On page 138, line 19, of the Senate engrossed amendments, strike out "473" and insert *483*

On page 139, line 7, of the Senate engrossed amendments, strike out "producer or" and insert *producer of*

And the Senate agree to the same.

Amendment numbered 174:

That the House recede from its disagreement to the amendment of the Senate numbered 174, and agree to the same with the following amendments:

On page 139, line 19, of the Senate engrossed amendments, strike out "474" and insert *484*

On page 140, line 10, of the Senate engrossed amendments, strike out "skates;"

On page 140 of the Senate engrossed amendments strike out lines 19, 20, and 21 and, in lieu thereof, insert the following: *15 per centum, except that on and after April 1, 1954, the rate shall be 10 per centum; fishing rods, creels, reels, and artificial lures, baits, and flies; 10 per centum.*"

And the Senate agree to the same.

Amendment numbered 175:

That the House recede from its disagreement to the amendment of the Senate numbered 175, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following: *485*; and the Senate agree to the same.

Amendment numbered 178:

That the House recede from its disagreement to the amendment of the Senate numbered 178, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following: *by striking out "Electric direct motor-driven fans and air circulators;" and inserting in lieu thereof "Electric direct motor-driven fans and air circulators (not of the industrial type); and the following appliances of the household type:"*, (2); and the Senate agree to the same.

Amendment numbered 179:

That the House recede from its disagreement to the amendment of the Senate numbered 179, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following: (3), and on page 139 of the House engrossed bill, in lines 3 and 4, strike out "and the following appliances of the household type:"; and the Senate agree to the same.

Amendment numbered 184:

That the House recede from its disagreement to the amendment of the Senate numbered 184, and agree to the same with an amendment as follows:

Restore the matter proposed to be stricken out by the Senate amendment, omit the matter proposed to be inserted by the Senate amendment, and on page 139, line 11, of the House engrossed bill, strike out "485" and insert 486; and the Senate agree to the same.

Amendment numbered 185:

That the House recede from its disagreement to the amendment of the Senate numbered 185, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following: 487; and the Senate agree to the same.

Amendment numbered 188:

That the House recede from its disagreement to the amendment of the Senate numbered 188, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following: 15; and the Senate agree to the same.

Amendment numbered 191:

That the House recede from its disagreement to the amendment of the Senate numbered 191, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following: 488; and the Senate agree to the same.

Amendment numbered 193:

That the House recede from its disagreement to the amendment of the Senate numbered 193, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following: 489; and the Senate agree to the same.

Amendment numbered 194:

That the House recede from its disagreement to the amendment of the Senate numbered 194, and agree to the same with an amendment as follows:

On page 144, line 11, of the Senate engrossed amendments, strike out "January" and insert *April*; and the Senate agree to the same.

Amendment numbered 197:

That the House recede from its disagreement to the amendment of the Senate numbered 197, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following: 489; and the Senate agree to the same.

Amendment numbered 198:

That the House recede from its disagreement to the amendment of the Senate numbered 198, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following: *a producer or importer of gasoline. The provisions of section 3443 shall be applicable to the floor stocks tax imposed by this subsection so as to entitle, subject to all the provisions of such section, (1) any manufacturer or producer to a refund or credit of such tax under subsection (a) (1) of such section, and (2) any person paying such floor stocks tax to a refund or credit thereof where gasoline is by such person or any other person used or resold for any of the purposes specified in subparagraphs (A) (i), (ii), and (iii) of subsection (a) (3) of such section.*

And the Senate agree to the same.

Amendment numbered 199:

That the House recede from its disagreement to the amendment of the Senate numbered 199, and agree to the same with the following amendments:

On page 145 of the Senate engrossed amendments strike out "January" in lines 6, 12, and 13 and insert *April*

On page 145, line 16, of the Senate engrossed amendments, strike out "April" and insert *July*

On page 146, line 9, of the Senate engrossed amendments, strike out "January" and insert *April*

And the Senate agree to the same.

Amendment numbered 200:

That the House recede from its disagreement to the amendment of the Senate numbered 200, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following: 490; and the Senate agree to the same.

Amendment numbered 210:

That the House recede from its disagreement to the amendment of the Senate numbered 210, and agree to the same with an amendment as follows:

On page 147, line 10, of the Senate engrossed amendments, strike out "482" and insert 492; and the Senate agree to the same.

Amendment numbered 211:

That the House recede from its disagreement to the amendment of the Senate numbered 211, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following: 493; and the Senate agree to the same.

Amendment numbered 213:

That the House recede from its disagreement to the amendment of the Senate numbered 213, and agree to the same with an amendment as follows:

On page 148, line 15, of the Senate engrossed amendments, strike out "484" and insert 494; and the Senate agree to the same.

Amendment numbered 214:

That the House recede from its disagreement to the amendment of the Senate numbered 214, and agree to the same with the following amendments:

On page 149, line 15, of the Senate engrossed amendments, strike out "485" and insert 495

On page 149 of the Senate engrossed amendments, after the quotation marks in line 24 insert the following: *The determination as to the applicability of the tax imposed by section 3475 in the case of the transportation of any excavated material, other than transportation to which the amendment made by this subsection applies, shall be made as if this subsection had not been enacted and without inferences drawn from the fact that the amendment made by this subsection is not expressly applicable to the transportation of such other excavated material.*

And the Senate agree to the same.

Amendment numbered 215:

That the House recede from its disagreement to the amendment of the Senate numbered 215, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following: 496; and the Senate agree to the same.

Amendment numbered 216:

That the House recede from its disagreement to the amendment of the Senate numbered 216, and agree to the same with the following amendments:

On page 150, line 8, of the Senate engrossed amendments, strike out "487" and insert 497

On page 150 of the Senate engrossed amendments strike out "January" in lines 15 and 22 and insert *April*

On page 151 of the Senate engrossed amendments strike out "January" in lines 10 and 18 and insert *April*

And the Senate agree to the same.

Amendment numbered 217:

That the House recede from its disagreement to the amendment of the Senate numbered 217, and agree to the same with an amendment as follows:

On page 151, line 22, of the Senate engrossed amendments, strike out "488" and insert 498; and the Senate agree to the same.

Amendment numbered 219:

That the House recede from its disagreement to the amendment of the Senate numbered 219, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

SEC. 501. MAXIMUM TAX FOR NEW CORPORATIONS.

Section 430 (relating to imposition of tax) is hereby amended as follows:

(1) *By adding at the end of subsection (a) thereof, as amended by section 121 of this Act, the following:*

"(3) in the case of a corporation for which an amount is determined for the taxable year under subsection (e), the amount determined under such subsection."

(2) *By redesignating subsection (e) as subsection (f); and*

(3) *By inserting after subsection (d) the following new subsection:*

"(e) NEW CORPORATIONS.—

"(1) ALTERNATIVE AMOUNT.—In the case of a taxpayer which commenced business after July 1, 1945, and whose fifth taxable year ends after June 30, 1950, the amount referred to in subsection (a) (3) shall be—

"(A) If the taxable year is the first or second taxable year of the taxpayer, an amount equal to 5 per centum of the excess profits net income for the taxable year, except that if the excess profits net income exceeds \$300,000, the amount shall be the sum of \$15,000 plus the amount determined under subparagraph (E) of this paragraph.

"(B) If the taxable year is the third taxable year of the taxpayer, an amount equal to 8 per centum of the excess profits net income for the taxable year, except that if the excess profits net income exceeds \$300,000, the amount shall be the sum of \$24,000 plus the amount determined under subparagraph (E) of this paragraph.

"(C) If the taxable year is the fourth taxable year of the taxpayer, an amount equal to 11 per centum of the excess profits net income for the taxable year, except that if the excess profits net income exceeds \$300,000, the amount shall be the sum of \$33,000 plus the amount determined under subparagraph (E) of this paragraph.

"(D) If the taxable year is the fifth taxable year of the taxpayer, an amount equal to 14 per centum of the excess profits net income for the taxable year, except that if the excess profits net income exceeds \$300,000, the amount shall be the sum of \$42,000 plus the amount determined under subparagraph (E) of this paragraph.

"(E) The amount determined under this subparagraph shall be—

"(i) if the taxable year ends before April 1, 1951, an amount equal to 15 per centum of the excess of the excess profits net income for the taxable year over \$300,000.

"(ii) if the taxable year begins on January 1, 1951, and ends on December 31, 1951, an amount equal to 17¼ per centum of the excess of the excess profits net income for the taxable year over \$300,000.

“(iii) if the taxable year (other than a taxable year described in clause (ii)) ends after March 31, 1951, an amount equal to 18 per centum of the excess of the excess profits net income for the taxable year over \$300,000.

“(2) *FIRST FIVE TAXABLE YEARS.*—For the purpose of this subsection—

“(A) The taxable year in which the taxpayer commenced business and the first, second, third, and fourth succeeding taxable years shall be considered its first, second, third, fourth, and fifth taxable years, respectively.

“(B) The taxpayer shall be considered to have been in existence and to have had taxable years for any period during which it or any corporation described in any clause of this subparagraph was in existence, and the taxpayer shall be considered to have commenced business on the earliest date on which it or any such corporation commenced business:

“(i) Any corporation which during or prior to the taxable year was a party with the taxpayer to a transaction described in section 445 (g) (2) (A), (B), or (C), determined as if the date ‘July 1, 1945’ were substituted for the date ‘December 1, 1950’ in section 445 (g) (2) (C).

“(ii) Any corporation if a group of not more than four persons who control the taxpayer at any time during the taxable year also controlled such corporation at any time during the period beginning twelve months preceding their acquisition of control of the taxpayer and ending with the close of the taxable year; but only if at any time during such period (and while such persons controlled such corporation) such corporation was engaged in a trade or business substantially similar to the trade or business of the taxpayer during the taxable year. For the purpose of this clause, the term ‘control’ means the ownership of more than 50 per centum of the total combined voting power of all classes of stock entitled to vote, or more than 50 per centum of the total value of shares of all classes of stock. A person shall not be considered a member of the group referred to in this clause unless during the period referred to in this clause he owns stock in such corporation at a time when the members of the group control such corporation and he owns stock in the taxpayer at a time when the members of the group control the taxpayer. For the purpose of this clause, the ownership of stock shall be determined in accordance with the provisions of section 503, except that constructive ownership under section 503 (a) (2) shall be determined only with respect to the individual’s spouse and minor children.

“(iii) In case the taxpayer during or prior to the taxable year was a purchasing corporation (as defined in part IV), the selling corporation (as defined in such part) whose properties were acquired in the part IV transaction; but this clause shall not apply unless for the taxable year or for any preceding taxable year the conditions of paragraphs (1), (2), and (3) of section 474 (c) were satisfied with respect to such transaction.

“(iv) Any corporation which, under regulations prescribed by the Secretary, is determined by one or more additional applications of clauses (i) to (iii) to stand indirectly in the same relation to the taxpayer as though such corporation were described in any such clause.

If as of the beginning of December 1, 1950, the adjusted basis for determining gain upon sale or exchange of the aggregate assets theretofore acquired by the taxpayer in transactions described in clauses (i) and (iii) (or acquired in the ordinary course of business in replacement of such assets) and held by it at such time constituted less than 20 per centum of the adjusted basis for determining gain upon sale or exchange of its total assets held at such time, then transactions described in such clauses occurring prior to such date shall be disregarded in determining the date as of which the taxpayer shall be considered to have commenced business.

“(3) *LIMITATION.*—The provisions of paragraph (1) of this subsection shall not apply to a taxpayer which derives more than 50 per centum of its gross income (determined without regard to dividends and without regard to gains from sales or exchanges of capital assets) for the taxable year from contracts and subcontracts to which the provisions of title I of the Renegotiation Act of 1951 (or the provisions of any prior renegotiation act) are applicable.”

And the Senate agree to the same.

Amendment numbered 220:

That the House recede from its disagreement to the amendment of the Senate numbered 220, and agree to the same with the following amendments:

On page 160, line 4, of the Senate engrossed amendments insert, after “corporation”, the following: *at the time it renders such services or assistance*

On page 160, line 12, of the Senate engrossed amendments strike out “renders” and insert *rendered*

On page 160, line 19, of the Senate engrossed amendments strike out “constitutes” and insert *constituted*

On page 161, line 1, of the Senate engrossed amendments strike out “owns” and insert the following: *at the time it rendered such services or assistance owned*

And the Senate agree to the same.

Amendment numbered 221:

That the House recede from its disagreement to the amendment of the Senate numbered 221, and agree to the same with an amendment as follows:

On page 161, line 17, of the Senate engrossed amendments strike out the quotation marks and insert the following: *In computing the average base period net income for such substituted period, the excess profits net income for January, February, and March of 1950 shall be computed by use of the ‘weighted excess profits net income’, as defined in section 435 (e) (2) (E), for the taxable year in which such months fall.”*; and the Senate agree to the same.

Amendment numbered 222:

That the House recede from its disagreement to the amendment of the Senate numbered 222, and agree to the same with the following amendments:

On page 164, line 4, of the Senate engrossed amendments strike out "regulation" and insert *regulations*

On page 165, line 4, of the Senate engrossed amendments strike out the period and quotation marks and insert the following: , *and such monthly excess profits net income shall be in lieu of the monthly excess profits net income determined under paragraphs (1) and (2) of section 462 (b).*"

And the Senate agree to the same.

Amendment numbered 224:

That the House recede from its disagreement to the amendment of the Senate numbered 224, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

SEC. 506. ADJUSTMENTS FOR CHANGES IN INADMISSIBLE ASSETS IN CASE OF BANKS.

(a) *AMENDMENT OF SECTION 435 (g).*—Section 435 (g) (relating to net capital addition or reduction) is hereby amended by redesignating paragraph (8) as paragraph (11) and by adding after paragraph (7) the following new paragraph:

"(8) *ADJUSTMENTS FOR CHANGES IN INADMISSIBLE ASSETS IN CASE OF BANKS.*—In the case of a bank (as defined in section 104)—

"(A) *If the increase in total assets for the taxable year exceeds the net capital addition computed without regard to the adjustment under paragraph (1) for an increase in inadmissible assets, then the net capital addition for the taxable year shall not be less than the excess of—*

"(i) the amount determined under the first sentence of paragraph (1) over

"(ii) an amount which bears the same ratio to the increase in inadmissible assets for the taxable year, determined under paragraph (5), as the amount computed under such first sentence bears to the increase in total assets for the taxable year.

"(B) *If the decrease in total assets for the taxable year exceeds the net capital reduction computed without regard to the adjustment under paragraph (2) for a decrease in inadmissible assets, then the net capital reduction for the taxable year shall not be less than the excess of—*

"(i) the amount determined under the first sentence of paragraph (2) over

"(ii) an amount which bears the same ratio to the decrease in inadmissible assets for the taxable year, determined under paragraph (5), as the amount computed under such first sentence bears to the decrease in total assets for the taxable year.

For the purpose of this paragraph, the increase or decrease in total assets for the taxable year shall be computed in the same manner as

the increase or decrease in inadmissible assets for the taxable year is computed under paragraph (5), except that such computations shall be made with respect to all assets, whether admissible or inadmissible assets as defined in section 440."

(b) *AMENDMENT OF SECTION 438.*—Section 438 (relating to new capital credit changes) is hereby amended by adding after subsection (f) the following new subsection:

"(g) *ADJUSTMENTS FOR INADMISSIBLE ASSETS IN CASE OF BANKS.*—In the case of a bank (as defined in section 104), if the increase in total assets for the taxable year (determined in the manner provided in the last sentence of section 435 (g) (8)) exceeds the net new capital addition computed without regard to the adjustment under subsection (b) for an increase in inadmissible assets, then the net new capital addition for the taxable year shall not be less than the excess of the amount determined under the first sentence of subsection (b) over an amount which bears the same ratio to the increase in inadmissible assets for the taxable year, determined under section 435 (g) (5), as the amount computed under such first sentence bears to such increase in total assets for the taxable year."

(c) *AMENDMENT OF SECTION 435 (f).*—Section 435 (f) (relating to capital additions in base period) is hereby amended as follows:

(1) *By inserting immediately after the word "reduced" in paragraph (1) thereof the following: "(but not below zero)".*

(2) *By adding at the end of paragraph (1) thereof the following: "For special rule in the case of banks, see paragraph (6)."*

(3) *By renumbering paragraph (6) as paragraph (7), and by adding immediately after paragraph (5) the following new paragraph:*

"(6) *YEARLY BASE PERIOD CAPITAL OF BANKS.*—In the case of a bank (as defined in section 104), the yearly base period capital for any taxable year shall be determined as follows:

"(A) *A tentative yearly base period capital shall be computed under paragraph (1) without regard to paragraph (1) (A).*

"(B) *The tentative yearly base period capital so determined shall be reduced by the amount determined under section 440 (b) (relating to inadmissible assets). For the purpose of this subparagraph, the computation under section 440 (b) shall include only the daily amounts (described in such section) for the first day of such taxable year."*

(d) *EFFECTIVE DATE OF SUBSECTION (c) (3).*—The amendment made by subsection (c) (3) (adding a new paragraph (6) to section 435 (f)) shall be applicable with respect to taxable years beginning on or after the date of the enactment of this Act, and, at the election of the taxpayer made in accordance with regulations prescribed by the Secretary, shall be applicable to all taxable years ending after June 30, 1950.

And the Senate agree to the same.

Amendment numbered 225:

That the House recede from its disagreement to the amendment of the Senate numbered 225, and agree to the same with an amendment as follows:

On page 169 of the Senate engrossed amendments strike out lines 9 to 20, inclusive, and insert the following:

"(9) *DECREASE IN INADMISSIBLE ASSETS.*—

"(A) *Except as otherwise provided in subparagraph (B) (relating to banks), the excess of the amount computed under*

paragraph (2) (A) or (B), whichever is applicable to the taxpayer (whether or not any amount is determined under the first sentence of paragraph (2)), over the amount, if any, computed under the first sentence of paragraph (2) shall be considered the net capital addition for the taxable year or shall be added to the net capital addition otherwise determined under paragraph (1), as the case may be. The amount of the excess so determined shall be subject to the exceptions and limitations provided in paragraph (10).

“(B) In the case of a bank (as defined in section 104), the computation under subparagraph (A) shall be made by substituting for the amount computed under paragraph (2) (A) or (B) whichever of the following amounts is the lesser:

“(i) An amount which bears the same ratio to the decrease in inadmissible assets as the sum of the equity capital (as defined in section 437 (c)) and the daily borrowed capital (as defined in section 439 (b)), each determined as of the first day of the first taxable year ending after June 30, 1950, bears to the total assets as of the beginning of such day;

“(ii) If paragraph (8) (B) is applicable, the amount computed under paragraph (8) (B) (ii).

And the Senate agree to the same.

Amendment numbered 226:

That the House recede from its disagreement to the amendment of the Senate numbered 226, and agree to the same with an amendment as follows:

On page 172 of the Senate engrossed amendments strike out line 25 and all that follows over to and including the period in line 3 on page 173 and insert the following: ‘Government obligations’ means obligations described in section 22 (b) (4) any part of the interest from which is excludible from gross income or allowable as a credit against net income; but such term shall include only such obligations as in the hands of the taxpayer are property described in section 117 (a) (1) (A).; and the Senate agree to the same.

Amendment numbered 227:

That the House recede from its disagreement to the amendment of the Senate numbered 227, and agree to the same with an amendment as follows:

On page 175 of the Senate engrossed amendments strike out line 11 and all that follows through line 17 on page 177 and insert the following:

“(h) *ALTERNATIVE AVERAGE BASE PERIOD NET INCOME.*—

“(1) *ELIGIBILITY REQUIREMENTS.*—A taxpayer which commenced business on or before the first day of its base period shall be entitled to the benefits of this subsection if—

“(A) the aggregate excess profits net income (if any) for the 12 months selected under paragraph (2) (B) is less than 35 per centum of one-half of the aggregate excess profits net income for the 24 months remaining under such paragraph; and

“(B) normal production, output, or operation was interrupted or diminished because of the occurrence, within 12 months preceding (i) the first day of the 12-month period selected under

paragraph (2) (B) (i), or (ii) the first day of any period of 6 or more consecutive months selected under paragraph (2) (B) (ii), of events unusual or peculiar in the experience of such taxpayer. This subsection shall have no application unless the taxpayer has an aggregate excess profits net income for the 24 months remaining under paragraph (2) (B).

“(2) *COMPUTATION*.—If the taxpayer is entitled to the benefits of this subsection, its average base period net income computed under this subsection shall be computed as follows:

“(A) By determining under subsection (b) the period subject to adjustment under this section. For the purposes of subparagraph (B) but not for the purposes of paragraph (1) (B) such period shall be considered a period of 36 consecutive months.

“(B) By selecting from such period whichever of the following 12 months results in the higher remaining aggregate excess profits net income—

“(i) the 12 consecutive months the elimination of which produces the highest remaining aggregate excess profits net income, or

“(ii) the 12 months which remain after retaining the 24 consecutive months which produce the highest remaining aggregate excess profits net income.

“(C) By computing for each of the 12 months selected under subparagraph (B) a substitute excess profits net income computed under subsection (e).

“(D) By computing the sum of—

“(i) the aggregate of the substitute excess profits net income, as determined under subparagraph (C), for the 12 months selected under subparagraph (B), but the amount computed under this clause shall not exceed one-half of the aggregate excess profits net income for the 24 months remaining under subparagraph (B), and

“(ii) the aggregate of the excess profits net income for each of the 24 months remaining under subparagraph (B), computed in the manner provided by the second sentence of section 435 (d) (1).

“(E) By dividing by three the amount ascertained under subparagraph (D).

“(3) *AGGREGATE EXCESS PROFITS NET INCOME*.—The ‘aggregate excess profits net income’ for any period shall be computed for the purposes of this subsection in the same manner as under subsection (b).”

And the Senate agree to the same.

Amendment numbered 228:

That the House recede from its disagreement to the amendment of the Senate numbered 228, and agree to the same with an amendment as follows:

On page 178 of the Senate engrossed amendments strike out line 10 and all that follows through the word “the” in line 11 and insert *The*; and the Senate agree to the same.

Amendment numbered 231:

That the House recede from its disagreement to the amendment of the Senate numbered 231, and agree to the same with an amendment as follows:

On page 181, line 3, of the Senate engrossed amendments insert, after "Commission or", the following: *if the rates for such furnishing or sale are subject*; and the Senate agree to the same.

Amendment numbered 234:

That the House recede from its disagreement to the amendment of the Senate numbered 234, and agree to the same with an amendment as follows:

On page 183 of the Senate engrossed amendments strike out line 15 and all that follows through line 21 on page 184 and insert the following:

"(1) *The adjusted basis of the taxpayer's total facilities (as defined in section 444 (d)) as of the beginning of its base period (when added to the total facilities at such time of all corporations with which the taxpayer has the privilege under section 141 of filing a consolidated return for its first taxable year under this subchapter) did not exceed \$10,000,000;*

"(2) *The basis (unadjusted) of the taxpayer's total facilities (as defined in section 444 (d)) at the close of its base period was 250 per centum or more of the basis (unadjusted) of its total facilities at the beginning of its base period;*

"(3) *The percentage of the taxpayer's aggregate gross income which was from contracts with the United States and related sub-contracts was (A) at least 70 per centum for the period comprising all taxable years beginning after December 31, 1941, and ending before January 1, 1946, (B) less than 20 per centum for the period comprising all taxable years ending after December 31, 1945, and before January 1, 1950, and (C) less than 20 per centum for the period comprising all taxable years ending after December 31, 1949, and beginning before July 1, 1950; and*

"(4) *The average monthly excess profits net income of the taxpayer (computed in the manner provided in section 443 (e)) for—*

"(A) the period comprising all taxable years ending with or within the last 24 months of its base period, and

"(B) the last taxable year ending before the first day of its base period,

are each 300 per centum or more of the average monthly excess profits net income (so computed) of the taxpayer for the period comprising all taxable years ending with or within the first 24 months of its base period."

And the Senate agree to the same.

Amendment numbered 235:

That the House recede from its disagreement to the amendment of the Senate numbered 235, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

SEC. 517. BASE PERIOD CATASTROPHE.

Section 459, as added by section 516 of this Act, is hereby amended by adding after subsection (a) thereof the following new subsection:

“(b) **BASE PERIOD CATASTROPHE.**—

“(1) **ELIGIBILITY REQUIREMENTS.**—A taxpayer shall be entitled to the benefits of this subsection only if it was engaged throughout its base period primarily in manufacturing and if—

“(A) the taxpayer suffered during the last thirty-six months of its base period a catastrophe by fire, storm, explosion, or other casualty which destroyed or rendered inoperative a production facility constituting a complete plant or plants having in the hands of the taxpayer immediately prior to the catastrophe an adjusted basis equal to 15 per centum or more of the adjusted basis of all the taxpayer’s production facilities at such time;

“(B) as a result of such catastrophe the taxpayer’s normal production or operation was substantially interrupted for a period of more than twelve consecutive months; and

“(C) the taxpayer, prior to the end of its base period, replaced such production facility with a production facility which at the end of its base period had in its hands an adjusted basis not less than the adjusted basis immediately prior to the catastrophe of the production facility destroyed or rendered inoperative.

“(2) **COMPUTATION.**—The taxpayer’s base period net income determined under this subsection shall be the amount computed under subparagraph (A) or the amount computed under subparagraph (B), whichever results in the lesser tax under this subchapter for the taxable year for which the tax is being computed:

“(A) The amount computed under section 435 (d) by substituting for the excess profits net income for each month in the taxable year in which the catastrophe described in paragraph (1) occurred an amount equal to the aggregate, divided by the number of months in the base period preceding such taxable year, of the excess profits net income for each month (computed under section 435 (d) (1)) in the base period preceding such taxable year. The average base period net income computed under this subparagraph shall, for the purpose of section 435 (a) (1) (B), be considered an average base period net income determined under section 435 (d).

“(B) The amount computed under section 435 (e) (2) (G) (i) and (ii).”

And the Senate agree to the same.

Amendment numbered 236:

That the House recede from its disagreement to the amendment of the Senate numbered 236, and agree to the same with the following amendments:

On page 187, line 16, of the Senate engrossed amendments insert after the semicolon the following: *and*

On page 188, line 2, of the Senate engrossed amendments insert after the semicolon the following: *and either*

On page 188, line 9, of the Senate engrossed amendments strike out “consolidation began; and” and insert the following: *operations were consolidated; or*

On page 188, line 21, of the Senate engrossed amendments strike out "consolidation began" and insert the following: *operations were consolidated*

On page 188, line 23, of the Senate engrossed amendments insert after the period the following: *In determining such excess amount proper adjustment shall be made for increase in labor costs and newsprint following such consolidation. Proper adjustment shall also be made for any case in which a taxable year referred to in this subsection is a period of less than twelve months.*

And the Senate agree to the same.

Amendment numbered 237:

That the House recede from its disagreement to the amendment of the Senate numbered 237, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

SEC. 519. TELEVISION BROADCASTING COMPANIES.

Section 459, as added by sections 516 to 518 of this Act, is hereby amended by adding after subsection (c) thereof the following new subsections:

"(d) **TELEVISION BROADCASTING COMPANIES.**—

"(1) **IN GENERAL.**—In the case of a taxpayer engaged in the business of television broadcasting throughout a period beginning before January 1, 1951, and ending with the close of the taxable year, the taxpayer's average base period net income determined under this subsection shall be the amount computed under paragraph (2) or (3), whichever is applicable.

"(2) **IF ENGAGED IN TELEVISION BROADCASTING AT CLOSE OF BASE PERIOD.**—If the taxpayer was engaged in the business of television broadcasting at the close of its base period, the average base period net income computed under this paragraph shall be computed as follows:

"(A) If the taxpayer was engaged during its base period in any business or businesses other than television broadcasting, by computing the average base period net income under section 435 (d) for such other business or businesses (determined without regard to income, deductions, losses, or other items attributable to the television broadcasting business).

"(B) By multiplying such part of its total assets (as defined in section 442 (f)), for the last day of its base period, as was attributable to the television broadcasting business by—

"(i) the base period rate of return determined under section 447 (c) for the industry classification which includes radio broadcasting, or

"(ii) if the taxpayer was engaged during its base period in the business of radio broadcasting, its individual rate of return computed under paragraph (4),

whichever rate of return produces the greater average base period net income under this subsection. If the amount computed under this subparagraph is computed by the use of the rate of return specified in clause (i), the amount so computed shall be reduced by an amount equal to such portion of the

total interest paid or incurred by the taxpayer, for the period of 12 months following the close of its base period, as is attributable to its television broadcasting business.

“(C) By adding the amount computed under subparagraph (B) to the amount, if any, computed under subparagraph (A).

“(3) COMMENCING TELEVISION BROADCASTING AFTER BASE PERIOD AND BEFORE 1951.—If the taxpayer acquires its television broadcasting business after the close of its base period and before January 1, 1951, the average base period net income computed under this paragraph shall be computed as provided in paragraph (2), except that—

“(A) the applicable rate of return under paragraph (2) (B) shall be multiplied by such part of its total assets (as defined in section 442 (f)), for the last day of the calendar month in which it first engaged in such business, as was attributable to such business, and

“(B) the reduction specified in the last sentence of paragraph (2) (B) shall, if applicable, be equal to such portion of the total interest paid or incurred by the taxpayer, for the period of 12 months following the month in which it first engaged in such business, as is attributable to such business.

“(4) INDIVIDUAL RATE OF RETURN.—The individual rate of return shall be computed as follows:

“(A) By determining the amount of the taxpayer's total assets (as defined in section 442 (f)) attributable to the business of radio broadcasting for the last day of each month in its base period.

“(B) By computing the aggregate of the amounts ascertained under subparagraph (A) and dividing by 48.

“(C) By computing for each month in the base period the excess profits net income of the radio broadcasting business (determined without regard to income, deductions, losses, or other items attributable to any other business), by adding such amounts for all of the months in the base period, and by dividing by 4.

“(D) By dividing the amount computed under subparagraph (C) by the amount computed under subparagraph (B).

“(5) RULES FOR APPLICATION OF SUBSECTION.—

“(A) For the purpose of section 435 (a) (1) (B), an average base period net income determined under this subsection shall be considered an average base period net income determined under section 435 (d); but, in computing the base period capital addition under section 435 (f), the computations under such section shall be adjusted, under regulations prescribed by the Secretary, so as to exclude therefrom items attributable to the television broadcasting business.

“(B) If any part of the total assets referred to in paragraph (2) (B) or paragraph (3) (A), whichever is applicable, were acquired, directly or indirectly, through the use of assets attributable at any time during the base period to a business of the taxpayer other than television broadcasting, the amount determined under paragraph (2) (A) shall be properly adjusted by eliminating from the excess profits net income (computed for the purpose of paragraph (2) (A)) for each month prior to such

acquisition such portion thereof as is attributable to the assets used, directly or indirectly, for such acquisition. For the purpose of this subparagraph, the excess profits net income for any month shall be attributed to such assets on the basis of the ratio, as of the beginning of the day of the acquisition, of such assets to total assets (as defined in section 442 (f)) determined without regard to assets attributable to the television broadcasting business.

“(C) The Secretary shall by regulations prescribe rules for the application of this subsection, including rules for the computation of the taxpayer's net capital addition or reduction.

“(6) APPLICATION OF PART II.—The Secretary shall prescribe regulations for the application of Part II for the purpose of this subsection in the case of an acquiring corporation or a component corporation in a transaction described in section 461 (a) which occurred prior to January 1, 1951.

“(e) BASIS OF ASSETS.—For the purposes of this section, any reference to the adjusted basis of property or to the basis (unadjusted) of property means the adjusted basis or the basis (unadjusted), as the case may be, for determining gain upon sale or exchange.”

And the Senate agree to the same.

Amendment numbered 238:

That the House recede from its disagreement to the amendment of the Senate numbered 238, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

SEC. 520. INCREASE IN CAPACITY FOR PRODUCTION OR OPERATION.

Section 444 (f) (relating to increase in capacity for production or operation) is hereby amended to read as follows:

“(f) RULES FOR APPLICATION OF SECTION.—

“(1) The benefits of this section shall not be allowed unless the taxpayer makes application therefor in accordance with section 447 (e).

“(2) If, during its first taxable year ending after June 30, 1950, the taxpayer completed construction of (including the installation of the machinery or equipment for use in) a factory building or other manufacturing establishment, such factory building or other manufacturing establishment and such machinery or equipment shall, for the purpose of determining whether there is an increase in capacity under the provisions of subsection (b), be considered to have been added to its total facilities on the last day of its base period if—

“(A) the taxpayer, prior to the end of its base period, had completed construction work representing more than 40 per centum of the total cost of construction of such factory building or other manufacturing establishment, and

“(B) the completion of such factory building or other manufacturing establishment was in pursuance of a plan to which the taxpayer was committed prior to the end of its base period.

This paragraph shall not apply in determining the amount of the taxpayer's total assets for the purpose of subsection (c).”

And the Senate agree to the same.

Amendment numbered 239:

That the House recede from its disagreement to the amendment of the Senate numbered 239, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

SEC. 521. EXCESS PROFITS CREDIT BASED ON INCOME IN CONNECTION WITH CERTAIN TAXABLE ACQUISITIONS.

(a) *GENERAL RULE.*—Subchapter D (relating to the excess profits tax) of chapter 1 is hereby amended by inserting immediately following section 472 the following new part:

“Part IV—Excess Profits Credit Based on Income in Connection With Certain Taxable Acquisitions Occurring Prior to December 1, 1950.

“SEC. 474. EXCESS PROFITS CREDIT BASED ON INCOME—CERTAIN TAXABLE ACQUISITIONS.

“(a) *DEFINITIONS.*—For the purpose of this part—

“(1) *PURCHASING CORPORATION.*—The term ‘purchasing corporation’ means a corporation which, before December 1, 1950, acquired—

“(A) In a transaction other than a transaction described in section 461 (a), substantially all of the properties (other than cash) of another corporation, of a partnership, or of a business owned by a sole proprietorship; or

“(B) Properties of another corporation or of a partnership if (i) such properties constituted, immediately prior to the acquisition, substantially all of the properties (other than cash) of one or more separate businesses of such other corporation or such partnership, (ii) such other corporation or such partnership was engaged in one or more separate businesses other than those described in clause (i), and (iii) substantially all of the properties (other than cash) of such other corporation or such partnership were acquired, in furtherance of a single plan of complete liquidation for such other corporation or such partnership, by the purchasing corporation, and by one or more other persons, in transactions other than transactions described in section 461 (a).

“(2) *SELLING CORPORATION.*—The term ‘selling corporation’ means a corporation, a partnership, or a business owned by a sole proprietorship, as the case may be, properties of which were acquired by a purchasing corporation in a transaction described in paragraph (1).

“(3) *PART IV TRANSACTION.*—The term ‘part IV transaction’ means a transaction described in paragraph (1).

“(b) *AVERAGE BASE PERIOD NET INCOME OF PURCHASING CORPORATION.*—The average base period net income of a purchasing corporation, if computed with reference to this part, shall be determined under section 435 (d). The average base period net income under section 435 (d) of a purchasing corporation shall be determined by computing its excess profits net income either with or without reference to this part, whichever produces the lesser tax under this subchapter for the taxable

year for which the tax is being computed. If computed with reference to this part, the excess profits net income of a purchasing corporation for any month of its base period shall be its excess profits net income (or deficit therein), computed without reference to this part, and increased or decreased, as the case may be, by the addition or reduction resulting from including—

“(1) In the case of a transaction described in subsection (a) (1) (A), the excess profits net income (or deficit therein) for such month of the selling corporation, or

“(2) In the case of a transaction described in subsection (a) (1) (B), the excess profits net income (or deficit therein) for such month of the selling corporation properly attributable to the business or businesses acquired by the purchasing corporation and properly allocable to such purchasing corporation.

The excess profits net income of a purchasing corporation for any month, recomputed as provided in the previous sentence, shall not be less than zero.

“(c) LIMITATIONS.—This part shall apply only if each of the following conditions is satisfied:

“(1) The selling corporation (A) did not, after the part IV transaction (or the last transaction described in subsection (a) (1) (B)), continue any business activities other than those incident to its complete liquidation, and (B) within a reasonable time after ceasing business activities, completely liquidated in a transaction other than a transaction described in section 461 (a), and ceased existence.

“(2) During so much of the base period of the purchasing corporation and of the period thereafter as preceded the part IV transaction, the properties acquired in the part IV transaction were substantially all of the properties (other than cash) which were used, or which in the ordinary course of business replaced properties used, by the selling corporation (or by a component corporation, as defined in section 461 (b), of such selling corporation) in the production of the excess profits net income (or deficit therein) which under subsection (b) increases or decreases the excess profits net income of the purchasing corporation. For the purpose of this paragraph, if a business in the hands of both the selling corporation and the purchasing corporation was operated under a substantially identical franchise or license, granted by the same person, such franchise or license shall be deemed acquired by the purchasing corporation from the selling corporation.

“(3) The business or businesses acquired in the part IV transaction (including the properties so acquired or properties in replacement thereof) were operated by the purchasing corporation from the date of such transaction to the end of the taxable year or were transferred during the taxable year by the purchasing corporation in a part II transaction to which the provisions of section 462 (b) (4) are applicable.

“(d) SPECIAL RULES.—

“(1) For the purpose of subsection (a) (1), the properties of a selling corporation shall be considered to have been acquired by a purchasing corporation only if acquired from—

“(A) such selling corporation, or

“(B) persons who received the properties upon the liquidation of such selling corporation and who forthwith transferred such

properties to the purchasing corporation in a transaction other than a transaction described in section 461 (a).

“(2) The computations required by this part in the case of a selling corporation which is a partnership or a business owned by a sole proprietorship shall be made, under regulations prescribed by the Secretary, as if such partnership or such business owned by a sole proprietorship had been a corporation.

“(3) In no case shall more than 100 per centum of the excess profits net income (or deficit therein) for any month of a selling corporation be allocated to the purchasing corporation or, in the case of transactions described in subsection (a) (1) (B), to the several persons (or to any one or more of such persons) receiving the properties of such selling corporation in such transactions.

“(c) **SUCCESSIVE TRANSACTIONS.**—

“(1) **PART IV TRANSACTION FOLLOWING PART IV TRANSACTION.**—In the case of a selling corporation which was a purchasing corporation in a previous part IV transaction, or which acquired properties of a purchasing corporation in a transaction to which section 462 (b) (4) is applicable, the computations under this part with respect to the selling corporation shall be made without regard to the previous part IV transaction.

“(2) **PART IV TRANSACTION FOLLOWING PART II TRANSACTION.**—Subject to the provisions of paragraph (1), in the case of a selling corporation which was an acquiring corporation as defined in section 461 (a) in a previous transaction, its excess profits net income (or deficit therein) which increases or decreases the excess profits net income (or deficit therein) of the purchasing corporation under subsection (b) (1) or (2), and its capital changes which are taken into account under this part in determining the capital changes of the purchasing corporation, shall be determined with the application of the rules of part II to such selling corporation with respect to the part II transaction.

“(3) **PART II TRANSACTION FOLLOWING PART IV TRANSACTION.**—For rules applicable in the case of a part II transaction following a part IV transaction, see sections 462 (b) (4), 463 (c), and 464 (c).

“(f) **REGULATIONS.**—The Secretary shall by regulations prescribe rules for the application of this part. Such regulations shall include the following rules:

“(1) **BASE PERIOD CAPITAL ADDITION.**—Rules (consistent with the principles of section 464) for the determination of the base period capital addition of the purchasing corporation by reference to the capital changes of the selling corporation and of the purchasing corporation.

“(2) **NET CAPITAL ADDITION OR REDUCTION.**—Rules (consistent with the principles of section 463) for the determination of the net capital addition or reduction of the purchasing corporation by reference to the capital changes of the selling corporation and of the purchasing corporation.

“(3) **EXCESS PROFITS NET INCOME.**—Rules (consistent with the principles of section 462 (i)) for the determination of the amount of excess profits net income (or deficit therein) of the selling corporation attributable to the business or businesses acquired by a purchasing corporation in a transaction described in subsection (a) (1) (B) and properly allocable to such purchasing corporation.

"(4) *DUPLICATION*.—Rules for the application under this part of the principles of section 462 (j) (1) and the other provisions of part II relating to the prevention of duplication.

"(5) *EXCESS PROFITS CREDIT*.—In the event that the part IV transaction occurred in a taxable year of the purchasing corporation which ended after June 30, 1950, rules (consistent with the principles of section 462 (j) (2)) for the determination of the excess profits credit of such corporation for the year in which the transaction occurred.

Such rules shall not include the principles of section 461 (c) (relating to the excess profits credit of the component corporation), of section 462 (b) (2) (relating to constructive excess profits net income for months during which a corporation was not in existence), of section 462 (l) (relating to minimum average base period net income in the case of certain acquiring corporations), or of such other provisions of part II as relate to sections 435 (e), 442, 443, 444, 445, or 446."

(b) *TECHNICAL AMENDMENTS*.—

(1) Section 435 (a) (3) (relating to amount of excess profits credit) is hereby amended by inserting before the period at the end thereof the following: ", and in the case of certain taxable acquisitions, see part IV of this subchapter".

(2) Section 461 (relating to definitions under part II) is amended by inserting at the end thereof the following new subsections:

"(g) *COMPONENT CORPORATION WHICH WAS A PURCHASING CORPORATION IN A PREVIOUS TRANSACTION*.—See section 462 (b) (4) for rules applicable if the component corporation was a purchasing corporation (as defined in part IV) in a previous part IV transaction, or if (as an acquiring corporation in a previous part II transaction) it was subject to the provisions of section 462 (b) (4).

"(h) *DEFINITION OF PART II TRANSACTION*.—For the purpose of this subchapter, the term 'part II transaction' means a transaction described in section 461 (a)."

(3) Section 462 (b) (relating to the method of recomputing the excess profits net income of an acquiring corporation under part II) is hereby amended by adding at the end thereof the following new paragraph:

"(4) If the average base period net income of the acquiring corporation is determined under section 435 (d) with reference to this subsection, and if the provisions of section 474 (b) (relating to the computation of excess profits net income in the case of certain purchasing corporations) were applicable to the component corporation immediately prior to the part II transaction (or would have been applicable if such part II transaction had occurred in a taxable year of the component corporation ending after June 30, 1950), then the excess profits net income (or deficit therein) of the component corporation shall, for the purpose of this subsection, be determined with the application of the provisions of section 474 (b). For the purpose of this paragraph, if a component corporation was an acquiring corporation in a previous part II transaction and, immediately prior to the later part II transaction, the provisions of this paragraph were applicable to such component corporation, its excess profits net income (or deficit therein) shall be determined with the application of the

provisions of the preceding sentence. This paragraph shall be applicable to an acquiring corporation only if—

“(A) the properties acquired by the acquiring corporation from the component corporation include substantially all of the properties (other than cash), or properties acquired in the ordinary course of business in the replacement of properties, which the component corporation acquired either from the selling corporation in the part IV transaction or from a previous component corporation subject (immediately prior to such acquisition) to the provisions of this paragraph;

“(B) the business or businesses acquired by the acquiring corporation were operated by the acquiring corporation from the date of such transaction to the end of the taxable year or were transferred during the taxable year by the acquiring corporation in a part II transaction to which the provisions of this paragraph are applicable; and

“(C) in the event that the part II transaction is one described in section 461 (a) (1) (E), the provisions of section 462 (i) (6) are satisfied.”

(4) Section 462 (i) (6) (relating to allocation rules in the case of transactions described in section 461 (a) (1) (E)) is hereby amended by adding at the end thereof the following: “Notwithstanding the provisions of paragraph (1), if an acquiring corporation in a transaction described in section 461 (a) (1) (E) determines its average base period net income under section 435 (d) by recomputing its excess profits net income under the provisions of section 462 (b) (4), the amount of the component corporation’s excess profits net income for any month which shall be taken into account by the acquiring corporation shall be such portion of the component corporation’s excess profits net income for such month as is determined on the basis of the earnings experience of the assets transferred and the assets retained by the component corporation.”

(5) Section 463 (relating to capital changes) is amended by inserting at the end thereof the following new subsection:

“(c) **COMPONENT CORPORATION WHICH WAS A PURCHASING CORPORATION IN A PREVIOUS TRANSACTION.**—The Secretary shall provide by regulations for the application of this section in cases to which section 462 (b) (4) is applicable.”

(6) Section 464 (relating to capital changes during the base period) is amended by inserting at the end thereof the following new subsection:

“(c) The Secretary shall provide by regulation for the application of this section in cases to which section 462 (b) (4) is applicable.”

And the Senate agree to the same.

Amendment numbered 240:

That the House recede from its disagreement to the amendment of the Senate numbered 240, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

SEC. 522. STRATEGIC MINERALS.

Section 450 (b) (1) (relating to corporations engaged in mining of strategic minerals) is hereby amended by inserting after "chromite," the following: "bauxite,".

And the Senate agree to the same.

Amendment numbered 241:

That the House recede from its disagreement to the amendment of the Senate numbered 241, and agree to the same with an amendment as follows:

On page 199, line 16, of the Senate engrossed amendments strike out "510" and insert 506 (d); and the Senate agree to the same.

Amendment numbered 245:

That the House recede from its disagreement to the amendment of the Senate numbered 245, and agree to the same with the following amendments:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following: *or to the benefit of a hospital, or an institution for the rehabilitation of physically handicapped persons, which maintains or is building for proper maintenance a hospital or institution staffed or to be staffed by qualified professional persons for the treatment of the sick and/or the rehabilitation of the physically handicapped,*

On page 150, line 25, of the House bill strike out the quotation marks and insert the following: *The determination as to whether an organization other than one described in this subsection is exempt under section 101 of the Internal Revenue Code from taxation for any taxable year beginning before January 1, 1951, shall be made as if this subsection and section 301 (b) of this Act had not been enacted and without inferences drawn from the fact that this subsection and the amendment made by section 301 (b) are not expressly made applicable with respect to taxable years beginning before January 1, 1951."*

And the Senate agree to the same.

Amendment numbered 246:

That the House recede from its disagreement to the amendment of the Senate numbered 246, and agree to the same with an amendment as follows:

Strike out the matter proposed to be stricken out by the Senate amendment and insert the following:

SEC. 602. EXCESS PROFITS CREDIT BASED ON INCOME.

(a) *PERCENTAGE OF AVERAGE BASE PERIOD NET INCOME TAKEN INTO ACCOUNT.*—

(1) *IN GENERAL.*—Paragraph (1) (A), and paragraph (2), of section 435 (a) (relating to excess profits credit based on income) are each amended by striking out "85 per centum" and inserting in lieu thereof "83 per centum".

(2) *TAXABLE YEARS BEGINNING BEFORE JULY 1, 1951, AND ENDING AFTER JUNE 30, 1951.*—Section 435 (a) is hereby amended by adding at the end thereof the following new paragraphs:

"(4) *CALENDAR YEAR 1951.*—In the case of a taxable year beginning on January 1, 1951, and ending on December 31, 1951, there shall be used, for the purposes of paragraph (1) (A) and paragraph (2), in lieu of 85 per centum of the average base period net income, an amount equal to 84 per centum of the average base period net income.

“(5) *TAXABLE YEARS (OTHER THAN CALENDAR YEAR 1951) BEGINNING BEFORE JULY 1, 1951, AND ENDING AFTER JUNE 30, 1951.*—In the case of any taxable year (other than a taxable year described in paragraph (4)) beginning before July 1, 1951, and ending after June 30, 1951, there shall be used, for the purposes of paragraph (1) (A) and paragraph (2), in lieu of 85 per centum of the average base period net income, an amount equal to the sum of—

“(A) that portion of an amount equal to 85 per centum of the average base period net income which the number of days in such taxable year prior to July 1, 1951, bears to the total number of days in such taxable year, plus

“(B) that portion of an amount equal to 83 per centum of the average base period net income which the number of days in such taxable year after June 30, 1951, bears to the total number of days in such taxable year.”

(b) *EFFECTIVE DATE.*—The amendments made by subsection (a) shall be applicable only with respect to taxable years ending after June 30, 1951.

And the Senate agree to the same.

Amendment numbered 247:

That the House recede from its disagreement to the amendment of the Senate numbered 247, and agree to the same with the following amendments:

On page 200, line 13, of the Senate engrossed amendments strike out “602” and insert 603

On page 201 of the Senate engrossed amendments strike out lines 15 to 25, inclusive, and insert the following:

“(A) shall not, with respect to any such tax, exceed an amount which bears the same ratio to the amount of such tax actually paid to such foreign country as the value of property which is—

“(i) situated within such foreign country,

“(ii) subjected to such tax, and

“(iii) included in the gross estate

bears to the value of all property subjected to such tax; and

“(B) shall not, with respect to all such taxes, exceed an amount which bears the same ratio to the tax imposed by section 810

On page 202, line 14, of the Senate engrossed amendments strike out “taxes” and insert *tax*

On page 205 of the Senate engrossed amendments strike out all after line 23 over to and including line 12 on page 206 and insert the following:

“(A) For the purposes of paragraph (2) (A), ‘such taxes paid to the foreign country’ shall, with respect to any tax paid to the foreign country, be the amount computed under section 813 (c) (2) (A).

And the Senate agree to the same.

Amendment numbered 248:

That the House recede from its disagreement to the amendment of the Senate numbered 248, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following: 604; and the Senate agree to the same.

Amendment numbered 249:

That the House recede from its disagreement to the amendment of the Senate numbered 249, and agree to the same with an amendment as follows:

On page 208, line 21, of the Senate engrossed amendments, strike out "604" and insert 605; and the Senate agree to the same.

Amendment numbered 250:

That the House recede from its disagreement to the amendment of the Senate numbered 250, and agree to the same with an amendment as follows:

On page 209, line 14, of the Senate engrossed amendments, strike out "605" and insert 606; and the Senate agree to the same.

Amendment numbered 251:

That the House recede from its disagreement to the amendment of the Senate numbered 251, and agree to the same with an amendment as follows:

On page 210, line 14, of the Senate engrossed amendments, strike out "606" and insert 607; and the Senate agree to the same.

Amendment numbered 252:

That the House recede from its disagreement to the amendment of the Senate numbered 252, and agree to the same with an amendment as follows:

On page 211, line 2, of the Senate engrossed amendments, strike out "607" and insert 608; and the Senate agree to the same.

Amendment numbered 253:

That the House recede from its disagreement to the amendment of the Senate numbered 253, and agree to the same with an amendment as follows:

On page 211, line 9, of the Senate engrossed amendments, strike out "608" and insert 609; and the Senate agree to the same.

Amendment numbered 254:

That the House recede from its disagreement to the amendment of the Senate numbered 254, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

SEC. 610. REVERSIONARY INTERESTS IN CASE OF LIFE INSURANCE.

If refund or credit of any overpayment resulting from the application of section 503 of the Revenue Act of 1950 was prevented on October 25, 1950, by the operation of any law or rule of law (other than section 3760 of the Internal Revenue Code, relating to closing agreements, and other than section 3761 of such code, relating to compromises), refund or credit of such overpayment may, nevertheless, be made or allowed if claim therefor was filed after October 25, 1949, and on or before October 25, 1950.

And the Senate agree to the same.

Amendment numbered 255:

That the House recede from its disagreement to the amendment of the Senate numbered 255, and agree to the same with an amendment as follows:

On page 212, line 14, of the Senate engrossed amendments, strike out "610" and insert 611; and the Senate agree to the same.

Amendment numbered 256:

That the House recede from its disagreement to the amendment of the Senate numbered 256, and agree to the same with an amendment as follows:

On page 214, line 2, of the Senate engrossed amendments, strike out "611" and insert 612; and the Senate agree to the same.

Amendment numbered 257:

That the House recede from its disagreement to the amendment of the Senate numbered 257, and agree to the same with an amendment as follows:

On page 214, line 14, strike out "612" and insert 613; and the Senate agree to the same.

Amendment numbered 258:

That the House recede from its disagreement to the amendment of the Senate numbered 258, and agree to the same with an amendment as follows:

On page 215, line 6, of the Senate engrossed amendments, strike out "613" and insert 614; and the Senate agree to the same.

Amendment numbered 259:

That the House recede from its disagreement to the amendment of the Senate numbered 259, and agree to the same with an amendment as follows:

On page 216, line 2, of the Senate engrossed amendments, strike out "614" and insert 615; and the Senate agree to the same.

Amendment numbered 260:

That the House recede from its disagreement to the amendment of the Senate numbered 260, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following: 616; and the Senate agree to the same.

Amendment numbered 261:

That the House recede from its disagreement to the amendment of the Senate numbered 261, and agree to the same with an amendment as follows:

On page 216, line 8, of the Senate engrossed amendments, strike out "616" and insert 617; and the Senate agree to the same.

Amendment numbered 262:

That the House recede from its disagreement to the amendment of the Senate numbered 262, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

SEC. 618. PROHIBITION UPON DENIAL OF SOCIAL SECURITY ACT FUNDS.

No State or any agency or political subdivision thereof shall be deprived of any grant-in-aid or other payment to which it otherwise is or has become entitled pursuant to title I, IV, X, or XIV of the Social Security Act, as amended, by reason of the enactment or enforcement by such State of any legislation prescribing any conditions under which public access may be had to records of the disbursement of any such funds or payments within such State, if such legislation prohibits the use of any list or names obtained through such access to such records for commercial or political purposes.

And the Senate agree to the same.

Amendment numbered 263:

That the House recede from its disagreement to the amendment of the Senate numbered 263, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

SEC. 619. REMOVAL OF TAX EXEMPTION FROM EXPENSE ALLOWANCES OF THE PRESIDENT, THE VICE PRESIDENT, THE SPEAKER, AND MEMBERS OF CONGRESS.

(a) *EXPENSE ALLOWANCE OF THE PRESIDENT.*—Section 102 of title 3 of the United States Code is amended by striking out “no tax liability shall accrue and for which no accounting shall be made by him” and inserting in lieu thereof “no accounting, other than for income tax purposes, shall be made by him”.

(b) *EXPENSE ALLOWANCE OF THE VICE PRESIDENT.*—Section 111 of title 3 of the United States Code is amended by striking out “for which no tax liability shall occur or accounting be made by him” and inserting in lieu thereof “for which no accounting, other than for income tax purposes, shall be made by him”.

(c) *EXPENSE ALLOWANCE OF THE SPEAKER OF THE HOUSE OF REPRESENTATIVES.*—Subsection (e) of the first section of the Act entitled “An Act to increase rates of compensation of the President, Vice President, and the Speaker of the House of Representatives”, approved January 19, 1949 (Public Law 2, 81st Congress), is amended by striking out “for which no tax liability shall occur or accounting be made by him” and inserting in lieu thereof “for which no accounting, other than for income tax purposes, shall be made by him”.

(d) *EXPENSE ALLOWANCES OF MEMBERS OF CONGRESS.*—Section 601 (b) of the Legislative Reorganization Act of 1946 is amended by striking out “for which no tax liability shall incur, or accounting be made” and inserting in lieu thereof “for which no accounting, other than for income tax purposes, shall be made”.

(e) *EFFECTIVE DATES.*—The amendments made by subsections (a) and (b) of this section shall become effective at noon on January 20, 1953, and the amendments made by subsections (c) and (d) shall become effective at noon on January 3, 1953.

And the Senate agree to the same.

Amendment numbered 264:

That the House recede from its disagreement to the amendment of the Senate numbered 264, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

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(a) *Foreign subsidiary of a domestic corporation.*
(b) *Foreign subsidiary of a foreign corporation.*
(c) *Clerical amendment.*
- Sec. 333. Information at source on payments of interest.*
- Sec. 334. Abatement of income tax for certain members of armed forces upon death.*
- Sec. 335. Employees' trusts.*
(a) *Amendment of section 165 (b).*
(b) *Effective date.*
- Sec. 336. Life insurance companies.*
(a) *Tax for 1951.*
(b) *Adjusted normal-tax net income for 1951*
(c) *Technical amendments.*
(d) *Effective date.*

- Sec. 337. Tax treatment of certain investment companies.*
 (a) *Inclusion of certain registered management companies in the definition of regulated investment company.*
 (b) *Technical amendment.*
 (c) *Effective date.*
- Sec. 338. Exchanges and distributions in obedience to orders of Securities and Exchange Commission.*
 (a) *Definition of system group.*
 (b) *Effective date.*
- Sec. 339. Taxation of business income of State colleges and universities.*
 (a) *Amendment of section 421 (b).*
 (b) *Unrelated trade or business.*
 (c) *Effective date.*
- Sec. 340. Family partnerships.*
 (a) *Definition of partner.*
 (b) *Allocation of partnership income.*
 (c) *Effective date.*
- Sec. 341. War losses.*
 (a) *Tax upon war loss recovery.*
 (b) *Basis of recovered property.*
 (c) *Credit for foreign taxes.*
 (d) *Effective dates.*
- Sec. 342. Deduction of expenditures for mine exploration.*
 (a) *Deduction of mine exploration expenditures.*
 (b) *Adjusted basis for determining gain or loss upon sale or exchange.*
 (c) *Effective date.*
- Sec. 343. Definition of employee.*
 (a) *Amendment of section 3797 (a).*
 (b) *Effective date.*
- Sec. 344. Nonbusiness casualty losses.*
 (a) *Removal of limitation.*
 (b) *Effective date.*
- Sec. 345. Abatement of tax on certain trusts for members of armed forces dying in service.*
- Sec. 346. Life insurance departments of mutual savings banks.*
 (a) *Computation of tax.*
 (b) *Technical amendment.*
 (c) *Effective date.*
- Sec. 347. Publishing business carried on by tax-exempt organization.*
 (a) *Treatment as related trade or business.*
 (b) *Effective date.*
- Sec. 348. Deduction with respect to certain unrelated business net income.*
 (a) *Unrelated business net income.*
 (b) *Effective date.*
- Sec. 349. Nondistributable income of personal holding companies.*

TITLE IV—EXCISE TAXES

PART I—TAX ON ADMISSIONS AND CABARETS

- Sec. 401. Removal of tax on free admissions.*
- Sec. 402. Exemptions from admissions tax.*
 (a) *Reinstatement of prewar exemptions.*
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 (c) *Admissions to municipal swimming pools, etc.*
- Sec. 403. Effective date of amendments relating to admissions.*
- Sec. 404. Tax on cabarets, roof gardens, etc.*
 (a) *Ballrooms and dance halls.*
 (b) *Effective date.*

PART II—TAX ON CIGARETTES

- Sec. 421. Tax on cigarettes.*
 (a) *Increase in rate.*
 (b) *Effective date.*
- Sec. 422. Floor stocks tax and floor stocks refund on cigarettes.*
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 (a) *Reduction in rate.*
 (b) *Effective date.*

PART III—RETAILERS' EXCISE TAXES

Sec. 431. Retailers' excise tax on toilet preparations.

- (a) *Baby oils, etc.*
- (b) *Sales to barber shops, etc.*

Sec. 432. Effective date of Part III.

PART IV—DIESEL FUEL

Sec. 441. Diesel fuel used in highway vehicles.

- (a) *Imposition of tax.*
- (b) *Effective date.*

PART V—LIQUOR

Sec. 451. Increase in tax on distilled spirits from \$9 to \$10.50 per gallon.

- (a) *Distilled spirits generally.*
- (b) *Imported perfumes containing distilled spirits.*
- (c) *Floor stocks tax.*

Sec. 452. Wines.

- (a) *Increase in rate of tax.*
- (b) *Floor stocks.*

Sec. 453. Fermented malt liquor.

- (a) *Increase in tax on fermented malt liquors from \$8 to \$9 per barrel.*
- (b) *Floor stocks tax.*

Sec. 454. Floor stocks refunds.

- (a) *Amendment of section 1656 (a).*
- (b) *Amendment of section 1656 (b).*

Sec. 455. Clerical amendment.

Sec. 456. Effective date of Part V.

PART VI—OCCUPATIONAL TAXES

Sec. 461. Dealers in liquors.

- (a) *Wholesale dealers in liquors.*
- (b) *Retail dealers in liquors.*
- (c) *Wholesale dealers in malt liquors.*

Sec. 462. Drawback in the case of distilled spirits used in the manufacture of certain nonbeverage products.

- (a) *Drawback.*
- (b) *Effective date.*

Sec. 463. Tax on coin-operated gaming devices.

Sec. 464. Effective date of Part VI.

PART VII—WAGERING

Sec. 471. Wagering taxes.

- (a) *Imposition of taxes.*
- (b) *Technical amendment.*

Sec. 472. Effective date of Part VII.

PART VIII—MANUFACTURERS' EXCISE TAXES

Sec. 481. Automobiles, trucks, and parts or accessories.

- (a) *Increase in tax on trucks.*
- (b) *Increase in tax on passenger automobiles and motorcycles.*
- (c) *Increase in tax on parts or accessories.*
- (d) *Rebuilt parts or accessories.*
- (e) *Technical amendment.*
- (f) *Parts or accessories for farm equipment.*
- (g) *Effective date of subsection (f).*
- (h) *Removal of tax on tires for toys, etc.*

Sec. 482. Navigation receivers sold to the United States.

- (a) *Exemption on sales to United States of certain radio sets.*
- (b) *Tax-free sales of radio parts.*
- (c) *Refund in case of use of parts.*
- (d) *Refund in case of resale to United States.*
- (e) *Use by manufacturer of taxable parts.*
- (f) *Effective dates.*

Sec. 483. Tax-free sales of refrigerator components to wholesalers for resale to manufacturers.

- Sec. 484. Sporting goods.*
Sec. 485. Electric, gas, and oil appliances.
Sec. 486. Adjustments of tax rates on photographic apparatus and film; repeal of tax on certain items.
 (a) *Items subject to tax.*
 (b) *Floor stocks refund on bulbs.*
Sec. 487. Imposition of tax on mechanical pencils, fountain and ball point pens, and mechanical lighters for cigarettes, cigars, and pipes.
Sec. 488. Repeal of tax on electrical energy.
 (a) *Repeal of tax.*
 (b) *Effective date.*
Sec. 489. Tax on gasoline.
 (a) *Increase in rate.*
 (b) *Floor stocks tax and refund.*
Sec. 490. Effective date of Part VIII.

PART IX—MISCELLANEOUS EXCISE TAX AMENDMENTS

- Sec. 491. Reduction of tax on telegraph dispatches.*
 (a) *Reduction of tax.*
 (b) *Effective date.*
 (c) *Amounts paid pursuant to bills rendered.*
 (d) *Rate reduction date.*
Sec. 492. Exemption of certain overseas telephone calls from the tax on telephone facilities.
 (a) *Telephone calls from members of armed forces in combat zones.*
 (b) *Effective date.*
Sec. 493. Exemption of fishing trips from tax on transportation.
 (a) *Exemption.*
 (b) *Effective date.*
Sec. 494. Tax on transportation of persons.
 (a) *Exemption of certain foreign travel.*
 (b) *Effective date.*
Sec. 495. Transportation of material excavated in the course of construction work.
 (a) *Amendment of section 3475.*
 (b) *Effective date.*
Sec. 496. Articles from foreign trade zones.
 (a) *Imported articles.*
 (b) *Previously tax-paid articles.*
Sec. 497. Refunds on articles from foreign trade zones.
 (a) *Imported articles.*
 (b) *Previously tax-paid articles.*
Sec. 498. Tax refunds on spirits lost in floods of 1951.
 (a) *Authorization.*
 (b) *Destruction of spirits.*
 (c) *Credit.*
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TITLE V—EXCESS PROFITS TAX

- Sec. 501. Maximum tax for new corporations.*
Sec. 502. Payments from foreign sources for technical assistance, etc.
 (a) *Amendment of section 433 (a) (1).*
 (b) *Amendment of section 433 (b).*
Sec. 503. Average base period net income in case of certain fiscal year taxpayers.
Sec. 504. Average base period net income—alternative based on growth in case of new corporations.
 (a) *General rule.*
 (b) *Amendment of Part II.*
Sec. 505. Average base period net income—alternative based on growth.
Sec. 506. Adjustments for changes in inadmissible assets in case of banks.
 (a) *Amendment of section 435 (g).*
 (b) *Amendment of section 438.*
 (c) *Amendment of section 435 (f).*
 (d) *Effective date of subsection (c) (3).*

- Sec. 507. Decrease in inadmissible assets.*
Sec. 508. Election with respect to certain inadmissible assets.
 (a) Amendment of section 440.
 (b) Amendment of section 433 (a) (1).
 (c) Amendment of section 433 (b).
Sec. 509. Alternative average base period net income.
 (a) Amendment of section 442.
 (b) Technical amendments.
Sec. 510. Definition of total assets for purposes of sections 442-446.
Sec. 511. Average base period net income—change in products or services.
Sec. 512. Average base period net income—new corporation.
Sec. 513. Excess profits credit—regulated public utilities.
Sec. 514. Consolidated returns of regulated public utilities.
Sec. 515. Nontaxable income from certain mining properties.
Sec. 516. Transition from war production and increase in peacetime capacity.
 (a) In general.
 (b) Technical amendments.
Sec. 517. Base period catastrophe.
Sec. 518. Consolidation of newspapers.
Sec. 519. Television broadcasting companies.
Sec. 520. Increase in capacity for production or operation.
Sec. 521. Excess profits credit based on income in connection with certain taxable acquisitions.
 (a) General rule.
 (b) Technical amendments.
Sec. 522. Strategic minerals.
Sec. 523. Effective date of title V.

TITLE VI—MISCELLANEOUS PROVISIONS AND AMENDMENTS

- Sec. 601. Exemption of certain organizations from income tax for prior taxable years.*
Sec. 602. Excess profits credit based on income.
 (a) Percentage of average base period net income taken into account.
 (b) Effective date.
Sec. 603. Foreign estate tax credit.
 (a) Credit against basic estate tax.
 (b) Credit against additional estate tax.
 (c) Reversionary or remainder interest.
 (d) Extension of period of limitations, etc., in case of recovery of taxes claimed as credit.
 (e) Effective date.
Sec. 604. Estate and gift tax treatment of United States bonds held by certain non-resident aliens.
 (a) Estate tax.
 (b) Gift tax.
Sec. 605. Estate tax exemption for works of art loaned by nonresident aliens.
 (a) Amendment of section 863 (c).
 (b) Effective date.
Sec. 606. Exemption from additional estate tax of members of armed forces upon death.
Sec. 607. Transfers conditioned upon survivorship.
Sec. 608. Transfers with income reserved.
Sec. 609. Transfers taking effect at death.
Sec. 610. Reversionary interests in case of life insurance.
Sec. 611. Income pursuant to award of Interstate Commerce Commission.
Sec. 612. Credit in prior taxable years for dividends received on preferred stock of a public utility.
Sec. 613. Consolidated returns—includible corporations.
Sec. 614. Time for performing certain acts postponed in case of China Trade Act corporations.
Sec. 615. Treaty obligations.
Sec. 616. Reorganization Plan Numbered 26 of 1950.
Sec. 617. Claims under the Renegotiation Act.
Sec. 618. Prohibition upon denial of Social Security Act funds.

Sec. 619. Removal of tax exemption from expense allowances of the President, the Vice President, the Speaker and Members of Congress.

- (a) Expense allowance of the President.*
- (b) Expense allowance of the Vice President.*
- (c) Expense allowance of the Speaker of the House of Representatives.*
- (d) Expense allowances of Members of Congress.*
- (e) Effective dates.*

And the Senate agree to the same.

R. L. DOUGHTON,
JERE COOPER,
JOHN D. DINGELL,
W. D. MILLS,
RICHARD M. SIMPSON,

Managers on the Part of the House.

WALTER F. GEORGE,
TOM CONNALLY,
HARRY F. BYRD,
E. D. MILLIKIN,
ROBERT A. TAFT,

Managers on the Part of the Senate.

STATEMENT OF THE MANAGERS ON THE PART OF THE HOUSE

The managers on the part of the House at the conference on the disagreeing votes of the two Houses on the amendments of the Senate to the bill (H. R. 4473) to provide revenue, and for other purposes, submit the following statement in explanation of the effect of the action agreed upon by the conferees and recommended in the accompanying conference report:

Amendment No. 1: The House bill provided for an increase in individual income-tax rates by a percentage increase of $12\frac{1}{2}$ percent of the tax liability under existing law, with an over-all effective ceiling rate of 90 percent of the net income of the taxpayer. The House bill also increased the alternative tax on capital gains by $12\frac{1}{2}$ percent. The Senate amendment eliminated the increase in the alternative tax on capital gains and provided, in general, for an increase of 11 percent of the present tax liability, or 8 percent of the amount by which the surtax net income exceeds present taxes, whichever produced the lesser increase in tax. The Senate amendment provided an over-all ceiling rate of 88 percent of the net income of the taxpayer.

Under the conference agreement the increase in the combined normal tax and surtax under existing law will, in general, be $11\frac{1}{4}$ percent of the present rates or 9 percent of the amount by which the surtax net income exceeds present taxes, whichever is the lesser, except that the increase in the first surtax bracket will be only 11 percent. Special rates are provided for the calendar year 1951 so as to reflect November 1, 1951, as the effective date of the increase in tax. The ceiling rate of 88 percent contained in the Senate amendment is retained under the conference agreement, and no increase in tax is provided with respect to the alternative tax on capital gains. Under the House bill no termination date was provided for the increase in the taxes. The Senate amendment provided for the termination of the increased rates on January 1, 1954, and the conference agreement retains the termination date.

Amendments Nos. 2 and 3: These amendments are clerical. The Senate recedes.

Amendments Nos. 4 and 5: The House bill provided for an increase in the normal tax on corporations, in general, from 25 to 30 percent of normal tax net income, applicable to taxable years beginning after December 31, 1950. The Senate provided for an increase in the corporation normal tax from 25 to 27 percent and an increase in the corporation surtax from 22 to 25 percent. Under the Senate amendment, the increases in normal tax and surtax were to be effective as of April 1, 1951, and were to terminate on December 31, 1953. Special rates were provided for the calendar year 1951 to reflect the April 1 effective date. Under the conference agreement on amendments 4 and 5, the normal tax is increased from 25 to 30 percent as provided in the House bill with no increase in the surtax. The increase in normal tax is to be effective as of April 1, 1951, with a normal tax rate of $28\frac{3}{4}$ percent for the calendar year 1951. The conference

agreement provides that the increase in normal tax is to terminate as of March 31, 1954.

Amendment No. 6: The House bill amended section 430 (a) (2) of the code (relating to maximum excess profits tax) so as to increase the percentage used under existing law for computing the maximum excess profits tax from 62 to 70 percent. The Senate amendment provided a new method for computing the maximum excess profits tax which, in general, was 16½ percent of the excess profits net income for the calendar year 1951 and was 17 percent of the excess profits net income for taxable years beginning after March 31, 1951. The 17 percent figure of the Senate amendment was comparable to a 69 percent figure under the method provided in the House bill. The House recedes with an amendment which adopts the Senate method of computing the maximum tax but increases the 17 percent figure to 18 percent (comparable to the House bill 70 percent figure) for taxable years beginning after March 31, 1951. Under the conference agreement the maximum excess profits tax for the calendar year 1951 is 17¼ percent of the excess profits net income for such year.

Amendments Nos. 7, 8, and 9: Senate amendments Nos. 7 and 8 amended section 207 (a) (tax on certain insurance companies), 362 (b) (tax on regulated investment companies), section 421 (a) (tax on business income of certain tax exempt organizations), and section 26 (relating to credits for corporations) of the code to make changes conforming to the action of the Senate with respect to the corporate normal and surtax rate increases. These amendments also made other technical conforming changes in the code. Senate amendment No. 9 struck out section 123 of the House bill which provided for the allowance of only one surtax exemption and one minimum excess profits credit to certain controlled groups of corporations. The House recedes on amendments Nos. 7 and 8 with conforming amendments and an amendment adding a new section 15 (c) to the code (relating to disallowance of surtax exemptions and minimum excess profits credit) and the House recedes on amendment No. 9.

The new subsection (c) of section 15 applies to the situation where a corporation, on or after January 1, 1951, transfers property (other than money) to one or more corporations created for the purpose of acquiring such property, or to one or more corporations not actively engaged in business at the time of such acquisition, if after such transfer the transferor corporation or its stockholders, or both, are in control of the transferee during any part of a taxable year of such transferee corporation. In such case the transferee corporation shall not be allowed either the \$25,000 exemption from surtax or the \$25,000 minimum excess profits credit unless it establishes by the clear preponderance of the evidence that the securing of the \$25,000 exemption or the \$25,000 minimum excess profits credit, or both, was not a major purpose of the transfer of the property to it by the transferor. The term "control" is defined as the ownership of stock possessing at least 80 percent of the total combined voting power of all classes of stock entitled to vote or at least 80 percent of the total value of shares of all classes of stock of the corporation. Under the amendment the ownership of stock is to be determined in accordance with the provisions of section 503, except that constructive ownership under section 503 (a) (2) is to be determined only with respect to the individual's spouse and minor children. The Secretary, to the

extent not inconsistent with the provisions of the new subsection, is granted the same authority as under section 129 (b) to allow in whole or in part a surtax exemption or a minimum excess profits credit which might otherwise be disallowed under the subsection or to apportion such exemption or credit among the corporations involved. For example: Corporation A transfers on January 1, 1952, all of its property to corporations B and C in exchange for the entire stock of such corporations. Immediately thereafter corporation A is dissolved, its stockholders becoming the stockholders of B and C. Assuming that a major purpose for such transfers is to secure additional surtax exemptions and minimum excess profits credits, the Secretary has the authority to allow one such exemption and credit and to apportion such exemption and credit between corporations B and C. It is provided that the subsection shall not be applicable to any taxable year with respect to which the tax imposed by subchapter D of chapter 1 (relating to the excess profits tax) is not in effect. It is not intended that the new subsection shall in any way delimit or abrogate any of the existing provisions of the code (including sec. 129), or any principle established by judicial decision, which have the effect of preventing the avoidance of income or excess profits taxes.

Amendment No. 10: This amendment strikes out all of section 124 of the House bill which provided, in the case of corporations, for an increase from 25 percent to 28.125 percent of the alternative tax (under sec. 117 (c) (1) of the code) on capital gains. The House recedes with an amendment changing the section number from 124 to 123, and providing for an increase of the alternative tax from 25 percent to 26 percent, effective in the case of taxable years beginning after March 31, 1951, and before April 1, 1954. Under the conference agreement, the amendment will have no effect on taxable years beginning before April 1, 1951, even though the taxable year ends after that date, but the 26-percent rate will apply in full to a taxable year ending after March 31, 1954, if the taxable year begins before April 1, 1954.

Amendment No. 11: This amendment provides, in general, that corporations subject to a tax imposed by chapter 1 of the code for a taxable year ending after March 31, 1951, but prior to October 1, 1951, shall after the date of the enactment of the bill and on or before January 15, 1952, make a return for such taxable year with respect to such tax and such taxable year. The House recedes with a clerical amendment.

Amendment No. 12: This amendment, which corresponds to section 125 of the House bill, provides the effective date of part II of title I. The House recedes with a clerical amendment.

Amendment No. 13: This amendment, relating to the computation of tax by certain fiscal year taxpayers, corresponds to subsection (a) of section 131 of the House bill with such changes as are necessary to reflect the normal tax and surtax rates and the termination dates provided by the Senate amendments. The House recedes with amendments conforming to the conference action with respect to the corporate income tax rates.

Amendments Nos. 14, 15, 16, 17, 18, 19, 20, and 21: These amendments are clerical amendments. The House recedes.

Amendment No. 22: This amendment strikes out part I of title II of the House bill providing for the withholding of tax at the source on dividends, interest, and royalties. The House recedes.

Amendment No. 23: This amendment, which corresponds to part II of title II of the House bill (relating to increase in withholding of tax at source on wages) amends section 1622 (a) of the code by changing the percentage rate of withholding from 18 percent to 20 percent in the case of wages paid on or after November 1, 1951, and before January 1, 1954. It also amends section 1622 (c) (1), relating to wage-bracket withholding, to provide new tables which reflect the increased tax rates. It also provides, as did the House bill, for additional withholding of tax on wages upon agreement by employer and employee and provides that the amendments made thereby shall be applicable only with respect to wages paid on or after November 1, 1951. The House recedes.

Amendments Nos. 24, 25, 26, and 27: These amendments are clerical and conforming amendments. The House recedes.

Amendment No. 28: Section 301 of the House bill amended section 12 (c) of the code to provide for a head of a household approximately one-half of the income-splitting benefits provided for a husband and wife who file a joint return. Under the Senate amendment the head of a household was afforded approximately one-fourth of such benefits. The House recedes with an amendment conforming to the House action in affording approximately one-half of such benefits and making the necessary changes in the surtax tables to conform to the conference action with respect to individual income tax rates and effective date provisions.

Amendment No. 29: Under the House bill, a taxpayer might qualify as a head of a household by reason of such household constituting the principal place of abode of a descendant of a stepson or stepdaughter of the taxpayer. Under the Senate amendment, such descendants are eliminated from the category of persons in respect of whom the taxpayer may qualify as head of a household. The House recedes.

Amendment No. 30: This amendment adds subsection (b) to section 301 of the bill to provide that in the case of a head of a household who elects the benefits of section 51 (f) (1) of the code (relating to tax computed by collector in case of wage earners) the tax shall be computed by the collector under supplement T without regard to the taxpayer's status as head of a household. The House recedes.

Amendment No. 31: This amendment amends section 22 (b) (1) of the code (relating to exclusion of life insurance proceeds from gross income) to provide for a limited exclusion for amounts paid by an employer to the beneficiaries of an employee by reason of the employee's death. The House recedes.

Amendment No. 32: This amendment amends sections 113 (a) (5) and (22) (b) (2) of the code to provide that the basis of a survivor's interest in a joint and survivor annuity, the value of which is required to be included in the estate of a decedent annuitant dying after December 31, 1950, shall be considered to be acquired by "bequest, devise, or inheritance" and that such basis (that is, the value of such survivor's interest at the time of the decedent's death) shall be considered, for purposes of determining the amount to be included in the income of the survivor, to be the consideration paid for the survivor's annuity. The House recedes.

Amendment No. 33: This amendment provides for the permanent enactment of section 22 (b) (9) of the code, relating to exclusion from gross income of income attributable to the discharge of certain indebtedness in the case of a corporation which consents to reduction in basis of its properties in an amount equal to the income excluded, and extends for three years the application of section 22 (b) (10), relating to the exclusion of income of a railroad corporation attributable to the discharge of its indebtedness in a receivership proceeding. The amendment is similar to H. R. 2416, which was passed by the House on April 12, 1951 (H. Report No. 311). The House recedes.

Amendment No. 34: This amendment makes certain changes in section 22 (b) (13) of the Internal Revenue Code, relating to the additional allowance for certain members of the Armed Forces.

Section 22 (b) (13) of existing law excludes from gross income certain compensation received for active service in the Armed Forces of the United States for any month during any part of which the recipient served in a combat zone after June 24, 1950, and prior to January 1, 1952. This amendment extends this latter date from January 1, 1952, to January 1, 1954.

This amendment also extends the exclusion to certain compensation received for active service in the Armed Forces of the United States for any month during any part of which the recipient was hospitalized at any place as a result of wounds, disease, or injury incurred while serving in a combat zone after June 24, 1950, and prior to January 1, 1954, provided that during all of such month there are combatant activities in some combat zone. The House recedes.

Amendment No. 35: This amendment revises section 22 (d) (6) (F) (iii) of the code, which provision was added to section 22 (d) (6) by Public Law 919 (81st Cong., 2d sess.), so as to vary the application of the rule with respect to replacement of involuntary liquidations of inventories in certain cases where such replacement is made during taxable years ending after June 30, 1950, and prior to January 1, 1953. The effect of the amendment would be to permit the replacement of the World War II involuntary liquidations during taxable years ending after June 30, 1950, and prior to January 1, 1953, without requiring that the involuntary liquidations occurring during such years be first replaced, thus enabling the replacement of the World War II liquidations to be made in time to permit them to qualify for the benefits of section 22 (d) (6). The House recedes.

Amendment No. 36: This amendment amends section 23 (x) (relating to the deduction of medical expenses) by eliminating the 5 percent limitation with respect to the deduction of medical, dental, etc., expenses paid during the taxable year, not compensated for by insurance or otherwise, for the care of the taxpayer or his spouse if either the taxpayer or his spouse attains the age of 65 before the close of the taxable year. The limitation with respect to the maximum deduction allowable under section 23 (x) remains unchanged. The amendment is effective with respect to taxable years beginning after December 31, 1950. The House recedes.

Amendment No. 37: This amendment adds paragraph (7) to section 23 (aa) of the Internal Revenue Code to provide, in general, that an election to take or not to take the standard deduction for any taxable year may be changed after the time prescribed for filing a return for such year. The House recedes.

Amendment No. 38: This amendment is clerical. The House recedes.

Amendment No. 39: Section 302 of the House bill would add a new subparagraph (D) to section 23 (a) (1) of the code providing, in general, that all expenditures paid or incurred after December 31, 1950, in the development of a mine or other natural deposit (other than an oil or gas well), to the extent paid or incurred after the existence of ores or minerals in commercially marketable quantities has been disclosed, shall be deducted ratably as the produced ores or minerals benefited by such expenditures are sold. Section 302 of the House bill also amended section 113 (b) (1) by adding a new subparagraph (J) thereto to provide for adjustment to the basis of the mine or deposit for amounts allowed as a deduction under new subparagraph (D) as added to section 23 (a) (1).

The Senate bill made technical changes in the House provisions and inserted the substance of subparagraph (D) as added to section 23 (a) (1) by the House bill in a new subsection (cc) to be added to section 23 of the code. The Senate bill also added a provision to the new subsection (cc) which, in general, would allow the taxpayer to elect to deduct development expenditures either in the taxable year paid or incurred or ratably during the taxable years in which the produced ores or minerals benefited by such expenditures are sold. The House recedes.

Amendments Nos. 40 and 41: These amendments are clerical. The House recedes.

Amendment No. 42: This amendment changes section 25 (b) (1) (D) of the code to increase the gross income test of a dependent from \$500 to \$600. The House recedes.

Amendment No. 43: This amendment adds to section 26 (b) of the code a new paragraph to provide for a dividends received credit in the case of dividends received from a foreign corporation (other than a foreign personal holding company) subject to taxation under chapter 1 of the code which for a stipulated uninterrupted period of time has been engaged in trade or business within the United States and has derived during such period 50 percent or more of its gross income from sources within the United States.

The House recedes with an amendment under which the dividends received credit will be allowed with respect to dividends received from such a foreign corporation in an amount equal to—

(A) 85 percent of the dividends received out of its earnings or profits of the taxable year (computed as of the close of the taxable year without diminution by reason of any distributions made during the taxable year) without regard to the amount of the earnings or profits at the time the distribution was made, but such amount shall not exceed an amount which bears the same ratio to 85 percent of such dividends received out of such earnings or profits as the gross income of such foreign corporation for such taxable year from sources within the United States bears to its gross income from all sources for such taxable year, and

(B) 85 percent of the dividends received out of that part of its earnings or profits specified in clause (1) of the first sentence of section 115 (a) accumulated after the beginning of such uninterrupted period, but such amount shall not exceed an amount which bears the same ratio to 85 percent of such dividends re-

ceived out of such accumulated earnings or profits as the gross income of such foreign corporation from sources within the United States for the portion of such uninterrupted period ending at the beginning of the taxable year bears to its gross income from all sources for such portion of such uninterrupted period.

The determination of earnings or profits distributed in any taxable year shall be made in accordance with section 115 (b) of the code.

The application of this amendment is illustrated by the following example: Corporation A (a foreign corporation filing its return on a calendar year basis) whose stock is 100 percent owned by Corporation B (a domestic corporation filing its return on a calendar-year basis) for the first time engaged in trade or business in the United States on January 1, 1940, and qualified under this amendment for the entire period beginning from that date and ending with December 31, 1951. Corporation A had accumulated earnings or profits of \$50,000, immediately prior to January 1, 1940, and had earnings or profits of \$10,000 for each taxable year during the uninterrupted period from January 1, 1940, through December 31, 1951. It derived for the period from January 1, 1940, through December 31, 1950, 90 percent of its gross income from sources within the United States, and in 1951 derived 95 percent of its gross income from sources within the United States. During the calendar years, 1940, 1941, 1942, 1943, and 1944 corporation A distributed in each year \$15,000; during the calendar years 1945, 1946, 1947, 1948, 1949, and 1950 it distributed in each year \$5,000; and during the year 1951, \$50,000. For 1951 a dividends-received credit of \$31,025 will be given corporation B with respect to the \$50,000 received from corporation A, computed as follows:

(1) \$8,075 which is \$8,500 (85 percent of the \$10,000 of earnings or profits of the taxable year) multiplied by 95 percent (the portion of the gross income of A corporation derived during the taxable year from sources within the United States) plus

(2) \$22,950 which is \$25,500 (85 percent of \$30,000 (that part of the earnings or profits accumulated after the beginning of the uninterrupted period)) multiplied by 90 percent (the portion of the gross income derived from sources within the United States during that portion of the uninterrupted period ending at the beginning of the taxable year).

If, in the foregoing example, corporation A for the taxable year 1951 had incurred a deficit of \$10,000 (shown to have been incurred prior to December 31), and if it had distributed \$50,000 on December 31, 1951, the dividends received credit which corporation B would receive would be \$15,300, computed by multiplying \$17,000 (85 percent of \$20,000 earnings or profits accumulated after the beginning of the uninterrupted period) by 90 percent (the portion of the gross income from United States sources during that part of the uninterrupted period ending at the beginning of the taxable year).

Amendment No. 44: This amendment adds to section 51 of the code (relating to individual returns) a new subsection (g) providing for the filing of a joint return by a taxpayer and his spouse for a taxable year for which a joint return could have been made under section 51 (b) even though the time prescribed by law for filing the return for such taxable year has expired. This provision is effective with respect to taxable years beginning after December 31, 1950: The House recedes.

Amendment No. 45: This amendment adds section 313 to the bill which relates to income-tax treatment of mutual savings banks, building and loan associations, and cooperative banks, effective with respect to taxable years beginning after December 31, 1951. The House recedes with an amendment.

Subsection (a) of section 313 as agreed to in conference repeals section 101 (2) of the code (relating to exemption from tax of mutual savings banks).

Subsection (b) amends section 101 (4) of the code to repeal the exemption from tax of building and loan associations and cooperative banks. Credit unions without capital stock organized and operated for mutual purposes and without profit will remain tax-exempt under section 101 (4) of the code.

The amendment to section 101 (4) of the code made by subsection (b) will also continue to exempt from tax corporations or associations without capital stock organized prior to September 1, 1951, and operated for mutual purposes and without profit for the purpose of providing reserve funds for, and insurance of, shares or deposits in (A) domestic building and loan associations (as defined in sec. 3797 (a) (19)), (B) cooperative banks without capital stock organized and operated for mutual purposes and without profit, or (C) mutual savings banks not having capital stock represented by shares.

Subsection (c) amends section 454 of the code to add to the list of corporations exempt from the excess profits tax any mutual savings bank not having capital stock represented by shares, any domestic building and loan association (as defined in sec. 3797 (a) (19)), and any cooperative bank without capital stock organized and operated for mutual purposes and without profit.

Subsection (d) amends section 5 (h) of the Home Owners Loan Act of 1933 (48 Stat. 132; 12 U. S. C., sec. 1464 (h)), to remove the language in such section exempting Federal savings and loan associations from Federal income tax, war-profits, and excess profits taxes, in the case of taxable years beginning after December 31, 1951. These associations will not, of course, be subject to the excess profits tax, by reason of the amendment made by subsection (c).

Subsection (e) amends section 23 (k) (1) (relating to deduction from gross income of bad debts) to provide rules with respect to a reasonable addition to a reserve for bad debts in the case of a mutual savings bank not having capital stock represented by shares, a domestic building and loan association, and a cooperative bank without capital stock organized and operated for mutual purposes and without profit. Where 12 percent of the total deposits or withdrawable accounts of the institution's depositors at the close of the taxable year exceeds the sum of its surplus, undivided profits and reserves at the beginning of the taxable year it may take a deduction for a reasonable addition to a reserve for bad debts for such year in any amount determined by it to be a reasonable addition for such year, except that such amount shall not be greater than the lesser of (A) the amount of its net income for such year computed without regard to this provision, or (B) the amount by which such 12 percent of its total deposits exceeds its surplus, undivided profits, and reserves at the beginning of such year. Where the sum of the institution's surplus, undivided profits, and reserves at the beginning of the taxable year equals or exceeds 12 percent of its total deposits or withdrawable accounts at the close of

such year, any deduction for such year for a reasonable addition to a reserve for bad debts will be determined under the general provisions of section 23 (k) (1). In determining a deduction for a reasonable addition to a reserve for bad debts, and in determining the sum of the surplus, undivided profits, and reserves, there will be taken into account surplus, undivided profits, and bad debt reserves accumulated prior to the close of December 31, 1951 (i. e., during the period for which the institution was not subject to taxation).

Subsection (f) amends section 23 (r) (relating to the deduction from gross income of certain dividends paid by banking corporations) to provide that in the case of mutual savings banks, cooperative banks, and domestic building and loan associations (for definition of domestic building and loan associations, see section 3797 (a) (19) as added by section 313 (i) of the bill), there shall be allowed as deductions in computing net income any amounts paid to, or credited to the accounts of, depositors or holders of accounts as dividends on their deposits or withdrawable accounts, if such amounts may be withdrawn on demand subject only to customary notice of intention to withdraw. For example, if an institution has the right to receive 30 days' notice prior to the withdrawal of a deposit or of any amounts paid or credited to the account thereof, the amounts credited will nevertheless be considered as withdrawable on demand subject only to customary notice of intention to withdraw.

Subsection (g) amends section 23 of the code (relating to deductions from gross income) to provide a deduction for repayment of certain loans by a mutual savings bank not having capital stock represented by shares, a domestic building and loan association (as defined in section 3797 (a) (19) of the code) or a cooperative bank without capital stock organized and operated for mutual purposes and without profit. It provides that amounts paid by the taxpayer during the taxable year in repayment of loans made prior to September 1, 1951, by the United States or any agency or instrumentality thereof which is wholly owned by the United States, or by a mutual fund established under the authority of the laws of any State, shall be allowed as a deduction in computing net income of the taxpayer. An example for this purpose of an agency or instrumentality wholly owned by the United States would be the Reconstruction Finance Corporation.

Subsection (h) amends section 104 (a) of the code (defining the term bank) to include, within the definition of bank, a domestic building and loan association.

Subsection (i) amends section 3797 (a) of the code (relating to definitions for the purpose of the Internal Revenue Code) to define the term "domestic building and loan association" to mean a domestic building and loan association, a domestic savings and loan association, and a Federal savings and loan association, substantially all the business of which is confined to making loans to members. This amendment is of a clarifying nature and is not intended to change the existing meaning of a domestic building and loan association.

Subsection (j) provides that the amendments made by the section shall be applicable only with respect to taxable years beginning after December 31, 1951.

Amendment No. 46: This amendment in general amends section 101 (12) of the code to subject tax-exempt cooperatives to normal tax and surtax on earnings not definitely allocated to the accounts of patrons.

The House recedes with an amendment making a clerical change, and with the following additional amendments. First, it is provided that amounts allocated to patrons with respect to income not derived from patronage, if made after the close of the taxable year and on or before the fifteenth day of the ninth following month, shall be considered as made during the taxable year to the extent such allocations are attributable to income derived before the close of the taxable year. Second, it is made clear that in taking into account patronage dividends to patrons with respect to their patronage in computing the net income of the cooperative, it is immaterial whether such dividends relate to patronage of the taxable year of the cooperative or to patronage of preceding taxable years. Third, the provision of the Senate amendment relating to withholding on patronage dividends in the event withholding is required on corporate dividends is stricken from the bill. Fourth, it is provided that the provisions of subsection (f) of section 148 (relating to information returns of patronage dividends paid by corporations), as amended by the Senate amendment, shall not apply in the case of any corporation (including any cooperative or nonprofit corporation engaged in rural electrification) exempt from taxation under section 101 (10) or (11) or in the case of any insurance corporation subject to a tax imposed by supplement G.

Under the conference agreement, patronage dividends allocated by a cooperative to its patrons will not be treated as taxable income to the cooperative.

Amendment No. 47: This amendment, which adds a new subparagraph (D) to section 102 (d) (1) of the Internal Revenue Code, provides that the excess of the net long-term capital gain for the taxable year over the net short-term capital loss for such year, less the taxes imposed by chapter 1 of the code attributable to such excess, shall be deducted from the net income in computing section 102 net income. However, the fact that such excess is not to be taken into account in the tax basis on which the penalty tax under section 102 is imposed will not prevent capital gains from being taken into consideration in determining whether earnings or profits of a corporation have been permitted to accumulate beyond the reasonable needs of the business. The House recedes.

Amendment No. 48: This amendment amends section 112 (b) (7) of the code (relating to election as to recognition of gain in certain corporate liquidations), so as to make it applicable to cases in which the liquidation is pursuant to a plan adopted after December 31, 1950, and the transfer of all the property under the liquidation occurs within one calendar month in 1951 or 1952. The House recedes.

Amendment No. 49: This amendment amends sections 112 (b) and 113 (a) of the code to provide for the nonrecognition of gain in certain cases, where, pursuant to a plan of reorganization, a shareholder of a corporation which is a party to the reorganization receives stock (other than preferred stock) in another corporation which is a party to the reorganization without the surrender by such shareholder of stock. This amendment is applicable with respect to taxable years ending after the date of the enactment of this act, but applies only with respect to distribution of stock made after such date. The House recedes.

Amendment No. 50: This is a clerical amendment. The House recedes.

Amendment No. 51: Section 303 of the House bill provides, in general, that any gain from a sale of property used by the taxpayer as his principal residence will not be recognized if the taxpayer within a period beginning 1 year prior to the date of such sale and ending 1 year after such date purchases property and uses it as his principal residence except to the extent that the taxpayer's selling price of the old residence exceeds his cost of purchasing the new residence. The Senate amendment provides that, where the taxpayer is constructing the new residence, such period shall include 18, rather than 12, months after such sale. If the taxpayer commenced construction of the new residence more than 1 year prior to the date of the sale of the old residence, in determining the taxpayer's cost of building the new residence there will be included only so much of the cost as is attributable to the construction made during the period beginning 1 year prior to the date of the sale of the old residence and ending 18 months after such date. The House recedes.

Amendment No. 52: This is a clerical amendment. The House recedes.

Amendment No. 53: The House bill granted a percentage depletion allowance at the rate of 5 percent in the case of deposits of asbestos, sand, gravel, stone (including pumice, scoria, and slate), brick clay, tile clay, shale, oyster shell, clam shell, granite, and marble. The Senate amendment granted percentage depletion in the case of asbestos at the rate of 10 percent and added to the above list sodium chloride and, if produced from brine wells, calcium chloride, magnesium chloride, potassium chloride, and bromine. The Senate amendment removed slate from the parenthetical clause following stone and included it as a separate item in this 5-percent category. The House bill increased the 5-percent rate of percentage depletion now allowed for coal to 10 percent. The Senate amendment followed this treatment in the case of coal and included in this new 10-percent category those minerals which the House bill would have allowed percentage depletion at a rate of 15 percent. These minerals are borax, fuller's earth, tripoli, refractory and fire clay, quartzite, perlite, diatomaceous earth, metallurgical grade limestone, and chemical grade limestone. The Senate amendment also added wollastonite, magnesite, dolomite, brucite, and calcium and magnesium carbonates, to this 10-percent list, and added aplite and garnet to the list now allowed percentage depletion at the 15-percent rate.

The bill, as passed by both the House and the Senate, made technical amendments to section 114 (b) (4) (A) which do not alter its substance. The House bill changed the parenthetical clause, stating that thenardite produced from brines or mixtures of brine would be allowed percentage depletion, to state that thenardite, including thenardite from brines or mixtures of brine, would be permitted such allowance. The Senate amendment achieved the same effect by striking the parenthetical clause.

The amendments made by both Houses are applicable only with respect to taxable years beginning after December 31, 1950.

The House recedes with an amendment which restores borax, fuller's earth, tripoli, refractory and fire clay, quartzite, diatomaceous earth, metallurgical grade limestone, and chemical grade limestone to the 15-percent category in which they appeared in the House bill and which removes potassium chloride from the list of minerals to which

the Senate bill granted the percentage depletion allowance at the 5-percent rate. Potassium chloride is entitled, under existing law, to percentage depletion allowance at 15 percent. Under the conference agreement calcium carbonates are granted an allowance of 10 percent, while marble, which is a calcium carbonate, receives 5 percent. It is intended, in any case where a mineral is specifically provided for at a stated rate of percentage allowance, that the specific provision will govern over the allowance provided (whether higher or lower) for a more general classification.

It is the intention, in including stone in the 5-percent percentage depletion category, to limit such term to its commonly understood meaning. Thus, depletion would be allowed in the case of common stone which is crushed for use in building roads but would not be allowed in the case of precious stones such as diamonds.

Amendment No. 54: Section 115 (g) (3) of the Internal Revenue Code provides in substance that section 115 (g) (1), relating to the treatment as dividends of amounts distributed in redemption of stock, shall be inapplicable where the redemption is of stock the value of which is included in determining the value of the gross estate of a decedent provided, among other limitations, that the value of the stock in such corporation comprises more than 50 percent of the value of the net estate of the decedent. Under the Senate amendment, the 50-percent limitation would be reduced to 25 percent. The House recedes with an amendment under which the value of the stock of the corporation must comprise more than 35 percent of the value of the gross estate of the decedent. The amendment would be applicable with respect to distributions in redemptions made after the date of enactment of the act.

Amendment No. 55: This amendment amends section 116 (a) of the Internal Revenue Code so as to apply the exemption of earned income received from sources without the United States to (1) an individual citizen of the United States who has been a bona fide resident of a foreign country or countries for an uninterrupted period which includes an entire taxable year or (2) an individual citizen of the United States who during any period of 18 consecutive months is physically present in a foreign country or countries for a total of at least 510 full days in such period. Amounts paid by the United States or any agency thereof do not come within the provisions of this amendment. The amendment further amends the Internal Revenue Code to adapt the provisions respecting collection of income tax at source on wages to the substantive changes made to section 116 (a) of the code, and to eliminate withholding of Federal income tax with respect to wages which are required by law of any foreign country to be withheld upon for income taxes of such foreign country. The House recedes with a clerical amendment.

Amendment Nos. 56, 57, and 58: These are clerical amendments. The House recedes.

Amendment No. 59: This amendment strikes out the provision of the House bill which provided for an increase, in the case of individuals, of the alternative tax on capital gains from 25 percent to 28.125 percent. The House recedes with an amendment providing (effective in the case of taxable years beginning after October 31, 1951, and before November 1, 1953) for an increase of the alternative tax from 25 percent to 26 percent. Under the conference agreement, the

amendment will have no effect on a taxable year beginning before November 1, 1951, even though the taxable year ends after that date, but the 26-percent rate will apply in full to a taxable year ending after November 1, 1953, if the taxable year began before that date.

Amendment Nos. 60, 61, and 62: These are clerical amendments. The House recedes.

Amendment No. 63: This amendment provides rules for the application of section 117 (j) in cases where land bearing an unharvested crop is sold. The provision applies in cases where the land has been held for more than 6 months. The period that the crop has been on the land is immaterial. The House recedes.

Amendment No. 64: The House bill contained a provision which, effective for taxable years after 1950, amended section 117 (j) (1) of the code to provide that the term "property used in the trade or business" includes livestock held by the taxpayer for draft, breeding, or dairy purposes for 12 months or more. The Senate amendment restates this provision to provide that the term "property used in the trade or business" includes livestock, regardless of age, held by the taxpayer for draft, breeding, or dairy purposes, and held by him for 12 months or more from the date of acquisition. The Senate amendment also provided that the term does not include poultry except that the term does include turkeys regardless of age, held by the taxpayer for breeding purposes, and held by him for 12 months or more from the date of acquisition. The Senate amendment also included rules respecting effective date. The House recedes with an amendment striking out the reference to turkeys. This provision of the bill is not intended to change the present application of section 117 (j) of the code to race horses in any situation in which such race horses fall within the term "property used in the trade or business."

Amendments Nos. 65 through 72: Section 307 of the House bill (which corresponds to section 325 of the Senate bill) extended capital gains treatment to certain coal royalties. The Senate amendments added certain additional rules and conforming amendments to other sections of the code. The House recedes on amendments Nos. 65, 66, 68, 69, 70, 71, and 72, and recedes on amendment No. 67 with an amendment which strikes all references to timber, and which provides that the provisions in regard to coal added by the bill shall have no application for the purpose of applying section 102 or subchapter A of chapter 2, including the computation under section 117 (c) (1) of a tax in lieu of the tax imposed by section 500.

Amendment No. 73: This is a clerical amendment. The House recedes.

Amendment No. 74: The House bill provided that the amendments relating to collapsible corporations shall be applicable to taxable years beginning after December 31, 1950. This amendment limits the effective date to taxable years ending after August 31, 1951, and limits the application of the amendment to gains realized after such date. The House recedes.

Amendment No. 75: This is a clerical amendment. The House recedes.

Amendment No. 76: Section 309 of the House bill added a new subsection (n) to section 117 of the code to provide rules for the treatment of capital gains and ordinary losses by a dealer in securities

in order to prevent the dealer from obtaining the most beneficial tax result by a shift in securities from one account to another or by insufficient identification of securities alleged to be within a particular account. Under the amendment the provisions of section 117 (n) are made inapplicable to the extent that these provisions are inconsistent with the provisions of section 117 (i) relating to bond, etc., losses of banks. The House recedes.

Amendment No. 77: This amendment strikes out section 310 of the House bill. The House recedes with an amendment which adds a new subsection (o) to section 117 of the Internal Revenue Code so as to provide that in the case of a sale or exchange, directly or indirectly, of depreciable property (1) between husband and wife, or (2) between an individual and a corporation in which he, his spouse, and his minor children and minor grandchildren own more than 80 percent of the value of the outstanding stock, any gain recognized to the transferor shall be considered ordinary income and not capital gain. The transfer of the property can be from the corporation to the stockholder or from the stockholder to the corporation. The property transferred must be property which in the hands of the transferee is property of a character which is subject to the allowance for depreciation provided in section 23 (l) of the code. This amendment shall be applicable only with respect to sales or exchanges made after May 3, 1951.

Amendment No. 78: This amendment adds a new subsection to section 117 of the code, to provide that certain payments received by an employee after the termination of his employment, which under existing law are taxable as ordinary income, shall be treated as gains from the sale or exchange of a capital asset held for more than 6 months. The House recedes with clerical amendments and with an amendment which provides that such payments (commencing after termination of the employment) must be payable for a period of not less than 5 years or for the period of the employee's life following the termination of his employment.

Amendment No. 79: This amendment, for which there is no corresponding provision in the House bill, amends section 122 (b) (2) (relating to the amount of net operating loss carry-overs) to provide for a 4-year carry-over of 1948 and 1949 net operating losses by both corporate and noncorporate taxpayers, and for a 4-year carry-over of 1946 and 1947 net operating losses by certain new corporations. The amendments to section 122 (b) (2) are made applicable in computing the net operating-loss deduction for taxable years beginning after December 31, 1948. The House recedes with an amendment which eliminates the provisions of the Senate amendment for the carry-over of 1946 net operating losses by new corporations, reduces from four to three the number of years to which the 1947 net operating loss may be carried forward by new corporations, and reduces from four to three the number of years to which 1948 and 1949 net operating losses may be carried forward by all taxpayers.

Amendment No. 80: This amendment amends subsection (d) of section 130A, relating to definition of the term "restricted stock option," to provide that if the grant of an option is subject to stockholder approval, the date of the grant of the option shall be determined as if the option had not been subject to stockholder approval.

The amendment is made effective as if it had been enacted as a part of section 218 of the Revenue Act of 1950. The House recedes with a clerical amendment.

Amendment No. 81: This amendment adds to the bill a new section 331 pursuant to the provisions of which (1) a domestic corporation which owns at least 10 percent of the voting stock of a foreign corporation from which it receives dividends in a taxable year will, for purpose of computing the foreign tax credit of such domestic corporation, be deemed to have paid a proportion of certain foreign taxes paid, or deemed to be paid, by such foreign corporation, and (2) such foreign corporation will, for the purpose of the above computation, be deemed to have paid a proportion of certain foreign taxes paid by any other foreign corporation from which it receives dividends in a taxable year, if the former foreign corporation owns a majority of the voting stock of the latter foreign corporation. The House recedes with a clerical amendment and an amendment pursuant to which (2) above will be operative if the former foreign corporation owns 50 percent or more of the voting stock of the latter foreign corporation.

Amendment No. 82: This amendment amends section 147 of the code to give to the Secretary the authority to require information returns reporting payments of interest, regardless of amount. Under existing law, except in the case of certain payments, information returns may not be required from persons making payment of interest unless the payment is \$600 or more. The House recedes with a clerical amendment.

Amendment No. 83: This amendment adds a new section 154 to supplement D of chapter 1 of the code, relating to returns and payment of taxes.

Such section 154 provides that, where any individual dies after June 24, 1951, and prior to January 1, 1954, while in active service as a member of the Armed Forces of the United States, if his death occurred while serving in a combat zone, as determined under section 22 (b) (13) of the code, or at any place as a result of wounds, disease, or injury incurred while so serving, (1) the tax imposed by chapter 1 of the code will not apply with respect to the taxable year in which falls the date of his death, or with respect to any prior taxable year which ended on or after the first day he was so serving in a combat zone after June 24, 1950, and (2) the tax (including interest, additions to the tax, and additional amounts) imposed by chapter 1 of the code and under the corresponding title of each prior revenue law for all taxable years preceding those specified in (1) above, which is unpaid at the date of his death shall not be assessed, and if assessed the assessment shall be abated, and if collected shall be credited or refunded as an overpayment. The House recedes with a clerical amendment.

Amendment No. 84: This amendment amends section 165 (b) of the code, relating to distributions to an employee by a trust which qualifies for exemption under section 165 (a).

Under section 165 (b), amounts distributed or made available to an employee by such a trust (in excess of the employee's contributions) are taxed to the employee only in the years in which distributed or made available and, if the total distributions are paid to the employee in one taxable year on account of the employee's separation from the service, the amount of the distribution (to the extent exceeding the

employee's contribution) is taxed at capital gain rates (as from sale or exchange of a capital asset held for more than 6 months).

Under the amendment, where such a total distribution occurs in one taxable year, and consists in whole or in part of securities of the employer corporation, that part of the excess (of the amounts distributed over the amount of the employee's contributions) as consists of net unrealized appreciation attributable to that part of the total distributions made in securities of such employer corporation shall be excluded from income in the year of distribution, and shall be subject to tax only when the securities are sold (or otherwise disposed of in a taxable transaction). The amount of the net unrealized appreciation which is excluded shall in the hands of the recipient not be included in the basis of the stock or other securities distributed.

The House recedes with an amendment providing that the proposed treatment is also to apply to securities issued by a parent or subsidiary corporation of the employer corporation.

Amendment No. 85: Under section 311 of the House bill, the special rule for 1949 and 1950, set forth in section 202 (b) (2) of the code for use in determining the reserve and other policy liability credit of life insurance companies, would have been extended to apply to taxable years beginning in 1951. Under this amendment there is substituted for this provision a system for taxing such companies, but only for taxable years beginning in 1951, which is different from that contained in present law. Under this system, in lieu of allowing life insurance companies an adjustment of their normal tax net income and of their corporation surtax net income, by means of the reserve and other policy liability credit, for purposes of a tax imposed at the regular corporate rates, a low-rate tax is imposed on the normal tax net income of such companies without allowance of any such credit. Under the Senate amendment there is imposed for 1951 a tax equal to $3\frac{3}{4}$ percent of the first \$200,000 of the 1951 adjusted normal tax net income of such companies and $6\frac{1}{2}$ percent of the amount in excess thereof. The House recedes with a clerical amendment.

Amendment No. 86: This is a clerical amendment. The House recedes with a clerical amendment.

Amendment No. 87: This amendment makes technical and clarifying changes in the section of the House bill providing for tax treatment under supplement Q of chapter 1 of the code of certain registered management investment companies certified by the Securities and Exchange Commission as principally engaged in furnishing capital to corporations principally engaged in development or exploitation of inventions, technological improvements, new processes, or products not previously generally available. The House recedes.

Amendment No. 88: This amendment, for which there is no corresponding provision in the House bill, makes a minor change in the definition of "system group" contained in section 373 (d) of the Internal Revenue Code. Under this amendment, in determining whether one or more of the corporations in a utility system owns the required 90 percent of each class of the stock of another corporation in the same system, there is disregarded not only stock which is preferred to both dividends and assets, which type of stock may be disregarded for this purpose under present law, but also stock which is limited and preferred as to dividends but which is not preferred as to assets, provided that the total value of such stock is less than 1

percent of the aggregate value of all classes of stock which are not preferred as to both dividends and assets. This amendment is applicable to all taxable years affected by exchanges and distributions made after December 31, 1947. The House recedes with a clerical amendment.

Amendment No. 89: This amendment subjects governmental colleges and universities and corporations wholly owned by such colleges or universities to the supplement U tax on their unrelated business net income, effective for taxable years beginning after December 31, 1951. The House recedes with a clerical amendment.

Amendment No. 90: This is a clerical amendment. The House recedes with a clerical amendment.

Amendment No. 91: This amendment provides for retroactive application to taxable years beginning after December 31, 1938, and before January 1, 1951, of the provisions added by the bill to the Internal Revenue Code with respect to the treatment of family partnerships for income tax purposes, which provisions are applicable generally to taxable years beginning after December 31, 1950. The House recedes with an amendment revising the effective date provision to provide that the amendments made by the bill with respect to family partnerships shall be applicable only with respect to taxable years beginning after December 31, 1950, and to provide rules for cases where the taxable year of the partner differs from that of the partnership.

In applying the proposed treatment of family partnerships to taxable years beginning after December 31, 1950, where the taxable year of a partnership begins in 1950 and ends within or with, as to all the family partners, taxable years which begin in 1951, the proposed treatment shall apply to all distributive shares derived by the family partners from the taxable year of the partnership beginning in 1950; however, where a taxable year of the partnership ending in 1951 (whether beginning in 1950 or 1951) ends within or with a taxable year of a family partner which began in 1950, the proposed treatment is not applicable to any of the distributive shares of income derived by the family partners from such taxable year of the partnership.

Amendment No. 92: This amendment, for which there is no corresponding provision in the bill as it passed the House, amends section 127 of the code to provide an alternative treatment of war loss recoveries, applicable at the election of the taxpayer. Under the amendment the amount of the recovery, to the extent that it does not exceed the allowable deductions in prior taxable years on account of the destruction or seizure of property in respect of which the recovery is received, is excluded from gross income for the taxable year in which the recovery is received. In lieu of including such amount in gross income for the taxable year of the recovery, there is to be added to the tax imposed by chapter 1 for such taxable year the total increase in the tax under chapter 1 and chapter 2 for all taxable years which would result by decreasing, in an amount equal to such part of the recovery so excluded, deductions allowable in prior taxable years with respect to the destruction or seizure of the property. To the extent that the amount of the recovery exceeds the allowable deductions in prior taxable years on account of the destruction or seizure of the property, such amount is treated for the taxable year of the recovery as gain on the involuntary conversion of property and is recog-

nized or nonrecognized as provided in section 112 (f). This amendment also provides a new rule for the determination of the unadjusted basis of property where the alternative treatment of the recovery is applicable pursuant to election made by the taxpayer. The House recedes with amendments which revise section 127 (c) (3) (A) and (5), and make minor changes in the phrasing of section 127 (c) (3) (B) and (C) and section 127 (d) (2). The effective date of the amendment is also changed so that it will be applicable to taxable years beginning after December 31, 1941.

Section 127 (c) (3) (A), relating to the definition of "amount of recovery" for the purposes of the new alternative treatment, is revised under the conference agreement so that in the case of recovery of the same property or interest considered under section 127 (a) as destroyed or seized, such property or interest may be included in the amount of recovery at its fair market value, determined as of the date of recovery, or at the option of the taxpayer at the adjusted basis (for determining loss) of such property or interest in the hands of the taxpayer on the date of the loss. Subparagraph (A) is also revised to provide that for the purposes of section 127 (c) (3) (B) and (C) (but not section 127 (d) (2)) the amount of recovery shall be reduced by the amount of the obligations or liabilities with respect to the property recovered, if the taxpayer for any previous taxable year chose under section 127 (b) (2) to treat such obligations or liabilities as discharged or satisfied out of such property, and such obligations or liabilities were not so discharged or satisfied prior to the date of the recovery.

These two new rules incorporated into section 127 (c) (3) (A) may be illustrated by the following examples:

Example (1): The taxpayer on December 11, 1941, owned Blackacre, a property located in Germany. The adjusted basis of such property in the hands of the taxpayer on such date was \$1,000,000. Under section 127 (a) such property was deemed destroyed or seized in the year 1941 and the taxpayer's loss of \$1,000,000 was an allowable deduction for such year whether or not the taxpayer claimed such deduction. A recovery with respect to such loss is required to be taken into account under section 127 (c). Assume that in 1946 the taxpayer recovered this property and that on the date of recovery it had a fair market value of \$500,000. If the taxpayer elects to proceed under the provisions of section 127 (c) (3), he has an option to include in the amount of the recovery respecting this property either the fair market value on the date of the recovery (\$500,000) or an amount equal to the adjusted basis of the property as of the date of the loss (\$1,000,000). Assuming the taxpayer had no previous recovery with respect to this property, its unadjusted basis under section 127 (d) (2) for the period subsequent to recovery would be \$500,000 or \$1,000,000 depending upon whether the taxpayer chose to include the property in the amount of recovery in 1946 at its fair market value on the date of the recovery or its adjusted basis as of the date of loss. If the taxpayer chooses to treat \$1,000,000 (the adjusted basis of the property on the date of the loss in 1941) as the amount of the recovery, there would be added to the tax for 1946 the total increase in the tax which would result by decreasing from \$1,000,000 to zero the amount of the deduction allowable in 1941 on account of the destruction or seizure of Blackacre. If the taxpayer chooses to treat only \$500,000 (fair market value on date of recovery) as the amount

of the recovery, there would be added to the tax for 1946 the amount of the total increase in tax resulting from decreasing to \$500,000 the amount of the deduction allowable in 1941. If the \$1,000,000 allowable as a deduction in 1941 did not result in any tax benefit, then there would be nothing to be added to the tax for 1946, whether the taxpayer chooses the amount of the recovery as \$500,000 or as \$1,000,000.

Example (2): The taxpayer on December 11, 1941, owned an industrial plant in Germany. The adjusted basis of such property in the hands of the taxpayer on such date was \$5,000,000. The property on such date was subject to a mortgage of \$3,000,000. Under the provisions of section 127 (b) (2) the taxpayer chose to treat the mortgage as discharged or satisfied out of the property. Assume that in 1946 the taxpayer recovered this property and that on the date of recovery it had a fair market value of \$5,000,000, and is still subject to the mortgage of \$3,000,000. If the taxpayer elects to have the provisions of section 127 (c) (3) apply, the amount of the recovery respecting this property for the purposes of subparagraph (B) is considered to be \$2,000,000. Since this amount is equal to the allowable deduction in 1941 under section 127 (b), all of such amount is excluded from gross income in 1946; however, there is to be added to the income tax for such year the total increase in the tax under chapter 1 and chapter 2 for all taxable years which would result from eliminating the allowable deduction of \$2,000,000 in 1941. For the purposes of paragraph (C) the amount of recovery is likewise considered to be \$2,000,000, so that there is no amount to be treated for 1946 as gain from the involuntary conversion of the property. However, this rule which reduces the amount of the recovery on account of liabilities and obligations is not applicable in applying the provisions of section 127 (d) (2). Under that section the amount of the recovery in respect of the property is \$5,000,000, and since there was no amount considered as gain upon involuntary conversion of the property in 1946, such amount is not reduced and the basis of the property is \$5,000,000.

Under the conference agreement, as under existing law and the Senate amendment, property considered as destroyed or seized under section 127 (a) of the code is considered as not being in existence from the date of the loss to the date of its recovery. Thus, depreciation on the recovered property is not allowable for the period between the date of the loss and the date of the recovery.

Section 127 (c) (5), relating to the election by the taxpayer to have the provisions of section 127 (c) (3) apply to war loss recoveries, has been revised under the conference agreement to provide that if the taxpayer elects to have the provisions of paragraph (3) applicable in any taxable year in which he recovers any money or property in respect of property considered under section 127 (a) as destroyed or seized, the provisions of paragraph (3) shall be applicable to all taxable years of the taxpayer beginning after December 31, 1941. Such election once made is irrevocable. The election by the taxpayer is to be made in such manner and at such time as the Secretary may by regulations prescribe. However, no election may be made after December 31, 1952, by the taxpayer unless he receives war loss recoveries during a taxable year ending after the date of enactment of the Revenue Act of 1951.

If under an election made by the taxpayer the provisions of section 127 (c) (3) are applicable to any taxable year, the period of limitations provided in section 275 and 276 of the code for the assessment and collection of (1) the amount to be added to the tax for such taxable year under section 127 (c) (3), and (2) any deficiency for such taxable year or for any other taxable year to the extent attributable to the basis of the recovered property being determined under section 127 (d) (2), shall not expire prior to the expiration of 2 years following the date of the making of such election. Any amount and any deficiency specified in clauses (1) and (2) of the preceding sentence may be assessed at any time prior to the expiration of such 2-year period, notwithstanding any law or rule of law which would otherwise prevent such assessment and collection.

Paragraph (5) further provides that if section 127 (c) (3) is applicable to any taxable year pursuant to the taxpayer's election, and credit or refund of any overpayment resulting from the application of section 127 (c) (3) to such taxable year is prevented on the date of the making of such election, or within 1 year from such date, by any law or rule of law (other sec. 3761 of the Internal Revenue Code, relating to compromises), credit or refund of such overpayment may nevertheless be made or allowed if claim therefor is filed within 1 year from such date.

Paragraph (5) further provides that in the case of any taxable year ending before the date of the making by the taxpayer of an election, no interest shall be paid upon any overpayment resulting from the application of the provisions of section 127 (c) (3) to such year, and no interest shall be assessed or collected with respect to any amount or any deficiency specified in clauses (1) and (2) above, for any period prior to the expiration of 6 months following the date of the making of such election by the taxpayer.

Amendment No. 93: This amendment adds a new subsection (ff) to section 23 of the code (relating to deductions from gross income), providing that expenditures paid or incurred during the taxable year for the purpose of ascertaining the existence, location, extent, or quality of any deposit of ore or other mineral, and paid or incurred prior to the beginning of the development stage of the mine or deposit, may be deducted in computing net income for the taxable year, except to the extent that such expenditures exceed \$75,000. The subsection further provides that the taxpayer may elect to treat as deferred expense any portion of such deductible amount, in which event such deferred portion shall be deductible on a ratable basis as the units of produced ores or minerals discovered or explored by reason of such expenditures are sold. No deduction may be taken under this new subsection if in any four preceding years (not necessarily consecutive years) the taxpayer, or any individual or corporation (who has transferred to the taxpayer any mineral or ore property under circumstances which make the provisions of pars. (7), (8), (11), (13), (15), (17), (20), or (22) of section 113 (a) of the code applicable to such transfer), has taken a deduction, or elected to treat exploration expenditures as deferred expense, under the new subsection. The House recedes with a clerical amendment.

Amendment No. 94: This amendment would have added a new subsection (n) to section 115 of the code to provide a special rule for the treatment of gain upon the complete liquidation of a corporation

where the distribution in liquidation included stock in another corporation to which unimproved real estate had been transferred in anticipation of such liquidation. The Senate recedes.

Amendment No. 95: This amendment adds paragraph (20) to section 3797 of the code to provide in substance that a full-time life insurance salesman who is an employee under the definition contained in the Federal Insurance Contributions Act shall be considered to be an "employee" for the purpose of applying the provisions of chapter 1 (such as sections 22 (b) (2) (B), 23 (p) and 165) which determine the effect of contributions for the benefit of, and distribution to, "an employee" under a stock bonus, pension, profit-sharing, or annuity plan. The amendment is applicable to taxable years beginning after 1938. The House recedes.

Amendment No. 96: This amendment would allow in full, for purposes of computing the net operating loss (as defined by sec. 122 (a) of the code) of a taxpayer other than a corporation, deductions allowable under section 23 (e) (2) (relating to losses incurred in a transaction entered into for profit) and section 23 (e) (3) (relating to losses of property not connected with a trade or business, if the losses arise from fire, storm, shipwreck, or other casualty or from theft). Under existing law, in computing the net operating loss in the case of such a taxpayer, section 122 (d) (5) limits the deductions otherwise allowable under section 23 of the code which are not attributable to a trade or business regularly carried on by the taxpayer to the extent of the gross income not derived from such trade or business. The House recedes with an amendment which removes from the present limitation in section 122 (d) (5) deductions for losses sustained after December 31, 1950, in respect of property, if the losses arise from fire, storm, shipwreck, or other casualty, or from theft. The amendment will enable a taxpayer who is an individual to take such losses into account in computing a net operating loss which may be carried back 1 year or carried forward 5 years. The amendment is made applicable in computing the net operating loss deduction for taxable years ending after December 31, 1948.

Amendment No. 97: This amendment relates to the abatement of tax of certain irrevocable trusts to the extent that the income is owned by any individual who dies on or after December 7, 1941, while in active service as a member of the military or naval forces of the United States or of any of the other United Nations and prior to January 1, 1948.

The House recedes with an amendment which provides that, in the case of a trust which accumulated income for a beneficiary who died on or after December 7, 1941, and before January 1, 1948, while in active service as a member of the military or naval forces of the United States or of any of the other United Nations, there shall be allowed as a deduction in computing the net income of the trust for any taxable year the income of the trust for such taxable year, before diminution for income taxes with respect thereto, which was, or would have been but for such diminution, accumulated for such beneficiary.

This deduction shall be allowed, however, only if (1) the income accumulated was for a taxable year of the trust which ended with or within a taxable year (ending on or after December 7, 1941) of such beneficiary during any part of which he was a member of such military or naval forces, or, in the case of the taxable year of the trust during

which such beneficiary died, the income accumulated was for the period in such taxable year prior to the death of such beneficiary, and (2) the amount of such accumulated income was, without regard to this amendment, taxable to the trust, and (3) the income for such taxable year accumulated for the beneficiary, if not distributed to him prior to his death, was payable by the trust at or after his death only to his estate, spouse, or lineal ancestors or descendants.

Amendment No. 98: This amendment (effective for taxable years ending after the date of enactment of this bill) would require a net worth statement to be filed with the return of any individual who during the taxable year received gross income in excess of \$10,000 from one or more unlawful trades or businesses. The Senate recedes.

Amendment No. 99: This amendment amends the life insurance company provisions of the code to provide that the life insurance department of a mutual savings bank is to be taxed as a life insurance company. This amendment is a corollary of amendment No. 45, relating to the taxation of mutual savings banks. The amendment is applicable only with respect to taxable years beginning after December 31, 1951.

The House recedes with an amendment which adds a new section 110 to the code to provide the method for computing the tax of a mutual savings bank authorized under State law to conduct a life insurance business and which conducts such a business in a separate department the accounts of which are maintained separately from the other departments of the bank. The tax is to consist of the sum of (1) a partial tax computed under sections 13 and 15 of the code upon the net income of the bank determined without regard to any items of income or deductions properly allocable to the life insurance department; and (2) a partial tax upon the net income of the life insurance department determined without regard to any items of income or deductions not properly allocable to such department at the rates and in the manner provided in supplement G with respect to life insurance companies. In determining the net income for purposes of such partial taxes no account shall be taken of any transactions between the insurance department and the bank or any other department thereof.

The amendment is applicable only with respect to taxable years beginning after December 31, 1951.

Amendment No. 100: This amendment adds at the end of section 422 (b) of the code (relating to definition of unrelated trade or business for the purpose of determining the unrelated business net income subject to the supplement U tax) a special rule with respect to publishing businesses carried on by colleges and universities. This amendment is applicable with respect to taxable years beginning after December 31, 1950 and prior to January 1, 1953. The purpose of this amendment is to afford an organization (exempt under sec. 101 (6) and subject to supplement U) which owns a publishing business limited opportunity to conform or relate such publishing business to its educational or other exempt purposes within the time specified in the amendment, and thus be relieved of supplement U tax thereon for taxable years preceding the taxable year in which the activity becomes related. The House recedes with a clarifying amendment.

Amendment No. 101: This amendment, for taxable years beginning prior to January 1, 1954, treats as related, for the purposes of the

tax imposed by supplement U, an unrelated trade or business carried on by certain educational organizations. The House recedes with an amendment which adds at the end of section 442 (a) (relating to the definition of unrelated business net income for the purpose of the supplement U tax) a special rule with respect to unrelated trades or businesses carried on in partnership by certain educational organizations. The amendment is applicable with respect to taxable years beginning after December 31, 1950, and prior to January 1, 1954.

Amendment No. 102: This amendment adds a new subsection (e) to section 504 of the code relating to the computation of undistributed subchapter A net income for purposes of the imposition of the surtax on personal holding companies. Subsection (e) will provide for the deduction, for purposes of computing undistributed subchapter A net income, of an amount by which the undistributed subchapter A net income determined without regard to subsection (e) exceeds the amount which could be distributed on the last day of the taxable year as a dividend (1) without the violation of any action, regulation, rule, order, or proclamation made under the Trading With the Enemy Act of October 16, 1917, as amended, or the First War Powers Act of 1941, and (2) not subject to a lien in favor of the United States. The amendment is applicable to taxable years beginning after 1939. The House recedes with a clerical amendment.

Amendment No. 103: This is a technical amendment to provide that the fifth sentence of section 1700 (a) (1) of the code, added by Public Law 124, Eighty-second Congress, shall be stricken from the code as surplusage upon elimination of the second sentence as provided in the House bill. The House recedes.

Amendment No. 104: This amendment retains the substantive provisions of the House bill, but differs therefrom in the following respects:

(a) Whereas the House bill would grant an exemption from the admissions tax in the case of shows or performances the proceeds of which inure exclusively to the benefit of certain organizations, such as religious, charitable, and educational groups, no such exemption would apply, under the Senate amendment, in the case of any motion-picture exhibition. Under the Senate amendment, to come within the exemption privilege, a religious institution must be a church or a convention or association of churches; an educational institution, to be entitled to the exemption, must have a regular curriculum and student body; and a charitable institution must be supported, in whole or part, by Federal or State funds or by contributions from the general public.

(b) The Senate amendment eliminates the pre-1941 exemption in the case of admissions all the proceeds of which inure exclusively to the benefit of societies for the prevention of cruelty to children or animals and the pre-1941 exemption in the case of societies or organizations conducted for the sole purpose of maintaining a cooperative or community center motion-picture theater.

(c) Whereas the House bill would exempt admissions to agricultural fairs and to any exhibit, entertainment, or other pay feature conducted by the fair association as part of the fair, the Senate amendment limits the exemption to the general admission charge to the fair only.

(d) The exemption granted under the House bill in the case of benefits conducted for or on behalf of police or fire departments,

their members or heirs has been further limited to provide that the proceeds from such benefits must inure exclusively to the benefit of the police or fire department or to a retirement, pension or disability fund for the members or their heirs.

(e) The Senate amendment also makes it plain that an exemption from the admissions tax is to apply to operas as well as symphonies which receive their support from voluntary contributions.

The House recedes with an amendment which provides an exemption from tax on admissions, the proceeds of which inure exclusively to the benefit of an organization (organized prior to October 1, 1951) which is exempt under section 101 (6) of the code and which is operated for the purpose of conducting an annual chautauqua program of educational, cultural, and religious activities at a permanent location.

The bill restores the provisions of section 1701 (c) of the code without change, so that admissions to concerts conducted by a civic or community membership association (such as orchestras, choral societies, etc.) will be exempt from tax.

Amendment No. 105: This is a clerical amendment. The House recedes.

Amendment No. 106: This amendment grants an exemption from the admissions tax covering admissions (1) to a home or garden which is temporarily opened to the general public as part of a program carried on by a society or organization for such purpose and (2) to historic sites, houses, and shrines, and museums conducted in connection therewith, maintained and operated by a society or organization devoted to the preservation of such places. The House recedes.

Amendment No. 107: This amendment provides that the increase in the rate of tax with respect to cigarettes shall be reduced to the present rate of tax effective January 1, 1954. The House recedes with an amendment fixing the rate reduction date as April 1, 1954.

Amendments Nos. 108 and 109: These are clerical amendments. The House recedes.

Amendment No. 110: This amendment makes provision for a floor-stocks refund on tax-paid cigarettes which are held for sale on January 1, 1954, the rate reduction date specified in the bill as passed by the Senate. The House recedes with an amendment fixing April 1, 1954, as the inventory date to correspond with the change made in the rate reduction date and an amendment fixing July 1, 1954, as the date before which claims for refund must be filed.

Amendment No. 111: This amendment provides for a reduction in the rate of tax on snuff and chewing and smoking tobacco from 18 cents per pound to 10 cents per pound. The House recedes with a technical amendment.

Amendment No. 112: This amendment strikes out the provisions of section 431 of the House bill imposing a retailers' excise tax upon mechanical lighters for cigarettes, cigars, and pipes. Such articles will be taxed at the manufacturers' level at the rate of 15 percent (see amendment No. 189). The House recedes.

Amendments Nos. 113 and 114: These amendments are clerical. The House recedes.

Amendments Nos. 115 and 116: These amendments provide that the retailers' excise tax shall not apply with respect to the sale of miniature samples of cosmetics, toilet articles, lotions, powder, etc., taxable under section 2402 (a) of the code, made by a manufacturer

or distributor to a house-to-house salesman for demonstration purposes only unless such samples are resold by the salesman. The House recedes.

Amendment No. 117: This amendment is clerical. The House recedes.

Amendment No. 118: This amendment strikes out all of the provisions of the House bill relating to the imposition of a tax of 2 cents per gallon upon any liquid sold or used as a fuel in a Diesel-powered highway vehicle. The House recedes with an amendment which restores the House provisions but provides that effective April 1, 1954, the rate of tax on such fuel will be reduced to 1½ cents per gallon.

Amendments Nos. 119 and 120: These amendments are clerical. The Senate recedes.

Amendments Nos. 121 and 122: These amendments provide that the increase in tax imposed with respect to distilled spirits generally and to imported perfumes containing distilled spirits shall be reduced to the present rate of tax effective January 1, 1954. The House recedes with an amendment fixing April 1, 1954, as the rate reduction date in lieu of January 1, 1954.

Amendments Nos. 123, 124, 125, and 126: These amendments are clerical. The Senate recedes.

Amendments Nos. 127, 128, and 129. These amendments provide that the increase in tax with respect to wines of the various classifications specified shall be reduced to the present rate of tax effective January 1, 1954. The House recedes with an amendment providing that the rate reduction date shall be April 1, 1954.

Amendment No. 130: This amendment is clerical. The Senate recedes.

Amendment No. 131: This amendment provides that the increase in tax imposed with respect to certain sparkling wines, liqueurs, and cordials shall be reduced to the present rate of tax effective January 1, 1954. The House recedes with an amendment establishing the rate reduction date as April 1, 1954.

Amendments Nos. 132, 133, 134, 135, and 136: These are clerical amendments. The Senate recedes.

Amendment No. 137: This amendment provides that the increase in the rate of tax imposed with respect to fermented malt liquors shall be reduced to the present rate of tax effective January 1, 1954. The House recedes with an amendment providing that the rate reduction date shall be April 1, 1954.

Amendments Nos. 138, 139, and 140: These amendments are clerical. The Senate recedes.

Amendment No. 141: This amendment provides for floor stocks refunds with respect to tax-paid distilled spirits, wine, and beer held for sale upon the termination of the tax rate increases proposed for these products in the bill. The House recedes with an amendment fixing the inventory date to be used in determining the amount of refunds as April 1, 1954, in lieu of January 1, 1954, and with a clerical amendment.

Amendment No. 142: This is a clerical amendment. The House recedes with a clerical amendment.

Amendment No. 143: This is a clerical amendment. The House recedes with a clerical amendment.

Amendments Nos. 144, 145, and 146: These amendments are clerical. The Senate recedes.

Amendments Nos. 147, 148, and 149: These amendments provide that the increase in the occupational tax for wholesale dealers in liquor, retail dealers in liquor, and wholesale dealers in malt liquor, respectively, shall be reduced to the present rate on and after January 1, 1954. Under the House bill, the increase in rates was permanent. The Senate recedes.

Amendment No. 150: This amendment is clerical. The Senate recedes.

Amendment No. 151: The House bill provided for an increase in the rate of draw-back on distilled spirits used in certain nonbeverage products. The Senate amendment makes technical revisions in this provision so as to provide for reduction of the amount of draw-back after December 31, 1953, to correspond with the reduction in the rate of tax on distilled spirits on and after January 1, 1954. The House recedes with clerical amendments and with an amendment providing that the reference to draw-backs made after December 31, 1953, shall be changed to March 31, 1954, to take into account the change in the rate reduction date.

Amendment No. 152: This amendment is clerical. The Senate recedes.

Amendment No. 153: This amendment eliminates the increase in tax proposed under the House bill on bowling alleys and billiard and pool tables. The House recedes.

Amendment No. 154: This is a clerical amendment. The House recedes with a clerical amendment.

Amendment No. 155: This is a clerical amendment. The Senate recedes.

Amendment No. 156: This is a clerical amendment. The House recedes with a clerical amendment.

Amendments Nos. 157, 158, 159, 160, 161, and 162: These amendments are clerical. The Senate recedes.

Amendment No. 163: This amendment is technical and makes it clear that any person who is liable for tax under subchapter A of chapter 27A of the code, as added by the bill, or who is engaged in receiving wagers for or on behalf of any person so liable, and who commenced the activity which makes him subject to tax, or who was engaged in receiving such wagers, prior to the day on which such tax becomes effective shall be required to pay the special tax imposed by subchapter B of chapter 27A. The House recedes with clerical amendments.

Amendments Nos. 164 and 165: These are clerical amendments. The Senate recedes.

Amendment No. 166: This amendment provides that the increase in the rate of the manufacturers' excise tax with respect to trucks, busses, etc., shall revert to the present rate of tax effective January 1, 1954. The House recedes with an amendment providing that the rate reduction date shall be April 1, 1954.

Amendment No. 167: This amendment eliminates the present tax of 7 percent upon the sale of house trailers, including parts and accessories therefor. This amendment will become effective on the first day of the first month which begins more than 10 days after the date of enactment of the bill, thus, the tax would apply with respect

to the sale of house trailers made prior to such effective date and notwithstanding that such purchases may be paid for on an installment plan after such date. A house trailer would be considered as sold prior to such effective date if the right of possession thereto passed to the purchaser prior to such effective date.

The amendment also provides that the increase in the rate of the manufacturers' excise tax with respect to automobile chassis and bodies, motorcycles, trailers, and semitrailers (other than house trailers) suitable for use in connection with automobiles, shall revert to the present rate of tax with respect to sales made on and after January 1, 1954. The House recedes with an amendment providing that the rate reduction date shall be April 1, 1954.

Amendment No. 168: This amendment provides that the increase in the rate of the manufacturers' excise tax with respect to parts and accessories for automobiles shall revert to the present rate of tax with respect to sales made on and after January 1, 1954. The House recedes with an amendment providing that the rate reduction date shall be April 1, 1954.

Amendment No. 169: This is a technical amendment. The House recedes.

Amendment No. 170: This is a clerical amendment. The Senate recedes.

Amendment No. 171: This is a technical amendment. The House recedes.

Amendment No. 172: This is a clerical amendment. The House recedes with a clerical amendment.

Amendment No. 173: This amendment provides that a manufacturer of refrigerator components may sell such components tax free to a wholesaler or dealer if such components are purchased for resale to a manufacturer of refrigerator equipment and provided the regulations prescribed by the Secretary of the Treasury relating to such sales are complied with. The House recedes with clerical amendments.

Amendment No. 174: This amendment (a) revises the taxable list of sporting goods in the House bill to exclude baseballs and baseball equipment, (b) reinstates certain items taxable under present law but excluded under the House bill, (c) retains the present 10 percent rate of tax with respect to fishing equipment, and (d) increases the rate of tax, like the House bill, with respect to the remaining sporting equipment to 15 percent. The House recedes, with an amendment providing that snow toboggans and sleds 60 inches or less in length, and skates, shall not be subject to tax and that the increase in the rate of tax shall revert to the present rate of tax effective April 1, 1954.

Under the provisions of the act of August 9, 1950 (the Dingell-Johnson Act), an amount equal to the revenue accruing from the tax on fishing rods and equipment is authorized to be appropriated for assistance to the States for fish restoration and management projects. The amendments made by this bill will not affect such authorization nor the permanency of such act.

Amendment No. 175: This is a clerical amendment. The House recedes with a clerical amendment.

Amendment No. 176: This is a clerical amendment. The House recedes.

Amendment No. 177: This is a clerical amendment. The Senate recedes.

Amendment No. 178: This amendment strikes out electric direct motor-driven fans and air circulators of the industrial type and electric air heaters of the blower type from the list of items subject to the manufacturers' excise tax under section 3406 (a) (3) of the code. Senate amendment No. 182 exempts from the tax all appliances listed in such sections which are of the industrial type.

The House recedes with an amendment which provides that the tax imposed by section 3406 (a) (3) of the code shall not apply to electric direct motor-driven fans and air circulators of the industrial type, and shall apply in the case of all other appliances listed in section 3406 (a) (3), including those added to such list by the bill, only to such appliances of the household type.

Amendment No. 179: This is a clerical amendment. The House recedes with a technical amendment to conform to the action of the conferees with respect to amendment No. 178.

Amendment No. 180: This amendment adds electric exhaust blowers to the list of items subject to the manufacturers' excise tax. The House recedes.

Amendment No. 181: This amendment strikes out the provision of the House bill which would have added electric shavers to the list of appliances subject to the manufacturers' excise tax under section 3406 (a) (3) of the code, and adds electric garbage-disposal units to such list. The House recedes.

Amendment No. 182: This amendment provides that the tax imposed by section 3406 (a) (3) will not apply to appliances of the industrial type. The substance of this amendment is covered by the action of the conferees with respect to amendment No. 178. The Senate recedes.

Amendment No. 183: This amendment makes the provisions of section 3441 (b) (relating to sale price of a taxable article) applicable to a situation where a manufacturer has a plan of negotiating the sale of an article to the ultimate user for and on behalf of the retailer of such article. The Senate recedes.

Amendment No. 184: The House removed certain items from the list of articles subject to the manufacturer's excise tax on photographic apparatus, imposed by section 3406 (a) (4) of the code, and subjected the items upon which the tax is retained to a uniform 20 percent rate.

The Senate amendment (a) retains the present list of photographic items subject to tax and subjects such items to a uniform tax rate of 15 percent with respect thereto and (b) provides that the tax on a sale of unexposed 35-millimeter color positive-print motion-picture film shall be computed, in lieu of on the price for which so sold, on the price for which an equivalent quantity of unexposed 35-millimeter black-and-white positive-print motion-picture film is sold. The House recedes with an amendment which restores the House provision with a clerical amendment.

Amendment No. 185: This is a clerical amendment. The House recedes with a clerical amendment.

Amendments Nos. 186 and 187: These are clerical amendments. The House recedes.

Amendments Nos. 188 and 189: The House bill imposed a manufacturers' excise tax, at a rate of 20 percent, on mechanical pencils, fountain pens, and ball point pens. Senate amendment No. 189 adds to this list mechanical lighters for cigarettes, cigars, and pipes (the House had imposed a tax on these items at the retail level; see amendment No. 112), and Senate amendment No. 188 provides a rate of tax of 10 percent on all these items. The House recedes on amendment No. 189, and recedes with an amendment on amendment No. 188 fixing the rate of tax on these items at 15 percent.

Amendment No. 190: This is a technical amendment. The House recedes.

Amendment No. 191: This is a clerical amendment. The House recedes with a clerical amendment.

Amendment No. 192: This is a clerical amendment. The House recedes.

Amendment No. 193: This is a clerical amendment. The House recedes with a clerical amendment.

Amendment No. 194: This amendment provides that the increase in the rate of tax on gasoline shall be reduced to the present rate of tax effective January 1, 1954. The House recedes with an amendment fixing the rate reduction date as April 1, 1954.

Amendments Nos. 195, 196, and 197: These are clerical amendments. The House recedes on amendments Nos. 195 and 196 and recedes with a clerical amendment on amendment No. 197.

Amendment No. 198: This is a technical amendment. The House recedes with a further technical amendment providing that the credit and refund provisions of section 3443 of the code shall be applicable to the floor stocks tax imposed on gasoline.

Amendment No. 199: This amendment provides for a floor stocks refund on certain gasoline held for sale on January 1, 1954, the date provided by Senate amendment No. 194 for termination of the increase in tax on gasoline. The House recedes with an amendment fixing April 1, 1954, as the inventory date to correspond with the change made in the rate reduction date.

Amendment No. 200: This is a clerical amendment. The House recedes with a clerical amendment.

Amendments Nos. 201, 202, and 203: These are clerical amendments. The Senate recedes.

Amendment No. 204: The House bill reduced the rate of tax on domestic telegraph, cable, or radio dispatches from 25 percent to 20 percent. The Senate amendment further reduces the rate of tax to 15 percent. The House recedes.

Amendments No. 205, 206, 207, 208, and 209: These are clerical amendments. The House recedes.

Amendment No. 210: This amendment provides that no tax shall be imposed under section 3465 (a) (1) (A) of the code on any payment received for any telephone or radio telephone message which originates within a combat zone, as defined in section 22 (b) (13), from a member of the Armed Forces of the United States performing service in such combat zone. The House recedes with a clerical amendment.

Amendment No. 211: This is a clerical amendment. The House recedes with a clerical amendment.

Amendment No. 212: This amendment strikes out the provisions of the House bill which would impose a tax on the transportation of crude petroleum and liquid products thereof by water from one point in the United States to another when such transportation is performed by the owner of the crude petroleum and liquid products thereof. The House recedes.

Amendment No. 213: This amendment provides that no tax shall be imposed with respect to the transportation of persons by water on a vessel which makes one or more intermediate stops at ports within the United States, Canada, or Mexico on a voyage which begins or ends in the United States and ends or begins outside the northern portion of the Western Hemisphere if the vessel in stopping at such intermediate ports is not authorized both to discharge and to take on passengers. The House recedes with a clerical amendment.

Amendment No. 214: This amendment provides that section 3475 of the code, relating to the tax on the transportation of property, shall not apply to the transportation of earth, rock, or other material excavated within the boundaries of, and in the course of, a construction project and transported to any place within, or adjacent to, the boundaries of such project. The House recedes with an amendment providing that the determination as to the applicability of the tax imposed by section 3475 in the case of the transportation of any excavated material, other than transportation to which the amendment made by this subsection applies, shall be made as if this subsection had not been enacted and without inferences drawn from the fact that the amendment made by this subsection is not expressly applicable to the transportation of such other material.

Amendment No. 215: This is a clerical amendment. The House recedes with a clerical amendment.

Amendment No. 216: This amendment provides for a refund of tax on cigarettes, distilled spirits, wine, and beer equal to the difference between the tax paid on such items and the amount of tax made applicable on and after January 1, 1954, brought from a foreign trade zone into customs territory of the United States on and after January 1, 1954, the rate reduction date specified with respect to the taxable articles in question. The House recedes with a clerical amendment and with an amendment fixing the determinative date as April 1, 1954, in lieu of January 1, 1954.

Amendment No. 217: This amendment provides that the Secretary of the Treasury is authorized and directed to make refund, or allow credit, in the case of a distiller or rectifier, if he so elects, in the amount of the internal revenue tax and customs duties paid on spirits previously withdrawn, and lost or rendered unmarketable by reason of the 1951 floods, provided certain conditions are met. The House recedes with a clerical amendment.

Amendment No. 218: This amendment is clerical. The House recedes.

Amendment No. 219: This amendment, for which there is no corresponding provision in the bill as passed by the House, provides in a new subsection (e) (1) of section 430 for the computation of an alternative amount of excess profits tax for each of the first five taxable years of corporations which commenced business after July 1, 1945. The amount computed thereunder would be the maximum excess profits tax if less than the amount computed under section 430 (a) (2).

Under the Senate amendment, the maximum tax would not exceed the following percentages of the first \$400,000 of the excess profits net income: 5 percent if the taxable year is the first or second taxable year (determined from the commencement of business), 8 percent for the third taxable year, 11 percent for the fourth taxable year, and 14 percent for the fifth taxable year. Under the Senate amendment, if, for any such year the excess profits net income exceeds \$400,000, the excess over \$400,000 is subject to the same maximum tax as in the case of other corporations.

The amendment also provides rules in subsection (e) (2) for determining, for the purpose of the subsection, when a taxpayer shall be considered to have commenced business and to have had taxable years determined by reference to the date of commencement of business of certain other corporations. It contemplates that the Secretary will, by regulations, provide for the determination of constructive taxable years by reference to the annual accounting period first established by the taxpayer.

The Senate amendment also provides, in effect, that the benefits of the special limitation provisions under section 430 (e) (1) shall be denied to any taxpayer which derives more than 50 percent of its income for the taxable year from contracts or subcontracts to which title I of the Renegotiation Act of 1951 or to which any prior renegotiation act is applicable.

The House recedes with an amendment. Paragraph (1) of subsection (e) is amended to make it clear that the provision is applicable only to taxpayers whose fifth taxable year ends after June 30, 1950. Clauses (ii) and (iii) of subparagraph (E) of subsection (e) (1) are amended to conform the percentage figures specified therein to those provided by the conference agreement on Senate Amendment No. 6. A change is made in each of subparagraphs (A) to (D), inclusive, of subsection (e) (1), which makes the percentages therein specified applicable to only the first \$300,000 of excess profits net income instead of to the first \$400,000 of such income as provided in the Senate amendment, and a conforming amendment is made to subsection (e) (1) (E). Amendments are made to paragraph (2) of subsection (e) to make clear that in determining a constructive date of commencement of business and constructive taxable years from such date thereunder, a new determination shall be made each taxable year in the light of the facts for such year. An additional amendment is made to clause (i) of subparagraph (E) to make clear that such clause applies without regard to the provisions of section 445 (g) (1). An additional amendment is made to clause (ii) of such subparagraph to make clear that, for the purpose of such clause, a person shall not be considered a member of a group of persons who control the taxpayer and another corporation unless during the period specified in such clause he owns stock in the corporation at a time when the members of the group control such corporation and he owns stock in the taxpayer at a time when the members of the group control the taxpayer. A change is made in subparagraph (B) of paragraph (2) of subsection (e) to the effect that transactions described in clauses (i) and (iii) shall be disregarded in determining the date as of which the taxpayer shall be considered to have commenced business if the adjusted basis of the aggregate assets acquired by the taxpayer in such transactions before December 1, 1950 (or acquired

in the ordinary course of business in replacement of such assets), constituted less than 20 percent of the adjusted basis of the taxpayer's total assets as of December 1, 1950. A change is also made in paragraph (3) of subsection (e) to provide that the gross income of the taxpayer for the taxable year from contracts and subcontracts subject to renegotiation shall, for the purpose of applying the limitation provided by such paragraph, be determined without regard to capital gains and dividends received. Such gross income is the gross income after renegotiation.

Amendment No. 220: This amendment, for which there is no corresponding provision in the House bill, provides for exclusion in the computation of excess profits net income, for both excess profits tax taxable years and base period years, of payments made to a domestic corporation by its related foreign corporation as remuneration for certain technical services rendered. The House recedes with clarifying amendments and an amendment which amends the definition of related foreign corporation to provide that, in order to be a related corporation, 10 percent or more of the stock of the foreign corporation must be owned by the domestic corporation at the time the specified services are rendered.

Amendment No. 221: This amendment adds section 503 to the bill, for which there is no corresponding section in the House bill. This section permits a taxpayer with a fiscal year beginning before January 1, 1950, and ending after March 31, 1950, in computing its average base period net income under the general average method provided by section 435 (d) of the code, to use the period of 48 consecutive months ending March 31, 1950, instead of its base period, if such computation produces a lesser excess profits tax for the taxable year.

The House recedes with an amendment which provides that the excess profits net income for the first 3 months of 1950 shall be subject to the percentage limitations provided in section 435 (e) (2) (E) if such months fall in a taxable year ending after June 30, 1950.

Amendment No. 222: This amendment extends to a new corporation which commenced business before the end of its base period the right to qualify under section 435 (e) of the code for the alternative average base period net income based on growth for the purpose of determining its excess profits credit based on income. The House recedes with technical amendments.

Amendment No. 223: This amendment extends the benefits of section 435 (e) (2) (G) (special alternative average base period net income for a corporation whose excess profits net income for 1949 is not more than 25 percent of its excess profits net income for 1948) to a taxpayer qualifying for growth treatment under section 435 (e) (1) (B) even though it also qualifies as a growth corporation under section 435 (e) (1) (A). The House recedes.

Amendment No. 224: This amendment, for which there is no corresponding section in the House bill, provides limitations in the case of a bank, as defined in section 104 of the code, on the amount of the inadmissible asset adjustment to the net capital addition or reduction for the taxable year, to the net new capital addition for the taxable year, and to the base period capital addition. This amendment also amends section 435 (f) (relating to capital additions in the base period) to make clear that the yearly base period capital of any tax-

payer (whether or not a bank) shall not be reduced below zero by the inadmissible asset adjustment.

The House recedes with clarifying amendments and with an amendment dealing with the effective date of the provision applicable to the base period capital addition of banks, making such provision retroactive only at the election of the taxpayer.

Amendment No. 225: This amendment, for which there is no corresponding provision in the House bill, adds two new paragraphs (9) and (10) to section 435 (g) (relating to net capital addition or reduction) in order to provide, if certain conditions are met, that a decrease in inadmissible assets, to the extent in excess of the net capital reduction (if any) for the taxable year, shall be an addition to the excess profits credit computed under the income method. The principal condition to be met is that where there is a decrease in inadmissible assets there must also be a corresponding increase in operating assets before any increase in the credit is allowed.

The House recedes with clarifying amendments and with an amendment providing a special rule for the treatment of a decrease in inadmissible assets in the case of a bank.

Amendment No. 226: This amendment, for which there is no corresponding provision in the bill as passed by the House, permits a dealer in wholly tax-exempt Government securities to elect to increase its excess profits net income by the interest (with certain adjustments) on such obligations, and to treat such obligations as admissible assets. The House recedes with a technical amendment and an amendment which extends the application of the section to Government obligations any part of the interest from which is allowable as a credit against net income.

Amendment No. 227: This amendment adds section 509 to the bill, for which there is no corresponding provision in the bill as passed by the House. Section 509 adds a new subsection (h) to section 442 (relating to abnormalities during the base period) which in general permits a taxpayer in certain cases, after selecting the 36 months in the base period which result in the highest excess profits net income or lowest deficit in excess profits net income, to eliminate from such 36 months the 12 months having the lowest excess profits net income, or highest deficit, and to use a substitute excess profits net income computed under section 442 (e) for such 12 months. As passed by the Senate, the provision was applicable only to a taxpayer which commenced business before the beginning of its base period and only if the aggregate of the excess profits net income for each of the 12 months for which a substitute excess profits net income is to be computed is less than 35 percent of one-half of the aggregate of the excess profits net income for each of the 24 months remaining after selecting the 12 months to be so adjusted.

The House recedes with technical amendments, and also adds other amendments which further limit the application of this new subsection. The first of these additional limitations requires that in order to be entitled to the benefits of subsection (h), the taxpayer's normal production, output, or operation must be interrupted or diminished because of the occurrence (in the 12 months prior to the period for which a substitute excess profits net income is computed) of events unusual or peculiar in the experience of the taxpayer. Under this limitation there is no requirement that a causal connection be shown between

the event and a decline in excess profits net income in the period for which a substitute excess profits net income is to be used.

The second limitation added by the conference agreement appears as a new sentence added to paragraph (1) and prevents a taxpayer from using new subsection (h) in cases where the aggregate excess profits net income for the 24 months, which remain after selecting the 12 months for which a substitute excess profits net income is to be computed, is an amount less than zero.

Amendment No. 228: This amendment provides that in determining total assets under section 442 (f), to which factor the industry rates of return are applied in computing average base period net income under various excess profits tax relief formulas, the sum of the cash and other property included shall be reduced by the amount of the indebtedness (other than that included in the definition of borrowed capital) to a member of a controlled group which includes the taxpayer. The House recedes with an amendment changing the effective date from taxable years ending after the date of enactment of the bill to taxable years ending after June 30, 1950.

Amendment No. 229: This amendment changes section 443, which section provides for the case of a change in products or services occurring during the last 36 months of the base period, so as to include certain base period commitments. The House recedes.

Amendment No. 230: This amendment provides that in determining total assets under section 445 (c), which factor is used by a new corporation in computing its average base period net income for any of its first three years (if that year is an excess profits tax taxable year), the net capital addition or reduction shall be computed without regard to the 75 percent limitation as to borrowed capital and loans to members of a controlled group. The House recedes.

Amendment No. 231: This amendment provides that a corporation engaged as a common carrier in the furnishing or sale of transportation of oil or other petroleum products (including shale oil) by pipeline shall be eligible to qualify under section 448 for the alternative excess profits credit provided for regulated public utilities if such corporation is subject to the jurisdiction of a public service or public utility commission or other similar body of the District of Columbia or of any State. The House recedes with an amendment requiring that the rates for such furnishing or sale be subject to the jurisdiction of the public service or public utilities commission.

Amendment No. 232: This amendment provides that for the purpose of filing a consolidated return with its railroad lessee corporation (using the alternative credit provided by section 448 for regulated public utilities), a railroad lessor corporation meeting certain requirements shall be considered a corporation subject to section 448. The House recedes.

Amendment No. 233: This amendment adds section 515 to the bill, for which there is no corresponding section in the bill as passed by the House. Section 515 allows to producers of potash, sulfur, and metallurgical grade and chemical grade limestone the alternative method for computing nontaxable income from exempt excess output provided in section 453 (b) (2) of the code where the properties were in operation during the normal period. Where these mineral properties were not in operation during the normal period, the net income from such properties is accorded the benefits of section 453 (b) (4)

now available in the case of metal and coal mines, timber blocks, and natural-gas properties. The House recedes.

Amendment No. 234: This amendment, for which there is no corresponding provision in the House bill, adds section 459 (a) to the code to provide a special credit for certain corporations under specified circumstances relating to a transition from wartime to peacetime production and to an increase in peacetime capacity. The House recedes with clarifying amendments.

Amendment No. 235: This amendment adds section 517 to the bill. There is no corresponding section in the House bill. Section 517 amends section 459, as added to the code by section 516 of the Senate amendment No. 234, by adding a new subsection (b). This new subsection grants to a taxpayer which suffered a catastrophe during the last 36 months of its base period, if certain conditions are met, two alternative methods of computing its average base period net income. The taxpayer may use whichever results in the lesser excess-profits tax for the taxable year. The first alternative allows such a taxpayer to substitute for the excess profits net income for each month of the taxable year in which the catastrophe occurred, the average of the excess profits net income for the months in the base period preceding the taxable year in which the catastrophe occurred. If the taxpayer computes its average base period net income under the first alternative, it will not be denied the benefits of its base period capital addition. The second alternative allows the taxpayer to compute its average base period net income under the growth alternative of section 435 (e) (2) (G) (i) and (ii) of the code.

The House recedes with technical amendments which separate new subsection (b) into two paragraphs. The first paragraph sets forth eligibility requirements, and the second paragraph sets forth the computation of average base period net income under this subsection.

Amendment No. 236: This amendment, for which there is no corresponding provision in the House bill, adds a new subsection (c) to section 459 of the code, and is applicable in the case of a taxpayer engaged primarily in the newspaper-publishing business which, after the first half of its base period and before July 1, 1950, consolidated its mechanical, circulation, advertising, and accounting operations with such operations of another newspaper-publishing corporation in the same area. In order to be eligible for the benefits of this subsection the taxpayer must meet certain specified requirements.

In the case of a taxpayer eligible for the benefits of this subsection, the average base period net income under the Senate amendment shall be an amount computed under section 435 (d) plus an amount equal to the excess of the average of the amounts paid or incurred as expenses in the conduct of the mechanical, circulation, etc., operations during the two taxable years of the taxpayer next preceding the taxable year in which such consolidation began over such amounts paid or incurred during the first taxable year of the taxpayer beginning after such consolidation. The expenses referred to are those which are taken into account in computing net income. This section is inapplicable to any taxable year of the taxpayer unless the consolidation was continued throughout such taxable year.

The House recedes with amendments, one of which provides that the eligibility requirements in paragraphs (3) and (4) section 459 (c) shall be in the alternative. Another amendment provides that in

determining the excess amount of expenses proper adjustment shall be made for increases in the unit cost of labor and newsprint (due to wage and price increases) following such consolidation. It is contemplated that such adjustment shall be made in accordance with regulations prescribed by the Secretary. The House also adds an amendment to provide for appropriate adjustments for any case in which a taxable year referred to in this new subsection is a period of less than 12 months.

Amendment No. 237: This amendment, for which there is no corresponding provision in the House bill, provides a special credit for corporations beginning the television broadcasting business before January 1, 1951. It provides for a computation of an individual rate of return in the case of corporations engaged in the radio and television broadcasting business and for an application of such rate of return (or of the industry rate of return for the industry which includes radio broadcasting) to the assets of the taxpayer employed in the radio and television broadcasting business, or in the case of an acquisition of the television broadcasting business after the base period, to its assets employed only in the television business. In the case of a corporation engaged solely in radio and television broadcasting, this rate of return is applied to its total assets. In the case of a corporation engaged in another business or businesses, the credit includes an average base period net income computed with respect to such other business or businesses. The House recedes with an amendment providing in all cases that the industry rate of return or the individual rate of return, as the case may be, shall be applicable only to the assets of the corporation used in the television broadcasting business. The amendment also provides that the average base period net income computed in connection with the taxpayer's nontelevision business shall be only the average base period net income computed under section 435 (d) (relating to the general average of earnings during the base period); that the base period capital addition shall be allowable with regard to the taxpayer's nontelevision business; and that, in the case of corporations which first engaged in the television broadcasting business after the close of the base period and before January 1, 1951, the television assets against which the industry rate of return or the individual rate of return are to be applied shall be those held on the last day of the calendar month in which the corporation first engaged in the television broadcasting business.

The House amendment changes the provision in the Senate amendment for the elimination of duplication in the computation of a credit under this section by providing specifically the method to be used in eliminating such duplication. It is provided that if any portion of the television assets used in computing the television portion of the credit was acquired, directly or indirectly, by the use of assets attributable at any time during the base period to a business of the taxpayer other than television broadcasting, the excess profits net income with respect to such other business shall be properly adjusted by eliminating the portion thereof attributable to the assets used in the acquisition of the television properties for months prior to such acquisition. The excess profits net income attributable to such assets is determined by reference to the ratio of such assets to the total assets of the taxpayer other than properties used in television broadcasting.

Amendment No. 238: This amendment adds a base period commitment rule under section 444, which section provides for the computation of the average base period net income by applying a base period industry rate of return to the total assets of the taxpayer in case of an increase in capacity for production or operation occurring during the last 36 months of the base period. The House recedes with an amendment revising the Senate provision. As amended, the commitment rule provides that if, during the first taxable year ending after June 30, 1950, the taxpayer completed construction of a factory building or other manufacturing establishment (for example, an oil refinery), including the installation of the machinery or equipment for use in such factory building or such other establishment, such factory building or such other establishment and such machinery or equipment shall, for the purpose of determining whether there is an increase in capacity under the provisions of section 444 (b), but not for the purpose of computing the average base period net income under section 444 (c), be considered to have been added to its total facilities on the last day of its base period. The provision is applicable only if (A) the taxpayer, prior to the end of its base period, had completed construction work representing more than 40 percent of the total cost of construction of such factory building or such other establishment, and (B) the completion of such factory building or such other establishment was in pursuance of a plan to which the taxpayer was committed prior to the end of its base period.

Amendment No. 239: This amendment, for which there is no corresponding provision in the House bill, provides for the addition of a new part IV to subchapter D of the Internal Revenue Code dealing with the excess profits credit based on income in connection with certain taxable acquisitions before December 1, 1950. Under this amendment a "purchasing corporation" as defined in the part, would, in certain cases, obtain the use of the income experience of a "selling corporation" for the purpose of computing its excess profits credit. The House recedes with an amendment making changes for purposes of clarification and in order further to define the scope of application of the part.

The Senate amendment includes in the definition of a purchasing corporation any corporation which acquired substantially all of the assets of another corporation or of a partnership in a transaction other than a part II transaction. The amendment made by the House includes in this definition a corporation which has acquired substantially all of the properties of a business owned by a sole proprietorship. The definition in the Senate amendment also includes a corporation which acquired only part of the assets of another corporation in a transaction other than a part II transaction provided the properties acquired were substantially all the properties of a separate business of the other corporation and that such acquisition was in furtherance of a plan of complete liquidation by such other corporation. The purchase, under the same circumstances, of a separate business which constituted part of the assets of a partnership is added to the definition by the House amendment. The House amendment also deletes a provision which included in the definition of "purchasing corporation" a corporation which receives assets as paid-in surplus or as a contribution to capital from another corporation which had acquired those assets as a purchasing corporation.

This provision under the conference agreement will in general cover those cases in which assets constituting the whole of a separate business of "a selling corporation" were acquired from a corporation, sole proprietorship, or partnership. It does not cover an acquisition in a tax-free transaction, for example, a case in which a corporation is liquidated to its stockholders and they in turn place all or part of the assets in a new corporation in a tax-free transaction.

The House amendment makes clear that the part provides for the use by the purchasing corporation of an average base period net income computed only under section 435 (d) (the general average of earnings method), that, under the part, the deficits as well as the excess profits net income of the selling corporation for any month shall be reflected in the computation, and that the excess profits net income to which reference is made is that of the corporation in the case of an acquisition of substantially all of the assets of a selling corporation and is the portion thereof properly allocable to the business or businesses acquired in the case of an acquisition of only part of the assets, representing one or more separate businesses of a selling corporation.

The Senate amendment provides that, for part IV to apply, the selling corporation must, immediately after the transaction, discontinue all business activities and be completely liquidated in a transaction other than a part II transaction. The House amendment changes this requirement to provide that the selling corporation must not have engaged in any business activities after the part IV transaction other than those incident to its complete liquidation and must, within a reasonable time after such cessation of business activities, have been completely liquidated (whether before or after the part IV transaction) in a transaction other than a part II transaction. Such liquidation must terminate the selling corporation's existence.

The Senate amendment further provides that the properties acquired in the part IV transaction must be substantially all of the properties which were used by the selling corporation (or by a component corporation of such selling corporation) in the operation of the business whose assets were acquired by the purchasing corporation. The House amendment provides that such properties must be those used by the selling corporation in the production of the excess profits net income or deficit therein which is used in the computation of the credit provided by this part.

The Senate amendment further provides that the business acquired in the part IV transaction must have been operated by the purchasing corporation from the date of such transaction to the end of the taxable year. The House amendment provides that such business must be operated by the purchasing corporation until the end of the taxable year unless transferred by it, during the taxable year, in a part II transaction to which the provisions of the new section 462 (b) (4) of the code are applicable.

The House amendment adds three special rules. The first provides that, for the purpose of the definition of a purchasing corporation, properties shall be deemed acquired from the selling corporation if they are purchased directly from the selling corporation or if they are purchased from its stockholders, provided such stockholders did not transfer them to the purchasing corporation in a part II transaction. This provision is applicable only in a case in which the selling corporation was first liquidated to its stockholders and the properties

were forthwith sold by them to the purchasing corporation. The second special rule provides for the determination under regulations prescribed by the Secretary of all of the computations required by this part as if the business or businesses which were purchased from a partnership or sole proprietorship had been operated by a corporation. The third special rule is that in the case of the purchase of less than all of several businesses operated by a corporation or partnership, the amount of excess profits net income allocable to all or any number of the purchasing corporations or other persons receiving such properties upon the liquidation of the selling corporation shall not exceed 100 percent of the excess profits net income of the selling corporation. Thus, in a case in which a selling corporation has an excess profits net income for any month of \$100 existing by reason of one of its businesses having an income of \$300 and another having a loss of \$200, the amount of the excess profits net income available to either or both of the parties receiving the two businesses shall not exceed \$100 for such month.

The House amendment adds a new subsection (e) dealing with successive transactions and providing that if one part IV transaction succeeds another part IV transaction, the excess profits net income of the first selling corporation is not made available to the second purchasing corporation. The excess profits net income, however, of the first purchasing corporation is available to the second purchasing corporation but, for that purpose, it must be computed without regard to the excess profits net income of the first selling corporation. It also provides that the excess profits net income of a selling corporation under this part includes the amount previously available to it under part II with respect to a previous part II transaction. Thus, where corporation A had previously merged with corporation B in a transaction described in section 461 (a), the purchase by corporation C of the assets of corporation B under the circumstances outlined in this part will make available to corporation C the excess profits net income (or deficit) of both corporations A and B, as determined under part II for corporation B for the period prior to the merger, as well as the excess profits net income of corporation B for the period after the merger.

The Senate amendment provided for the promulgation of rules by the Secretary, consistent with the principles of part II, for the application of this part. For the purpose of clarification, the conference agreement specifically provides for the promulgation of such rules with respect to (1) base period capital addition, (2) net capital addition or reduction, (3) excess profits net income, (4) duplication, and (5) the excess profits credit of the purchasing corporation for the taxable year in which the transaction occurs if such taxable year is a year which ended after June 30, 1950. It is also provided that the Secretary shall not apply the principles of certain specified provisions of part II.

It is not intended by this specific enumeration of principles to be followed by the Secretary that the general authority to prescribe rules for the application of this part shall be restricted except as specifically provided. Such regulations may include other principles appropriate to the determination of the computations provided by this part.

The Senate amendment contains technical amendments to the code, which technical amendments are revised by the House amend-

ments. Included in these technical amendments as revised are provisions for the application of part II in cases where a corporation acquired in a part II transaction properties of a corporation which was a purchasing corporation in a previous part IV transaction. In general, the amendments provide that the income experience of the original selling corporation shall be used by the acquiring corporation in determining its average base period net income under section 435 (d) with reference to part II. For these provisions to be applicable, however, substantially all of the properties acquired in the part IV transaction (or replacements thereof in the ordinary course of business) must have been transferred in the part II transaction, or, if the part II transaction involved a component corporation which acquired the properties in a previous part II transaction, substantially all of the properties of such component corporation must have been acquired by the acquiring corporation. The business operated by the selling corporation must have been continuously operated by the acquiring corporation to the end of the taxable year, unless the business is transferred by the acquiring corporation during the taxable year in a part II transaction to which the provisions of section 462 (b) (4) are applicable. If the acquiring corporation obtained the properties in a part II transaction of the type described in section 461 (a) (1) (E) ("split-up"), the provisions of the following amendment to section 462 (i) (6) must be satisfied: Section 462 (i) (6) is amended to provide that if the component corporation in the part II transaction was a purchasing corporation in a previous part IV transaction, and if section 462 (b) (4) is applicable, the allocation of the excess profits net income of the component corporation to the acquiring corporation must be based upon the earnings experience of the assets transferred rather than upon the fair market value rule of allocation provided in section 462 (i), this provision being applicable whether or not the other parties to the part II transaction agree to such an allocation. The technical amendments as revised further provide that section 463 and section 464, relating to capital changes of the acquiring corporation, shall be applied under regulations promulgated by the Secretary with respect to cases in which the part II transaction follows a part IV transaction.

Amendment No. 240: This amendment adds section 522 to the bill, for which there is no corresponding section in the bill as passed by the House. Section 522 adds bauxite to the list of minerals deemed strategic under section 450 (b) (1) of the code for the purpose of exempting from the excess-profits tax the portion of the adjusted excess profits net income attributable to the mining of such mineral. The House recedes with a clerical amendment.

Amendment No. 241: This amendment provides that, except as otherwise provided in section 510 of the bill, the amendments made by title V of the bill, as passed by the Senate, shall be applicable with respect to taxable years ending after June 30, 1950. The House recedes with amendments conforming to the conference agreement with respect to amendments Nos. 224 and 228. Accordingly, the amendments made by title V are applicable with respect to taxable years ending after June 30, 1950, except as otherwise provided in section 506 (d) of the bill (relating to base period capital additions of banks).

Amendments Nos. 242, 243, and 244: These amendments are clerical. The House recedes.

Amendment No. 245: This amendment deals with possible tax liability for taxable years beginning prior to January 1, 1951, in the case of certain organizations carrying on trades or businesses the profits of which were dedicated exclusively to exempt purposes. Specifically, this amendment adds to the list of feeder organizations covered by the House bill, those organizations all of the profits of which inure to the benefit of a hospital or to an institution for the rehabilitation of physically handicapped persons which maintains or is building for proper maintenance such a hospital or institution staffed or to be staffed by qualified professional persons for the treatment of the sick and/or the rehabilitation of the physically handicapped, or to an eleemosynary corporation under State law exempt under section 101 (6) of the Internal Revenue Code.

The House recedes with an amendment striking out the reference to "an eleemosynary corporation under State law exempt under section 101 (6) of the Internal Revenue Code," and with a clarifying amendment providing that no implication is to be drawn from the amendment as to the tax status for taxable years prior to 1951 of so-called feeder organizations not dealt with in section 302 of the Revenue Act of 1950 as amended.

Amendment No. 246: The House bill provided that the percentage of the average base period net income to be taken into account in computing the excess-profits credit based on income shall be reduced from 85 percent of the average base period net income to 75 percent thereof. This reduction was effective, under the House bill, as of January 1, 1951. The Senate amendment struck this provision of the House bill. The House recedes with an amendment under which the percentage of the base period net income is reduced from 85 to 83 percent, effective July 1, 1951, and in the case of the calendar year 1951, to 84 percent. Provision is made under the conference agreement for the case of a fiscal year beginning before July 1, 1951, and ending after June 30, 1951, so that a proportionate part of the decrease in the excess profits credit will be reflected.

Amendment No. 247: This amendment, for which there is no corresponding provision in the House bill, amends sections 813 and 936 of the code to provide that, where property included for Federal estate tax purposes in the gross estate of a resident or citizen of the United States is situated in a foreign country and subjected to a death tax by such country, a credit shall be allowed against the estate tax for such foreign death tax. The amendment applies only with respect to estates of residents and citizens dying after the date of enactment of the bill.

The House recedes with clarifying amendments.

Amendment No. 248: This is a clerical amendment. The House recedes with a clerical amendment.

Amendment No. 249: This amendment, for which there is no corresponding provision in the House bill, amends section 863 (c) of the code to extend the estate tax exemption granted by that section with respect to works of art loaned by a nonresident alien to the National Gallery of Art, Washington, D. C., to works of art loaned to other public galleries or museums.

The House recedes with a clerical amendment.

Amendment No. 250: This amendment, for which there is no corresponding provision in the House bill, makes certain changes in section 939 of the code, relating to the estate tax treatment of certain members of the Armed Forces.

The amendment provides that the tax imposed by section 935 (the additional estate tax) shall not apply to the transfer of the net estate of a citizen or resident of the United States dying after June 24, 1950, and before January 1, 1954, while in active service as a member of the Armed Forces of the United States, if such decedent (1) was killed in action while serving in a combat zone, as determined under section 22 (b) (13), or (2) died at any place as a result of wounds, disease, or injury suffered, while serving in a combat zone (as determined under section 22 (b) (13)) and while in line of duty, by reason of a hazard to which he was subjected as an incident of such service. The House recedes with a clerical amendment.

Amendment No. 251: This amendment, for which there is no corresponding provision in the House bill, adds a new section to the bill to provide that in the case of a decedent dying after March 18, 1937, and before February 11, 1939, the determination of whether property is included in the gross estate of the decedent as a transfer intended to take effect in possession or enjoyment at or after his death shall be made in conformity with the provisions of article 17 of Regulations 80, as amended by Treasury Decision 4729. The House recedes with a clerical amendment.

Amendment No. 252: This amendment, for which there is no corresponding provision in the House bill, amends section 7 (b) of Public Law 378, Eighty-first Congress (the Technical Changes Act of 1949). Section 7 (b) now provides that the provisions of section 811 (c) (1) (B) of the code, providing for inclusion in a decedent's estate of property transferred with reservation of rights in income, shall not be applicable to transfers made before March 4, 1931 (and, in some cases, before June 6, 1932), if the decedent died before January 1, 1950. Under the amendment, inapplicability of section 811 (c) (1) (B) is extended to estates of decedents dying before January 1, 1951. The House recedes with a clerical amendment.

Amendment No. 253: This amendment, for which there is no corresponding provision in the House bill, amends section 7 (b) of Public Law 378, Eighty-first Congress (the Technical Changes Act of 1949) to provide that the provisions of section 811 (c) (1) (C) of the code (relating to inclusion in gross estate of transfers intended to take effect in possession or enjoyment at or after death) shall not apply to transfers made before September 8, 1916. The effect of the last sentence of this section, which makes section 7 (c) of such public law inapplicable to overpayments resulting from the enactment of this section of the bill, is to limit refunds of such overpayments to those situations in which the refund is not prohibited by the statute of limitations or some other law or rule of law. The House recedes with a clerical amendment.

Amendment No. 254: This amendment, for which there is no corresponding provision in the House bill, permits the making of refund or credit of any overpayment resulting from the application of section 503 of the Revenue Act of 1950, if claim therefor is filed within 1 year from the date of enactment of the bill, even though the making of such refund or credit is otherwise prohibited by the statute of

limitations or any other law or rule of law (other than sec. 3760 or 3761 of the code which relate, respectively, to closing agreements and compromises). The effect of section 503 of the Revenue Act of 1950 was to provide that proceeds of life insurance policies attributable to premiums paid on or before January 10, 1941, should not be included in the gross estate of the insured person for estate tax purposes by reason of the fact that the premiums were paid by him, unless on January 10, 1941, or thereafter he had substantial rights in the life insurance policy. The House recedes with an amendment providing that claim for credit or refund must be made after October 25, 1949, and on or before October 25, 1950.

Amendment No. 255: This amendment, for which there is no corresponding provision in the House bill, provides that in the case of the award made on December 4, 1950, by the Interstate Commerce Commission, as retroactive compensation for the transportation of mail, such compensation shall be deemed to be income which accrued in the taxable year in which the services to which such compensation relates were rendered. It is provided that no interest shall be assessed for deficiencies created by the inclusion of such income in prior years and that the period for assessment and collection of such deficiencies shall be extended to the date closing the period for assessment and collection for the taxable year of the taxpayer which includes December 4, 1950. The amendment also amends section 292 of the code to provide that in the case of retroactive mail payments, if such payments are required to be included in income in the year or years in which the mail was carried, no interest shall be due with respect to deficiencies resulting from such inclusion for any period prior to 30 days after the award of payment is granted. The House recedes with a clerical amendment.

Amendment No. 256: This amendment, for which there is no corresponding provision in the House bill, adds to the bill a new section 611 which provides with respect to certain taxable years a special rule to be followed whereby in the computation of corporation surtax net income certain amounts received as dividends on the preferred stock of a public utility will not be disregarded in computing the credit for dividends received.

Section 116 (a) of the Revenue Act of 1943 so amended section 26 (n) (1) of the Internal Revenue Code that, in the computation of the credit for dividends paid on the preferred stock of a public utility, amounts distributed in the current taxable year with respect to dividends unpaid and accumulated in any taxable year ending prior to October 1, 1942, were to be excluded from the amount of dividends paid on its preferred stock during the taxable year. The 1943 act did not contain a conforming amendment so that in the computation of corporation surtax net income the 85-percent credit for dividends received would always be allowed with respect to such amounts as were to be excluded in computing the credit for dividends paid on the preferred stock of a public utility.

Pursuant to new section 611, in the case of taxable years beginning before April 1, 1951, the 85-percent credit for dividends received will be allowed in the computation of corporation surtax net income with respect to those amounts which are to be excluded in computing the credit for dividends paid on the preferred stock of a public utility. In the case of the calendar year 1951 and taxable years beginning

after March 31, 1951, see the amendments made to section 26 (b) of the code by section 122 of the bill (amendment No. 8). The House recedes with a clerical amendment.

Amendment No. 257: This amendment, for which there is no corresponding provision in the House bill, provides that if an affiliated group making a consolidated return with respect to the first taxable year of the group ending after June 30, 1950, included a corporation described in section 454 (f) of the code, pursuant to the consent provided in section 141 (e) (7) of the code, such corporation may withdraw such consent at any time within 90 days after the enactment of the Revenue Act of 1951. If such consent is withdrawn under this provision, the tax liability of the affiliated group and its several members for the taxable year shall be determined, assessed, and collected as if such corporation had never joined in the making of the consolidated return. The House recedes with a clerical amendment.

Amendment No. 258: This amendment, for which there is no corresponding provision in the House bill, adds to the bill a new section 613 pursuant to which the due date for filing income tax returns of, or for paying the income tax by, China Trade Act corporations for any taxable year beginning after December 31, 1948, and ending before October 1, 1953, shall be not later than December 31, 1953. The due date thus prescribed shall apply, however, only with respect to any such corporation and any such taxable year as the Secretary of the Treasury, pursuant to such regulations as he may prescribe, may determine to be reasonable in view of circumstances in China. New section 613 recognizes that certain China Trade Act corporations, despite the situation existing in China, are fully able to comply with requirements of existing law as to the time for filing returns and paying the tax.

The due date of December 31, 1953, hereby prescribed is subject to the power of the Secretary to extend, as in other cases, the time for filing returns or paying the tax. The House recedes with a clerical amendment.

Amendment No. 259: This amendment, for which there is no corresponding provision in the House bill, adds a new section which provides that no amendment made by the bill shall apply in any case where its application would be contrary to any treaty obligation of the United States. The House recedes with a clerical amendment.

Amendment No. 260: This is a clerical amendment. The House recedes with a clerical amendment.

Amendment No. 261: This amendment, for which there is no corresponding provision in the House bill, extends for 4 months the date on or before which a claim for net renegotiation rebates arising under the World War II Renegotiation Act may be filed. Section 201 (c) of the Renegotiation Act of 1951, approved on March 23, 1951, sets the expiration date as June 30, 1951. This amendment extends such date to October 31, 1951. The House recedes with a clerical amendment.

Amendment No. 262: This amendment, for which there is no corresponding provision in the House bill, adds to the bill a new section relating to prohibition upon the denial of payments by the Federal Government to a State under title I, IV, X, or XIV of the Social Security Act. These titles relate to grants by the Federal Government to States for aid to needy aged individuals, needy de-

pendent children, needy blind individuals, and needy permanently and totally disabled individuals, respectively. The Federal Government and the States share the cost of these assistance programs. A State is not entitled to payments from the Federal Government unless the State plan for assistance has been approved by the Federal Security Administrator. Under existing law a State assistance plan in order to be approved must, inter alia, provide safeguards which restrict the use or disclosure of information concerning applicants and recipients to purposes directly connected with the administration of the assistance program. The Senate amendment provides that no State or any agency or political subdivision thereof shall be deprived of any grant-in-aid or other payment to which it otherwise is or has become entitled pursuant to title I, IV, X, or XIV of the Social Security Act by reason of the enactment or enforcement by such State of any legislation prescribing any conditions under which public access may be had to records of the disbursement of any such funds or payments within such State. The House recedes with an amendment which imposes a condition that the State legislation providing public access to the records of disbursement must prohibit the use of any list or names obtained through such access to such records for commercial or political purposes.

Under this amendment, as agreed to by the conferees, the State of Indiana, which has a law which permits public access to the records of disbursements of public welfare funds but which contains, inter alia, a prohibition upon the use of any lists or names so obtained for commercial or political purposes of any nature, will be entitled to receive its payments under the Social Security Act in the future and will also be entitled to receive any such payments which have been withheld because of the enactment and enforcement of the Indiana law.

Amendment No. 263: This amendment, for which there is no corresponding provision in the House bill, amends the provisions of existing law which provide the President, the Vice President, the Speaker of the House, and the Members of Congress an expense allowance which is tax-exempt and for which no accounting is made. Under this amendment, the President would receive \$150,000 a year for his services, instead of the \$100,000 plus the \$50,000 tax-exempt expense allowance he now receives. Under existing law, the President neither pays tax on nor accounts for this \$50,000. Under this amendment, \$50,000 would be added to his compensation and his \$50,000 tax-exempt expense allowance would be eliminated. Likewise, the salary of the Vice President, and that of the Speaker of the House, would be increased by \$10,000 and his \$10,000 tax-exempt expense allowance would be eliminated. And, similarly, the salary of each Member of Congress would be increased by \$2,500 and his \$2,500 tax-exempt expense allowance would be eliminated. This amendment would become effective, with respect to the President, on January 20, 1953, and with respect to the Vice President, the Speaker, and Members of Congress, on January 3, 1953.

The House recedes with an amendment which eliminates the provisions of the Senate amendment increasing the compensation of the President, the Vice President, the Speaker of the House, and the Members of Congress but which removes the tax-exempt status of the expense allowances of such officials. The expense allowance provided

the President by section 102 of title 3 of the United States Code and that provided the Vice President by section 111 of title 3 of the United States Code shall be taxable on and after January 20, 1953; the expense allowance provided the Speaker of the House by subsection (e) of the first section of Public Law 2, Eighty-first Congress, approved January 19, 1949, and that provided each Member of Congress by section 601 (b) of the Legislative Reorganization Act of 1946 (Public Law 601, 79th Cong.) shall be taxable on and after January 3, 1953. The President, the Vice President, the Speaker of the House, and each Member of Congress will be required to account for such expense allowances insofar as is necessary for the purpose of deducting such expenses for income-tax purposes.

Amendment No. 264. This amendment struck out the table of contents to the bill and inserted a new table of contents conforming to the amendments to the bill made by the Senate. The House recedes with an amendment to conform the table of contents to the action of the conference committee.

R. L. DOUGHTON,
JERE COOPER,
JOHN D. DINGELL,
W. D. MILLS,
RICHARD M. SIMPSON,
Managers on the Part of the House.



gent, I stood here in 1949, at a time when representatives of Britain and Canada were in Washington for an international conference; and at that time I said that, first, as soon as the representatives of Britain to that conference returned home, Britain would devalue her currency. We remember that Mr. Cripps denied that seven times. However, as soon as they got home, Britain devalued her currency.

Of course, everyone knew that would happen, because no one of my acquaintance had paid more than \$2.60 for a British pound for a number of years. Although the British said that their pound was worth \$4.03, all that anyone had to do was to go to Hong Kong and, at the exchange window of a bank, exchange an American dollar for \$16.50 Hong Kong currency, and then take that to another exchange window and get a British pound, at about the rate of one British pound for \$2.60 of United States funds, and then spend that anywhere in the world, in the free market, or even in Switzerland.

Mr. President, at the present time the British pound is worth about \$2.26. Who would pay more for it? The British pound can be obtained for that amount of American funds in the international exchanges of the world. However, the British still keep up the subterfuge and hocus-pocus that their pound is worth \$2.80, although no one except the American Government is silly enough to pay that much for the British pound.

Mr. President, not one cent of our funds should ever go into any of these nations except on the condition, first, of the establishment of a United States of Europe, so that those countries will strengthen themselves, instead of keeping up this hocus-pocus of kings, dictators, and presidents of each little nation there, half of which could be lost in Nevada without being found for a number of years unless a prospector happened to go into that area. However, each one of them keeps up a full-dress parade, and we support it. They will not trade with each other. They have all the quota systems and all the barriers to trade between themselves.

They will trade with us. At the moment we are sending coal to England.

Mr. President, I think most of us remember that when we were studying in the third grade or fourth grade in school, one of the common ways of saying that a thing was entirely ridiculous, or perhaps that it was one of the most ridiculous things in the world, was to say that it was as silly as sending coal to Newcastle. Well, Mr. President, we have reached that point now; we are sending coal to Newcastle, and we are appropriating \$5,225,000,000 to do so.

PRIVATE INVESTMENTS ABROAD IN JEOPARDY

Mr. President, as to the integrity of private investments, let me say that we are sending this money abroad in order to support those nations in such a way that any private investor who invests his money in one of those nations will not possibly be able to take the money out of those nations. If such an investment makes two dollars, he cannot take that

out of the country, either as a dividend or interest or anything else. Of course, that is what is the matter with those countries; because of a lack of confidence in them, private investments in all those nations have stopped. However, we still support that system.

Mr. President, in closing I wish to say that I have little hope that we can stop this appropriation bill. I think the administration will go right off the deep end and will finance all these nations in their crooked schemes; and we shall find out, when the knot is finally tightened, that we have no help in France. An attempt is made to argue that this appropriation bill should be passed by the Congress on the theory that to refuse to pass it would amount to a failure to support General Eisenhower. Mr. President, today General Eisenhower is the greatest failure in Europe. I say to the distinguished Senator from New York that General Eisenhower is getting American troops and American money; he is not getting anything from Europe.

I should like to debate that point a little myself, if anyone else would like to debate it with me.

So, Mr. President, I hope that at least when we return in January, after we have visited our constituents, we bring back a little common horse sense, which is about the most uncommon thing in the Congress at this time.

Mr. LANGER. Mr. President, will the Senator from Nevada yield for another question?

Mr. MALONE. I am very glad to yield.

Mr. LANGER. The distinguished Senator from Nevada knows that in the United States there are 13 States which have an assessed valuation of less than \$1,000,000,000. In short, by means of this appropriation bill, if we vote for it, we shall be voting to give to Europe, the Near East, Africa, Asia, the Pacific area, and the American Republics seven times everything—every horse, every cow, every acre of land, all the money on deposit, everything there—in seven of the States of the United States of America; and that will be done when only a few Senators are present, and when apparently they are acting in a hurry. It will be done at a time when they are in a hurry to go home, whereas as the distinguished Senator from Nevada has said, some of us are perfectly willing to remain here until New Year's, if we can prevent this great calamity from falling on the people of the United States.

Mr. MALONE. Mr. President, I have said that I am ready to remain here until the New Year after that, until January 1953.

Mr. President, I agree with the distinguished senior Senator from North Dakota. Of course, there are 38 States out of the 48 States which, if they were called on to pay their per capita share of the national debt they could not do so even if given the proceeds from the sale of every bit of property within their borders. That is what we have done in the past 18 years.

Mr. President, the \$41,000,000,000 which has been committed and sent to foreign countries since World War II is

\$5,000,000,000 more than the assessed valuation of all the property in the 11 Western States, including California, Oregon, and Washington, and the 14 Southern States, including Texas. Two more bites, and they will have it all.

Mr. BUTLER of Maryland. I suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The Chief Clerk called the roll, and the following Senators answered to their names:

Benton	Hill	McMahon
Bricker	Hoey	Millikin
Bridges	Holland	Monroney
Butler, Md.	Humphrey	Murray
Butler, Nebr.	Hunt	Neely
Carlson	Ives	O'Connor
Case	Jenner	O'Mahoney
Connally	Johnson, Tex.	Pastore
Cordon	Johnston, S. C.	Robertson
Dirksen	Kefauver	Russell
Dworshak	Kerr	Saltonstall
Eastland	Kilgore	Schoeppel
Eaton	Knowland	Smathers
Ellender	Langer	Smith, Maine
Ferguson	Lehman	Smith, N. C.
Flanders	Magnuson	Sparkman
Frear	Malone	Stennis
Fulbright	Martin	Thye
George	Maybank	Underwood
Green	McCarran	Watkins
Hayden	McCarthy	Williams
Hendrickson	McClellan	Young
Hennings	McFarland	
Hickenlooper	McKellar	

The PRESIDING OFFICER. A quorum is present.

Mr. GEORGE obtained the floor.

Mr. McKELLAR. Mr. President, will the Senator yield?

Mr. GEORGE. I will be glad to yield to the Senator from Tennessee.

Mr. McKELLAR. Mr. President, we have been debating this appropriation bill all day, and I am wondering whether we cannot by unanimous consent pass the bill at the present time. It is ready for passage. I do not think any Senator will ask for the yeas and nays, and it will only take a moment or two.

Mr. FERGUSON. Mr. President, I hope we may have a voice vote on sustaining the recommendation of the Appropriations Committee reducing by 5 percent the appropriations contained in the bill.

Mr. McFARLAND. Mr. President, if the Senator will yield, I have no objection to a voice vote. I see no reason why we cannot vote at this time and dispose of the bill. I could not agree to a unanimous-consent request, because I am not in favor of the bill as reported.

Mr. McKELLAR. I can understand that, but I ask unanimous consent for a vote. I hope the Senator from North Dakota, who has just risen, will not object.

Mr. LANGER. There is no objection to a voice vote on the amendments, but I want a yeas and nays vote on the final passage of the bill.

Mr. GEORGE. That means several roll calls before it is over, and I shall be obliged to call up the conference report on the tax bill, a matter which has been under consideration for a long time.

Mr. McKELLAR. The Senator is within his rights.

Mr. GEORGE. If there were merely one vote, I should be very glad to consent to having it.

Mr. LANGER. I am only asking for one record vote, and that is on the final passage of the bill.

Mr. GEORGE. Mr. President, a parliamentary inquiry.

The PRESIDING OFFICER. The Senator will state it.

Mr. GEORGE. Are the amendments to be voted on en bloc? Has there been an agreement of that kind?

The PRESIDING OFFICER. The Chair is advised that there has been no such agreement.

Mr. McKELLAR. Mr. President, I did not hear the Senator from Georgia.

Mr. GEORGE. I made inquiry as to whether there had been an agreement to vote on all the amendments en bloc.

Mr. McKELLAR. I understood there was such an agreement, but, if not, I ask unanimous consent that that may be done.

The PRESIDING OFFICER. The Chair advises the Senator from Tennessee that there has been no such request.

Mr. McKELLAR. Mr. President, I ask unanimous consent that the Senate vote on all the committee amendments en bloc.

The PRESIDING OFFICER. Is there objection? The Chair hears none.

The question is on agreeing to the committee amendments.

The amendments were agreed to.

The committee amendments agreed to en bloc are as follows:

Under the heading "Mutual security," on page 1, line 11, after "section 101 (a) (1)", to strike out "\$5,072,476,271" and insert "\$4,818,852,457."

On page 2 line 13 after "section 101 (a) (2)", to strike out "\$1,012,000,000" and insert "\$961,400,000"; in line 14, after the word "addition", to strike out "\$10,000,000" and insert "\$9,500,000"; in line 17, after the word "the", to strike out "Administrator" and insert "Director", and in line 25, after the word "appropriation", to insert a colon and the following proviso: "Provided, That after December 1, 1951, no funds herein appropriated shall be made available to any nation of which a dependent area falls in the opinion of the President to comply with any treaty to which the United States and such dependent area are parties."

On page 3, after line 4, to insert:

"Assistance to Spain: For economic, technical, and military assistance, in the discretion of the President under the general objectives set forth in the declaration of policy contained in the titles of the Economic Cooperation Act of 1948 and the Mutual Security Act of 1951, for Spain, \$100,000,000."

On page 3, line 12, after "section 201", to strike out "\$396,250,000" and insert "\$376,437,500."

On page 3, line 21, after "section 203", to strike out "\$160,000,000" and insert "\$152,000,000."

On page 3, line 24, after "section 301", to strike out "\$535,250,000" and insert "\$508,487,500."

On page 4, line 6, after "section 302", to strike out "\$37,155,866" and insert "\$225,298,073."

On page 4, line 22, after "section 401", to strike out "\$35,150,000" and insert "\$36,242,500."

On page 4, line 24, after "section 402", to strike out "\$21,245,653" and insert "\$20,183,370."

The PRESIDING OFFICER. The question now is on the engrossment of the amendments and the third reading of the bill.

The amendments were ordered to be engrossed and the bill to be read a third time. The bill was read the third time.

The PRESIDING OFFICER. The bill having been read the third time the question is, Shall it pass?

Mr. LANGER. Mr. President, I ask for the yeas and nays.

The PRESIDING OFFICER. There is a sufficient second. The yeas and nays are ordered, and the clerk will call the roll.

The Chief Clerk called the roll.

Mr. JOHNSON of Texas. I announce that the Senator from New Mexico [Mr. ANDERSON], the Senator from Kentucky [Mr. CLEMENTS], the Senator from Iowa [Mr. GILLETTE], and the Senator from Colorado [Mr. JOHNSON] are absent by leave of the Senate.

The Senator from Virginia [Mr. BYRD] is absent because of illness in his family.

The Senator from New Mexico [Mr. CHAVEZ], the Senator from Illinois [Mr. DOUGLAS], the Senator from Louisiana [Mr. LONG], and the Senator from Michigan [Mr. MOODY] are absent on official business.

I announce further that if present and voting the Senator from Louisiana [Mr. LONG] and the Senator from Michigan [Mr. MOODY] would vote "yea."

Mr. SALTONSTALL. I announce that the Senator from Vermont [Mr. AIKEN], the Senator from Utah [Mr. BENNETT], the Senator from Washington [Mr. CAIN], the Senator from Massachusetts [Mr. LODGE], and the Senator from South Dakota [Mr. MUNDT] are absent by leave of the Senate.

The Senator from Maine [Mr. BREWSTER], the Senator from California [Mr. NIXON], the Senator from Oregon [Mr. MORSE], and the Senator from Ohio [Mr. TAFT] are necessarily absent.

The Senator from Indiana [Mr. CAPEHART], the Senator from Missouri [Mr. KEM], and the Senator from Idaho [Mr. WELKER] are absent on official business.

The Senator from New Hampshire [Mr. TOBEY] and the Senator from Nebraska [Mr. WHERRY] are absent because of illness.

The Senator from Wisconsin [Mr. WILEY] is absent by leave of the Senate on official business.

The Senator from Pennsylvania [Mr. DUFF] and the Senator from New Jersey [Mr. SMITH] are detained on official business.

If present and voting, the Senator from Vermont [Mr. AIKEN], the Senator from Utah [Mr. BENNETT], the Senator from Maine [Mr. BREWSTER], the Senator from Pennsylvania [Mr. DUFF], the Senator from Massachusetts [Mr. LODGE], and the Senator from Oregon [Mr. MORSE] would each vote "yea."

On this vote, the Senator from New Jersey [Mr. SMITH] is paired with the Senator from Missouri [Mr. KEM]. If present and voting, the Senator from New Jersey would vote "yea," and the Senator from Missouri would vote "nay."

On this vote, the Senator from Ohio [Mr. TAFT] is paired with the Senator from South Dakota [Mr. MUNDT]. If present and voting, the Senator from Ohio would vote "yea" and the Senator from South Dakota would vote "nay."

The result was announced—yeas 57, nays 13, as follows:

YEAS—57

Benton	Hoey	McMahon
Bridges	Holland	Millikin
Butler, Md.	Humphrey	Monroney
Carlson	Hunt	Murray
Connally	Ives	Neely
Cordon	Johnson, Tex.	O'Connor
Eastland	Kefauver	O'Mahoney
Ellender	Kerr	Pastore
Ferguson	Kilgore	Robertson
Flanders	Knowland	Russell
Frear	Lehman	Saltonstall
Fulbright	Magnuson	Smathers
George	Martin	Smith, Mothe
Green	Maybank	Smith, N. C.
Hayden	McCarran	Sparkman
Hendrickson	McCarthy	Stennis
Hennings	McClellan	Thye
Hickenlooper	McFarland	Underwood
Hill	McKellar	Watkins

NAYS—13

Bricker	Eaton	Schoeppel
Butler, Nebr.	Jenner	Williams
Care	Johnston, S. C.	Young
Dirksen	Langer	
Dworshak	Malone	

NOT VOTING—26

Aiken	Douglas	Mundt
Anderson	Duff	Nixon
Bennett	Gillette	Smith, N. J.
Brewster	Johnson, Colo.	Taft
Byrd	Kem	Tobey
Cain	Lodge	Welker
Capehart	Long	Wherry
Chavez	Moody	Wiley
Clements	Morse	

So the bill (H. R. 5684) was passed.

Mr. McKELLAR. Mr. President, I move that the Senate insist on its amendments, ask for a conference with the House thereon, and that the Chair appoint the conferees on the part of the Senate.

The motion was agreed to; and the Presiding Officer appointed Mr. McKELLAR, Mr. HAYDEN, Mr. RUSSELL, Mr. McCARRAN, Mr. O'MAHONEY, Mr. BRIDGES, Mr. FERGUSON, Mr. CORDON, and Mr. SALTONSTALL conferees on the part of the Senate.

Mr. McKELLAR. Mr. President, I am grateful to the senior Senator from Georgia [Mr. GEORGE] for his generosity in allowing the appropriation bill to be passed before proceeding with the conference report on the tax bill. I thank him with all my heart.

REVENUE ACT OF 1951—CONFERENCE REPORT

Mr. GEORGE. Mr. President, I submit a report of the committee of conference on the disagreeing votes of the two Houses on the amendments of the Senate to the bill (H. R. 4473) to provide revenue, and for other purposes. I ask unanimous consent for its immediate consideration.

The PRESIDING OFFICER. The report will be read for the information of the Senate.

The report was read.

(For conference report see today's proceedings of the House of Representatives.)

The PRESIDING OFFICER. Is there objection to the present consideration of the conference report?

There being no objection, the Senate proceeded to consider the report.

Mr. GEORGE. Mr. President, the tax bill has been discussed at great length in the Senate, and Senators are entirely familiar with practically all the amendments made. I am quite sure

that Senators are also familiar with such changes as have been made in the conference. I should like to file a statement relating to each of the amendments made, and then I hope I shall be able to answer any question any Senator may wish to ask. I request that the statement be printed in the RECORD.

There being no objection, the statement was ordered to be printed in the RECORD, as follows:

There were 264 Senate amendments. Of this number the House receded on 96; the Senate, 44. The balance were receded to with amendments.

I will discuss the rates of the individual income tax. Under the Senate amendment, individuals were subject to an 11 percent increase in the tax or an 8 percent increase in take-home pay, whichever was the lesser. The House imposed a 12½ percent increase in the individual income tax on individuals. There was a difference of over \$400,000,000 in revenue between the two bills. The conferees first agreed to a proposal which would levy in effect an 11¼-percent increase in the individual income tax or a 9 percent increase in the take-home pay, whichever was the lesser. The Senate ceiling of 88 percent was retained. This added approximately \$115,000,000 to the Senate bill. As a result of our second conference today, it was agreed that the increase in the first bracket of individuals should be 11 percent instead of 12½ percent.

The House conferees originally agreed to the Senate amendments which eliminated the House provision increasing the 25 percent tax on capital gains of individuals and corporations. However, today an agreement was reached increasing this rate to 26 percent.

The House conference agreed to the Senate amendment striking out the provisions of the House bill applying a withholding system to dividends, interest, and royalties.

The House conferees agreed to the Senate amendment providing that the increases in the corporate normal and surtax should be effective as of April 1, 1951, instead of as of January 1, 1951, as provided under the House bill. However, we were forced to yield to the House conferees in applying the corporate income tax increase to the normal tax instead of spreading it between the normal tax and the surtax as provided in the Senate bill.

The Senate bill struck out the provision of the House bill reducing the average earnings credit from 85 percent to 75 percent. An agreement was reached among the conferees reducing the credit to 83 percent, effective January 1, 1952. The conferees modified this today so that the decrease in the earnings credit from 85 percent to 83 percent will be effective July 1, 1951, instead of January 1, 1951, as originally agreed to. This means in effect that a corporation on the calendar-year basis will have an average earnings credit of 84 percent for the calendar year 1951 and an 83 percent credit for the calendar years 1952 and 1953.

Under the Senate bill, the ceiling on total corporate income and excess profits taxes was made 69 percent by providing a limit on the excess profits tax of 17 percent of the excess profits net income. Under the compromise agreement the 17 percent figure was increased to 18 percent, making a ceiling of 70 percent.

The House conferees agreed to the Senate amendment striking out the provision of the House bill allowing one surtax exemption of \$25,000 and one minimum excess profits credit of \$25,000 for certain controlled groups of corporations. However, in lieu of this, the conferees agreed to an amendment which denied such multiple credits to a controlled group in case of transfers by one of a

controlled group to another of the controlled group on or after January 1, 1951, of property other than money unless the transferee corporation establishes by a clear preponderance of the evidence that the securing of such credits was not a major purpose of the transfer of property to it by the transferor. This provision does not apply to controlled corporations created prior to January 1, 1951.

Our conferees accepted the provisions of the House bill giving to a head of a household one-half of the benefits of income splitting accorded to married persons. The Senate bill only allowed 25 percent of such benefit to the head of a family. The House agreed to the Senate amendment eliminating descendants of a stepson or stepdaughter of the taxpayer from the category of persons who may qualify as head of a household.

I was very much disappointed that we were unable to get the House conferees to agree to the provisions of the Senate bill making the provisions of the House bill dealing with family partnerships retroactive to the date of the Internal Revenue Code. It seems to me that it would be much better to apply the rule in the House bill to all open cases, so that these controversies could be settled. However, the House conferees were adamant on this amendment and we were forced to yield in order to get a bill.

The House conferees agreed to the provisions of the Senate bill taxing mutual savings banks, building and loan associations, and cooperatives, with a few changes. However, as was originally intended, the requirement as to information returns in the case of patronage refunds was expressly stated in the conference agreement finally reached today not to apply to REA payments or payments by mutual insurance companies and other organizations covered by section 101 (10) of the Internal Revenue Code.

In the case of mutual savings banks and building and loan associations the deductible bad debt reserve limit was changed from 10 percent of deposits to 12 percent of deposits, and these organizations were exempted from the excess-profits tax.

The House conferees agreed to the provision of the Senate bill extending depletion allowances. However, under the conference agreement borax, fuller's earth, tripoli, refractory and fire clay, quartzite, diatomaceous earth, metallurgical limestone, chemical grade limestone, and garnet are placed in the 15-percent category as they appeared in the House bill. Potassium chloride is removed from the minerals which the Senate granted a 5-percent rate, in order to avoid duplication. The conferees also agreed to the Senate amendments placing asbestos, wollastonite, brucite, dolomite, magnesite, perlite, calcium carbonates, and magnesium carbonates in the 10-percent category, apatite in the 15-percent category, and if from brine 5 percent for calcium chloride, magnesium chloride, and bromine.

The House conferees agreed to the Senate amendment dealing with livestock, except that it excluded turkeys from the definition of livestock.

I was also very much disappointed that we were unable to get the House conferees to agree to the provisions of the Senate bill providing a 4-year carry-over of net losses in the case of corporations organized in the base period. This provision would have afforded substantial relief to new corporations formed in the base period. However, the conferees at a meeting today agreed to allow new corporations organized in the base period a 3-year carry-over of net losses for 1947.

The other part of the Senate amendment related to net losses for taxable years beginning in 1948 and 1949. Under the Senate amendment these losses could be carried forward for a period of 4 years. Under the conference agreement losses for 1948 and 1949

are permitted to be carried forward 3 years instead of 4 years.

The conferees accepted the Senate amendments with respect to coal royalties with two exceptions. First, all references to timber were eliminated from the section, since capital gain treatment for timber is provided for under existing law. Second, the section was clarified so that coal royalties will still be considered as royalties and not as capital gains for the purpose of computing the penalty tax under section 102, or the personal holding company tax.

The conferees have agreed to accept all of the excess profits tax provisions which were in the Senate bill. In addition to a number of technical amendments, the conferees made some modifications affecting the substance of the excess-profits tax provisions. The conference agreement makes the special ceiling rates for new corporations applicable only to the first \$300,000 of a new corporation's income instead of the first \$400,000 as in the Senate bill. The provision permitting certain fiscal year corporations to include the first 3 months of 1950 in computing their general average earnings credit was modified by the conferees to require that the income for these 3 months be reduced where they are part of a fiscal year which extended beyond June 30, 1950. The conferees modified the provision dealing with the computation of base period capital additions in the case of banks to make the provision elective instead of compulsory in the case of taxable years beginning before the date of enactment of this bill. The conferees also modified the provision with respect to inadmissible assets which are the stock in trade of municipal bond dealers in order to make it applicable to partially tax-exempt as well as wholly tax-exempt bonds.

The conferees modified the provision which permits substitution of the industry rate of return for actual earnings in the case of an extremely low-base-period year. Under the conference agreement the substitution may be made only if an abnormality occurred in the year before the low-income year. The conferees modified the provision which permits regulated intrastate pipelines to qualify as regulated public utilities. Under the modification these pipelines may qualify only if their rates are subject to the jurisdiction of a State public utility commission. The conferees made two modifications in the section which provides relief for newspapers which have consolidated their operations. The first modification puts two of the eligibility requirements in this section in the alternative rather than requiring that both requirements be met. The second modification permits an adjustment to be made for increases in wages and increases in the price of newsprint.

The conferees amended the relief provision for television broadcasters so that the radio broadcasting industry rate of return or the radio broadcasting rate of return of the individual taxpayer (whichever is higher) will be applied only to the taxpayer's television assets at the end of the base period, rather than to the taxpayer's total radio and television assets.

The provision in the Senate bill relating to a corporation which increased its capacity after the close of the base period was modified by the conference agreement so that it is applicable only where the new construction was substantially under way during the base period and was completed during the taxpayer's first excess-profits tax year. The provision in the Senate bill which in certain cases permitted a corporation to base its excess-profits credit on the earnings experience of a business which it purchased was modified by the conferees in several respects. The modifications make it clear that the provision covers a case where the assets of an old corporation were purchased from its stockholders immediately after its liquidation.

tion, that the provision covers the sale of a separate business owned by a sole proprietor, and that the provision covers the split-up and sale of separate businesses operated by a partnership.

The effective date of the provision requiring a corporation to reduce its total assets by the amount of certain loans it has received from its parent corporation before applying the industry rate of return to its total assets was modified so as to make the provision applicable for all excess-profits tax years.

The amendment offered by the Senator from Wisconsin [Mr. WILLY], extending the time for filing a claim under the Renegotiation Act was accepted by the House conferees.

An amendment offered by Senator CONNALLY dealing with the taxation of unrelated business activities carried on by two colleges was modified by the House conferees to permit the earnings from such business to be applied during 1951 to 1953 against any debt incurred by such schools in acquiring the business before the income of such business is subject to Federal income tax.

The Senator from South Carolina, Mr. MAYBANK, offered an amendment which added to the list of feeder corporations exempt for years prior to 1950 those organizations all of the profits of which inure to the benefit of an eleemosynary institution exempt under section 101 (6) of the Internal Revenue Code. The House receded with an amendment striking out this provision but providing a clarifying amendment to the effect that no inference was to be drawn from this section of the bill as to the tax status of feeder organizations not covered by this section. The House conferees agreed to that part of the amendment exempting the earnings of a feeder corporation for years prior to 1951 which inured to the benefit of a hospital or to certain types of institutions for the rehabilitation of physically handicapped persons. I believe this last amendment was offered by the Senator from New Hampshire, Mr. BRIDGES.

In general, the House conferees agreed to the excise-tax changes in the Senate bill. However, the conferees eliminated electric shavers from the taxable list, but retained the Senate provision applying the 10-percent manufacturers' tax on electrical appliances to garbage-disposal units.

The House conferees also agreed to the Senate amendment eliminating house trailers from the tax.

Snow toboggans and sleds 60 inches or less in length were exempted from the sporting-goods tax. The Senate provisions relating to the tax on sporting goods were accepted by the House conferees, except that under the conference agreement skates are exempted from the sporting-goods tax.

The Senate agreed to the House provision with respect to the photographic items. This provision eliminated certain business cost items and imposed a tax on the articles retained at the rate of 20 percent.

The conferees also retained the tax imposed by the House on Diesel oil used on the highways.

The conferees agreed to impose a manufacturers' tax on mechanical pencils, fountain pens, and ball-point pens and mechanical lighters for cigarettes, cigars, and pipes at the rate of 15 percent.

The House conferees agreed to the Senate amendment reducing the tax on domestic telegrams to 15 percent.

The House conferees also agreed to the Senate amendment exempting from the telephone tax any telephone or radio-telephone message which originates within a combat zone from a member of the Armed Forces regardless of who pays for the message.

Other Senate amendments agreed to by the conferees included one permitting contractors to transport excavated material within the boundaries of and adjacent to a

construction project without being subject to the freight tax, and one excluding from the transportation tax on persons a tax on transportation by water on a vessel which makes intermediate stops at ports within the United States, Canada, or Mexico, if the vessel making such intermediate stops is not authorized both to discharge and take on passengers.

The conferees agreed to the Senate amendment regarding exemptions from the admissions tax with a slight change.

The House conferees agreed to the Senate amendment eliminating the House provision providing for a 3-percent tax on the transportation of oil by water when transported by the owner of the oil.

Among other amendments introduced on the floor, which were accepted by the House conferees, were the following:

An amendment offered by the Senator from Kansas [Mr. CARLSON], applying the net loss carry-back and carry-forward provisions to casualty losses.

An amendment offered by the Senator from Arkansas [Mr. McCLELLAN], placing bauxite in the list of strategic minerals exempt from the excess-profits tax.

An amendment offered by the Senator from Missouri [Mr. HENNINGS], providing tax refunds to manufacturers for spirits lost in floods.

An amendment offered by the Senator from Tennessee [Mr. KEFAUVER], providing for a refund in the case of a tax paid by a trust, the beneficiary of which was killed in action in World War II. This amendment was rewritten in conference to carry out the purpose intended. However, another amendment offered by the Senator from Wyoming [Mr. HUNT], requiring net worth statements from certain law violators was rejected on advice of the Treasury that the authority to require such statements is already contained in existing law.

An amendment offered by the Senator from Connecticut [Mr. McMAHON], in regard to a publishing business carried on by a university was accepted with modified language to carry out the intent.

An amendment offered by the Senator from Virginia [Mr. ROBERTSON], reducing the tax on smoking tobacco to 10 cents a pound to conform to the action of the Finance Committee in reducing the tax on plug and twist chewing tobacco and snuff to 10 cents a pound.

The House conferees also agreed to another amendment offered by Mr. ROBERTSON exempting from the tax on toilet preparations miniature samples bought and exhibited by house-to-house salesmen.

An amendment offered by the Senator from Delaware [Mr. FREAR], permitting a lessor railroad to file a consolidated return with its lessee railroad for the purpose of securing the utility credit for excess-profits tax purposes.

An amendment offered by the Senator from New York [Mr. IVES], adding garnet to the list of minerals accorded a 15-percent depletion allowance.

An amendment offered by the Senator from Alabama [Mr. HILL], exempting admissions to games between two high-school teams which inured to the benefit of a children's hospital.

An amendment offered by Mr. DIRKSEN exempting electric, gas, and oil appliances of the industrial type was modified by the conferees. As agreed to in conference, the tax on electrical appliances will not apply to electric direct motor-driven fans and circulators of the industrial type. In the case of all other electrical appliances, the tax will apply only to those of the household type.

An amendment offered by the Senator from Indiana [Mr. JENNER] amending the Social Security Act with a proviso that the State must enact legislation prohibiting the use of information obtained from the relief rolls for political or commercial purposes.

In regard to the amendment offered by the Senator from Delaware [Mr. WILLIAMS], the House receded with an amendment which eliminated the provisions of the Senate amendment increasing the compensation of the President, the Vice President, the Speaker of the House, and the Members of Congress, but removed the tax-exempt status of the expense allowance of such officials. This tax exemption in the case of the President and Vice President is removed as of January 20, 1953, and in the case of Members of Congress as of January 3, 1953. The President, the Vice President, the Speaker of the House, and each Member of Congress will be required to account for such expense allowance insofar as is necessary for the purpose of deducting such expenses for income-tax purposes.

At this point, I wish to insert a table which shows the estimated revenue to be derived under the conference agreement in a full year of operation and the effect on receipts in the fiscal year 1952.

I believe that the additional revenue under this bill may well exceed \$6,000,000,000 instead of the \$5,700,000,000 estimate of the staff. In any event, the total annual tax bill of the American people will be, when this bill becomes law, around \$67,000,000,000. I wish to point out that our corporate rates are now higher than those imposed in other countries. And in many cases our income tax on individuals is higher than the income tax imposed by other countries. Our economy can be destroyed through confiscatory and oppressive taxation. Therefore, I believe that we should hesitate about placing any further additional tax burdens upon the American people. I, for one, am opposed to any further increases in taxes except in case of another world war. We must make every effort to keep our expenditures in line with our receipts. Every waste in Government and nonessential spending must be curtailed. The American taxpayer must receive full value in the expenditure of his tax dollar.

I hope that the additional taxes imposed by this bill will be removed within the time limit provided for in the bill; that is, at the end of 1953 in the case of individuals and before April 1, 1954, in the case of corporations and excises. In my opinion, the economy will not be able to stand such a heavy burden over an extended period of time.

I wish to insert a table which shows the tax burden imposed on individuals in the past year.

Mr. MAGNUSON. Mr. President, will the Senator from Georgia yield for a question?

Mr. GEORGE. I am glad to yield.

Mr. MAGNUSON. I have been somewhat confused about the situation, as I think most other Members of the Senate have, and would appreciate having the distinguished chairman of the committee state the legislative status of the tax bill, in view of the House action.

Mr. GEORGE. Mr. President, the conferees agreed some days ago on the 264 amendments made to the bill in the Senate. The Senate had asked for the conference, and the House therefore acted first upon the conference report.

I am sure the Senate is familiar with the outcome of the procedure in the House on the conference report. A motion to recommit was made, which was rejected by the House, but on a motion to agree, the House rejected the conference report itself by a vote of 204 to 157.

There was an important issue raised on the individual income rates. Originally the House bill called for a straight

percentage increase in individual rates of the 12½ percent in all brackets. The Senate bill provided for an increase of 11 percent or 8 percent on the take-home pay, whichever was the lesser.

In the first conference report, which was rejected by the House, the conferees had agreed upon 11¾ percent, or 9 percent of the take-home pay, whichever was the lesser tax. On the first bracket group, the increase was 11½ percent. The conference report which has been agreed to by the conferees today has adopted the Senate provision of 11 percent so far as the first tax bracket is concerned. In other words, that is as low as the conferees could go with respect to taxpayers in the first bracket. The rate for the brackets above the first bracket was agreed to as in the original conference, that is, 11¾ percent, or 9 percent of the take-home pay, which-

ever was the lesser. This agreement, as originally made, increased the revenue by an estimated \$186,000,000. The amendment to which the conferees agreed today reduces that increase by approximately \$68,000,000. So the total increase in individual taxes is above the original tax bill passed by the Senate. It is, of course, below the original bill as passed by the House.

I now offer for the RECORD at this point a statement of the burdens of these rates, showing the tax burden for previous years and the burden on unmarried taxpayers and married taxpayers with two dependents. I believe that the table indicating the burden upon married taxpayers without dependents has been deleted from this particular statement.

There being no objection, the statement was ordered to be printed in the RECORD, as follows:

Comparison between the individual income tax burden in the years 1944-45, 1948-49 and under present law, with that under H. R. 4473 as agreed to by the conferees for the years 1952 and 1953

A. SINGLE PERSON—NO DEPENDENTS

Net income (after deductions but before exemptions)	Amount of tax			Increase in tax liability due to 1950 act		Amount of tax under H. R. 4473	Increase in tax liability of H. R. 4473 over present law		Cumulated increase in liability due to the 1950 act and H. R. 4473	
	1944-45	1948-49	Present law	Amount	Percent		Amount	Percent	Amount	Percent
\$600.....	\$23									
\$800.....	69	\$33	\$40	\$7	20.5	\$44	\$4	11.0	\$11	33.7
\$1,000.....	115	66	80	14	20.5	89	9	11.0	22	33.7
\$1,500.....	230	149	180	31	20.5	200	20	11.0	50	33.7
\$2,000.....	345	232	280	48	20.5	311	31	11.0	78	33.7
\$3,000.....	585	409	488	79	19.2	542	54	11.1	133	32.5
\$5,000.....	1,105	811	944	133	16.4	1,052	108	11.4	241	29.7
\$8,000.....	2,035	1,546	1,780	234	15.1	1,992	212	11.9	446	28.8
\$10,000.....	2,755	2,124	2,436	312	14.7	2,728	292	12.0	604	28.4
\$15,000.....	4,930	3,894	4,448	554	14.2	4,968	520	11.7	1,074	27.6
\$20,000.....	7,580	6,089	6,942	853	14.0	7,762	820	11.8	1,673	27.5
\$25,000.....	10,590	8,600	9,796	1,196	13.9	10,940	1,144	11.7	2,340	27.2
\$50,000.....	27,945	23,201	26,388	3,187	13.7	28,466	2,078	7.9	5,265	22.7
\$100,000.....	69,870	58,762	66,798	8,036	13.7	69,688	2,890	4.3	10,926	18.6
\$500,000.....	444,350	385,000	429,274	44,274	11.5	436,164	6,890	1.6	51,164	13.3
\$1,000,000.....	900,000	770,000	870,000	100,000	13.0	880,000	10,000	1.1	110,000	14.3

B. MARRIED COUPLE¹—2 DEPENDENTS

Net income (after deductions but before exemptions)	Amount of tax			Increase in tax liability due to 1950 act		Amount of tax under H. R. 4473	Increase in tax liability of H. R. 4473 over present law		Cumulated increase in liability due to the 1950 act and H. R. 4473	
	1944-45	1948-49	Present law	Amount	Percent		Amount	Percent	Amount	Percent
\$2,000.....	\$45									
\$3,000.....	275	\$100	\$120	\$20	20.5	\$133	\$13	11.0	\$34	33.7
\$5,000.....	755	432	520	88	20.5	577	57	11.0	146	33.7
\$8,000.....	1,585	974	1,152	178	18.3	1,282	130	11.3	308	31.6
\$10,000.....	2,245	1,361	1,592	231	17.0	1,774	182	11.4	413	30.3
\$15,000.....	4,265	2,512	2,900	388	15.4	3,236	336	11.6	724	28.8
\$20,000.....	6,785	3,888	4,464	576	14.8	5,000	536	12.0	1,112	28.6
\$25,000.....	9,705	5,476	6,268	792	14.5	7,004	736	11.7	1,528	28.0
\$50,000.....	26,865	16,578	18,884	2,306	13.9	21,088	2,204	11.7	4,510	27.2
\$100,000.....	68,565	45,643	51,912	6,269	13.7	56,032	4,120	7.9	10,389	22.8
\$500,000.....	442,985	358,677	402,456	43,779	12.2	411,224	8,768	2.2	52,547	14.7
\$1,000,000.....	900,000	769,314	857,456	88,142	11.5	871,224	13,768	1.6	101,910	13.2

¹ Maximum effective rate limitation of 77 percent.

² Maximum effective rate limitation of 90 percent.

³ Maximum effective rate limitation of 87 percent.

⁴ Maximum effective rate limitation of 88 percent.

⁵ Income earned by 1 spouse.

Mr. GEORGE. I should also like to offer for the RECORD at this time a statement with respect to certain changes made by the conferees in their meeting today. Some of these changes are referred to in a general statement which I shall wish to place in the RECORD, but I think it proper to insert at this time a statement of the changes agreed to by the conference committee today.

There being no objection, the statement was ordered to be printed in the RECORD, as follows:

1. INDIVIDUAL INCOME TAX RATES

The increase in tax in the first bracket is reduced from 11½ percent to 11 percent.

This change will reduce the yield of the bill by \$68,000,000 in a full year of operation, of which \$43,000,000 or 63 percent would go to taxpayers with adjusted gross incomes of less than \$5,000.

2. MAXIMUM RATE ON CAPITAL GAINS

The maximum rate on long-term capital gains for individuals and corporations is to be increased from the present 25 percent to 26 percent. This will increase revenue by approximately \$28,000,000.

3. EFFECTIVE DATE OF THE 83 PERCENT EXCESS PROFITS TAX CUT-BACK

The effective date of the cut-back of the average earnings credit under the excess profits tax from 85 percent to 83 percent will be changed from January 1, 1952 to July 1,

1951. This will increase liabilities on 1951 profits by \$60,000,000.

4. EXCISE TAXES

Electric garbage disposal units are added to the list of electrical appliances subject to the 10-percent manufacturers' tax. Skates are removed from the list of articles subject to the 15-percent sporting goods tax. There is a \$2,000,000 loss on skates and a \$2,000,000 gain on the taxing of garbage disposal units.

5. INFORMATION RETURNS

Rural electrification cooperatives and certain companies exempt under section 101 (10) or (11), and mutual insurance companies taxable under Supplement G are exempted from the requirement of filing information returns with respect to patronage dividends or refunds made to their patrons.

6. HOLDING PERIOD FOR TIMBER

The present method for computing the holding period in the case of timber subject to the provisions of section 117 (k) (2) is retained. Under the present law the holding period runs only to the date of the contract for disposal of the timber, instead of the date of the cutting of the timber as under the bill.

7. COAL ROYALTIES

The provision giving capital-gain treatment to coal royalties is made inapplicable in computing the income subject to the surtax on improper accumulations under section 102 and the surtax on personal holding companies under section 500.

8. TERMINATION PAYMENTS TO EMPLOYEES

The provision in the bill giving capital-gain treatment to lump-sum payments received at retirement upon the release of rights to future profits of the employer is restricted to cases where the employee was entitled to such profits either for the duration of his life or for at least 5 years after retirement.

9. CARRY-OVER OF NET OPERATING LOSSES

The provision in the bill allowing 3-year carry-over of net operating losses for years 1948 and 1949 be liberalized to include 1947, in the case of new companies. This will lose approximately ten million.

Mr. LANGER. Mr. President, has the distinguished Senator any objection to reading the changes?

Mr. GEORGE. The changes which were made today?

Mr. LANGER. Yes.

Mr. GEORGE. I shall be glad to do so.

The first change was in the individual-income-tax rate, as I have already stated. The increase in tax in the first bracket is reduced from 11½ to 11 percent. This change will reduce the yield of the bill by \$68,000,000 in a full year of operation, of which \$43,000,000, or 63 percent, would go to taxpayers with adjusted gross incomes of less than \$5,000.

The second change agreed to today was with respect to the maximum rate on capital gains. The maximum rate on long-term capital gains for individuals and corporation is to be increased from the present 25 percent to 26 percent. This will increase revenue by approximately \$28,000,000.

The third change made today was in the effective date of the cut-back on the average earning credit allowed corporations in computing their excess-profits taxes. The effective date of the cut-back of the average-earnings credit under the excess-profits tax from 85 to 83 percent will be changed from January 1, 1952, as originally agreed to by the conferees, to July 1, 1951. This will

increase the liabilities on 1951 profits by approximately \$60,000,000. That change is equivalent to applying an 84-percent rate to the average-earnings credit of the corporation for the calendar year 1951 and to 83 percent for the calendar years 1952 and 1953.

The fourth change related to excise taxes. The change is minor. Electric garbage disposal units are added to the list of electrical appliances subject to the 10-percent manufacturers' tax. Skates are removed from the list of articles subject to the 15-percent sporting-goods tax. There is a \$2,000,000 loss on skates and a \$2,000,000 gain on the taxing of garbage-disposal units, according to the staff estimate. One approximately offsets the other.

The subject of informational returns led to some confusion. There is no tax placed in this bill on rural electric cooperatives and certain companies exempt under section 101 (10) or (11), and mutual-insurance companies taxable under supplement G. The conference agreement made today exempted such corporations from the requirement that they file information returns with respect to patronage dividends or refunds made to their patrons.

The sixth change made today relates to the holding period for timber. The present method for computing the holding period in the case of timber subject to the provisions of section 117 (k) (2) is retained. Under the present law the holding period runs only to the date of the contract for disposal of the timber, instead of the date of the cutting of the timber, as under the Senate bill.

Mr. MAGNUSON. Mr. President, will the Senator yield?

Mr. GEORGE. I yield.

Mr. MAGNUSON. That means, in effect, that there is no change at all.

Mr. GEORGE. There is no change at all from the present law so far as timber is concerned.

The seventh change relates to coal royalties. The provision agreed to today, giving capital gains treatment to coal royalties, is made inapplicable in computing the income subject to the surtax on improper accumulations under section 102 and the surtax on personal holding companies under section 500.

The eighth provision agreed on today relates to the termination payments to employees. It will be recalled that a provision in the bill gave capital gains treatment to lump-sum payments received at retirement upon the release of rights to future profits of the employer, where an employee had been employed for over a 20-year period. By the agreement made today by the conference committee, the provision is restricted to cases in which the employee was entitled to such profits either for the duration of his life or for at least 5 years after retirement, so as to bring the provision more directly in line with the general provision relating to pensions.

The ninth provision agreed to by the conferees today relates to the carry-over of net operating losses. The Senate version of the bill contained a provision for a 4-year carry-over of net operating losses for new companies, that is, companies organized in the base period. By the conference agreement made finally today a 3-year carry-over of net operating losses for the year 1947 is allowed such new companies. This will result in an additional loss of \$10,000,000. Both old and new companies can carry forward for 3 years net losses for the years 1948 and 1949.

On the whole, the bill as now reported will produce approximately \$5,691,000,000, according to the staff estimates. In my opinion the bill will bring in at least \$6,000,000,000 in a full year of spending.

Mr. LANGER. Mr. President, will the Senator yield?

Mr. GEORGE. Yes.

Mr. LANGER. I thank the distinguished Senator for making this statement. May I inquire what happened to the family partnership provision?

Mr. GEORGE. The family partnership provision as it passed the Senate was made retroactive to the date of the enactment of the Internal Revenue Code in 1939. The House conferees objected to this retroactive provision. The House conferees were adamant, and we finally yielded to the House conferees on that point. The bill contains the family partnership provision as it was originally written in the House bill itself, but it is not made retroactive beyond January 1, 1951.

Mr. LANGER. Mr. President, will the Senator yield further?

Mr. GEORGE. Yes.

Mr. LANGER. What was done relative to wiping out the distinction between individual taxes and taxes on corporations.

Mr. GEORGE. There is no actual distinction.

Mr. LANGER. The rate was lower for corporations in the bill we sent to conference.

Mr. GEORGE. We did make a change in the corporate rate. The House insisted upon the application of the corporate rate increases to the normal tax rather than to the surtax. The Senate had split it. We in the Senate thought that in the interest of the smaller corporations—at least smaller earning corporations—it would be more equitable to apply 2 percent of the increase to the normal tax and 3 percent to the surtax, thus aggregating a 5-percent increase.

We yielded to the House on that point. The net effect of it will produce \$150,000,000 more annually. The increase is borne by all corporations. However, the smaller corporations will bear a heavier increase than under the Senate bill, because of the \$25,000 surtax exemption.

Mr. LANGER. I thank the distinguished Senator.

Mr. ROBERTSON. Mr. President, will the Senator yield?

Mr. GEORGE. Gladly.

Mr. ROBERTSON. I wish to commend the Senator from Georgia [Mr. GEORGE] and the other Senate conferees on doing a good job.

Mr. GEORGE. I thank the distinguished Senator from Virginia on behalf of the conferees and myself. I hope that the job is a fairly good one.

Mr. CASE. Mr. President, will the Senator yield?

Mr. GEORGE. I gladly yield to the Senator from South Dakota.

Mr. CASE. The junior Senator from South Dakota is attempting to run down the plus and minus figures on the changes, according to the estimates which the distinguished chairman of the committee has given. If I have followed him correctly, it would leave us with a net increase of \$10,000,000 over the bill that first went to conference; is that correct? There was a loss of \$68,000,000 on the first change, the individual income taxes. There was a gain on the change in the average carrying base of \$60,000,000. That would leave a net loss of \$8,000,000. There was an increase of \$28,000,000 on the capital gains change, which would leave a net increase—

Mr. GEORGE. Approximately \$10,000,000, I would say to the Senator, taking into consideration the nonrecurring items, which on the effective date of the excess profits credit and the allowance of net losses for 1947.

These items will only effect revenue for 1 year, and amount to a net gain of \$50,000,000. The changes in the individual income tax and the capital gains tax result in a loss of \$41,000,000, which is a permanent let loss. The net is, therefore, around \$10,000,000.

Mr. CASE. In other words, it is a net gain of about \$10,000,000.

Mr. GEORGE. Yes.

Mr. CASE. I thank the Senator from Georgia.

Mr. GEORGE. I neglected to insert in the RECORD another table, although the material is already covered by an insertion which I have already made. I believe the table should go into the RECORD also as a separate statement. It represents the estimated effect of the conference bill on tax liabilities in a full year of operation and on collections in the fiscal year 1952. The individual income tax for a full year will be increased by \$2,280,000,000, and for the fiscal year 1952 by \$1,190,000,000.

The corporate income and excess profits taxes are increased for a full year by \$2,207,000,000, while for fiscal year 1952 the effect will amount to \$787,000,000.

The excise taxes have been increased by \$1,204,000,000. The fiscal year 1952 effect is \$787,000,000. The total increase in the bill, as I have stated, under the staff-Treasury estimate, is \$5,691,000,000, of which \$2,764,000,000 will be realized in the current fiscal year.

I ask that the table be printed in the RECORD at this point in my remarks.

There being no objection, the table was ordered to be printed in the RECORD, as follows:

Estimated effect of the conference bill on tax liabilities in a full year of operation and on collections in the fiscal year 1952

[In millions of dollars]

	Full year effect	Fiscal year 1952 effect
Individual income tax.....	2,280	1,190
Corporate income and excess profits taxes.....	12,207	1,787
Excise taxes.....	1,204	1,787
Total.....	5,691	2,764

¹ Net increase after allowing for reduction in individual income taxes due to lower dividends.

² Assumes excise tax changes are effective November 1, 1951.

Mr. GEORGE. I believe there is one other table which I should insert. It shows the revenue effects of the conference agreement. The money amounts are shown in millions of dollars. For the adjusted gross income class under \$5,000 the liability under the present law is \$8,684,000,000. The increase over the present law from the conference agreement for the taxpayer under \$5,000 gross income is \$951,000,000. By percentage points it is 39.2 percent.

For the adjusted gross income class over \$5,000 the liability under the present law is \$14,771,000,000. The increase over the present law from the conference agreement is \$1,478,000,000. Percentage-wise it is 60.8 percent.

The total tax liability under the present law on all individual income taxpayers is \$23,455,000,000. The increase over present law, as a result of this agreement, amounts to \$2,429,000,000.

Mr. President, I should like to have this table printed at this point in the RECORD.

There being no objection, the table was ordered to be printed in the RECORD, as follows:

Revenue effects of conference agreement on individuals

[Money amounts in millions of dollars]

Adjusted gross income class	Liability under present law ¹	Increase over present law from conference agreement	
		Amount	Percent
Under \$5,000.....	\$8,684	\$951	39.2
Over \$5,000.....	14,771	1,478	60.8
Total.....	23,455	2,429	100.0

¹ Normal tax, surtax and alternative tax on net long-term capital gains.

NOTE.—Estimates include rate changes and Head of Household provisions.

Mr. GEORGE. Mr. President, I earnestly hope the conference report will be approved.

The PRESIDING OFFICER (Mr. HUNT in the chair). The question is on agreeing to the report.

Mr. HUMPHREY. Mr. President, I shall not delay the Senate in reaching its decision on this tax bill.

On behalf of the Senator from New York (Mr. LEHMAN), the Senator from Illinois (Mr. DOUGLAS), the Senator from Oregon (Mr. MORSE), and myself, I submit, for printing in the RECORD, a joint statement on the tax bill and the second

conference report which we are now considering.

There being no objection, the joint statement was ordered to be printed in the RECORD, as follows:

JOINT STATEMENT ON THE TAX BILL BY SENATORS HUMPHREY, LEHMAN, DOUGLAS, AND MORSE

The decision of the House of Representatives to send the tax bill back to conference gave the Senate and House conferees an opportunity to improve some of the deficiencies in the bill. We regret that the conference has not acted to correct these deficiencies. The tax bill still represents a violation of the principle of fair treatment. It is grossly inadequate and inequitable.

We urged the conference committee to arrive at a truer "middle ground" between the Senate and House versions. The new tax bill should raise much more revenue. The new tax bill should distribute its burden among the people on the basis of ability to bear that burden. The new tax bill should close some loopholes. To do otherwise is to invite new pressures for price rises, and subsequent inflation.

The bill as it now stands will bring in only \$2,500,000,000 during the current fiscal year in the face of a prospective deficit which may exceed \$10,000,000,000 and which will undoubtedly grow. It will only raise a total of \$5,700,000,000 in a full year.

The conference committee should have improved the tax bill by making corporation taxes retroactive to January 1; establishing a withholding plan for the payment of taxes on dividends and corporate bond interest; lowering the excess profits tax "earning base" to 75 percent; increasing the capital gains rate to 28 percent; and eliminating many of the new minerals which have been added to the privileged "percentage depletion" tax reduction class. These will yield a total of \$1,400,000,000.

A study of the conference report shows that in arriving at a so-called compromise between the Senate and House versions the conference report favored those who earned incomes of more than \$5,000 at the expense of the lower income groups. In deciding to decrease the amount raised by individual income taxes from the House version by \$432,000,000, only 30 percent of that amount, or \$129,000,000, benefited families with less than \$5,000 income—yet those families comprise 80 percent of the individual taxpayers of this country. We fail to see equity in a proposal where 80 percent of the taxpayers get only 30 percent of the relief while 20 percent of the taxpayers get 70 percent of the relief.

We have, of course, other criticisms of the conference report. There is one which we cannot fail to mention now. We are shocked by the action of the conference in accepting the so-called Jenner amendment, which has nothing to do with taxes but has everything to do with the dignity and welfare of unfortunate people who happen to need public assistance. This amendment is a rider which will permit the States to make public the names of those who receive relief or other public aid. It will allow newspapers to publish the names of the children, the aged, the needy mothers, and the needy blind on the public assistance rolls. Now school children will be told which of their parents are receiving public aid. This is cruel. This is inconsistent with every principle of humaneness associated with our public assistance program. This rider must be rejected.

An effective tax bill is vital to defeat inflation. The American taxpayer would prefer to pay for the defense mobilization program through taxes which he can see and understand rather than through the hidden tax of inflation and high prices.

Mr. President, the second conference has resulted in very few changes. The changes are insignificant and do not meet the re-

quirements of a fair and equitable tax bill. The tax measure still fails to meet the needs of our fiscal situation. It raises inadequate revenue. It will add to inflation; it opens new tax loopholes. It violates the principle of the ability to pay and equitable treatment.

Mr. HUMPHREY. Mr. President, on my own behalf—and I commend this matter to the reading of every one of my colleagues—I present, for printing in the RECORD, an analysis of corporate profits for the years 1940 up to the third quarter of 1951, based on a study of the Federal Trade Commission's reports up to the third quarter of 1951. This report has been carefully checked by the economic consultants of the Federal Trade Commission; and it represents what I consider to be a factual analysis of corporate profits, which are unprecedented in the history of the United States.

Let me refer to just one item, Mr. President. In 1929, corporate profits were running at the rate of 6.7 percent on the total amount of stock equity; in 1951, they were running at the rate of 13.6 percent on stock ownership. I think this fortifies the point which was made during the debate on the tax bill, namely, that the tax structure on corporate income can well stand a considerable boost, so as at least to give some equity to the tax program of the Government.

Mr. President, I now ask unanimous consent to have this statement printed in the RECORD.

There being no objection, the statement was ordered to be printed in the RECORD, as follows:

AN ANALYSIS OF CORPORATE PROFITS BASED ON STUDY OF THE FEDERAL TRADE COMMISSION REPORTS¹

The profits of corporations have grown during the past decade by utterly fantastic proportions. The corporations are now taking profits—after taxes—at a rate which was undreamed of even during World War II, and undreamed of even in the heyday of 1929.

The Department of Commerce has recently released a compendium of statistics showing the growth of corporate profits over the last 10 years—1940 to 1950, inclusive. I should like to read these figures. They are profits for all corporations—including manufacturing corporations, mining corporations, corporations in the wholesale and retail trade fields, in the banking, service, transportation and all other fields. They reflect, in short, profits of all business corporations in the United States. And I might emphasize that these figures reflect net profits after all taxes. The figures are as follows:

	Billion dollars
1940.....	6.4
1941.....	9.4
1942.....	9.4
1943.....	10.6
1944.....	10.8
1945.....	8.5
1946.....	13.9
1947.....	18.5
1948.....	20.7
1949.....	17.3
1950.....	22.8

Here it may be noted that corporation profits last year reached their highest peak in all history. They were almost three times what they were in 1945, the last full year of World War II. This was after taxes.

Now, how are the corporations faring under the present wartime tax law? The Federal Trade Commission has just this week released its financial statement for the second quarter of the year. This statement

shows the profits before and after taxes for corporations in the manufacturing business. Manufacturing corporations account for about half—or usually somewhat more than half—of the profits of all business corporations. The Commission does not compile up-to-date figures on corporations other than manufacturing corporations and no up-to-date figures on the other lines of business are available. But let's look at the manufacturing corporations.

In the second quarter of this year—that is, April, May, and June of 1951—manufacturing profits before Federal taxes were even greater than in the same quarter of last year. In the second quarter of last year, net income before Federal income taxes totaled \$5,100,000,000. In the second quarter of this year they totaled \$6,900,000,000. But, of course, we have had a new excess-profits tax law since last year, and this has taken a small bite—sort of a flea bite—out of corporate profits. Profits of manufacturing corporation after set-asides for Federal income taxes totaled \$3,200,000,000 in the second quarter of last year—\$3,100,000,000 in the second quarter of this year. In other words, on the face of it, it would appear that the present tax law has reduced profits of manufacturing corporations by about \$100,000,000 per quarter. Actually, however, this appearance somewhat overstates the matter. There have been certain offsets—certain increases in real profits which are not reflected in the figures. In short, the increased deductions allowed because of the accelerated amortization program are taken out of the profits figures for this year.

But even so, how do the profits figures compare with past times? We must, of course, take account of the increased investment in corporate assets. Much of the increase in corporate assets is in the form of idle money—that is, a large proportion of the assets represent undeclared dividends from past profits, and this is money which is not needed for production facilities or for operating capital. A large proportion of it is in Government bonds and has nothing to do with the corporations' physical plant for turning out goods. Nevertheless, we will take account of the increased investment—whether the assets be enlarged plants or increased corporate savings. We will assume that all the money the corporation have is needed to run their businesses.

In 1929, net income of manufacturing corporations, after taxes, amounted to a return of 6.7 percent on the stockholders' total equity. In 1945, the last full war year of World War II, these same profits, after taxes, amounted to an annual rate of return of 7.1 percent on stockholders' equity. Taxes during World War II could, therefore, hardly be said to be cruel to manufacturing corporations. The rate of return was substantially higher in 1945 than in 1929. But what about now—1951? Compared to a rate of return of 6.7 percent in 1929, and 7.1 percent in 1945, second quarter 1951 profits were at an annual rate of 13.6 percent—more than twice the 1929 rate and almost twice the 1945 rate.

What could this mean in tax dollars? Would 1945 be a fair basis of comparison? If corporate taxes were increased so that manufacturing corporations were still allowed to keep profits at the same rate they were allowed in 1945, this would mean that these corporations would not be retaining about \$6,400,000,000 a year instead of the \$12,900,000,000 which they will retain this year, if they do as well for themselves during the second half of the year as they did in the first half of 1951. This would also mean an additional \$6,500,000,000 coming into the Federal Treasury from manufacturing corporations alone. Considering all the other business corporations, taxes which allowed retention of profits at the 1945 rate would probably bring in about \$13,000,000,-

000 more than is now coming in. Let me emphasize again, this would not mean allowing corporations to retain the same absolute amount of profits they retained in 1945. On the contrary, the additional \$13,000,000,000 which they ought to be paying in taxes makes allowances for increased business investment. It would allow corporations to retain profits at the same rate of return which prevailed in 1945.

The PRESIDING OFFICER. The question is on agreeing to the conference report.

Mr. LANGER. Mr. President, on this question I ask for the yeas and nays.

The yeas and nays were not ordered.

Mr. LANGER. Mr. President, I wish the RECORD to show that on this question I will vote "no." In view of the fact that the yeas and nays have not been ordered by the Senate, I wish the RECORD to show distinctly that I will vote "no."

The PRESIDING OFFICER. The RECORD will so show.

Mr. DIRKSEN. Mr. President, if we have reached the point in the proceedings where we are about to vote on the question of agreeing to the conference report, I wish to be registered as voting "no" on this question.

The PRESIDING OFFICER. The question is on agreeing to the conference report. [Putting the question.]

The report was agreed to.

Mr. DIRKSEN. Mr. President, in the absence of a yea-and-nay vote, I should like to have the RECORD show that on that vote I voted "no."

The PRESIDING OFFICER. The RECORD will so show.

PURCHASE OF AUTOMOBILES OR OTHER CONVEYANCES BY CERTAIN DISABLED VETERANS—VETO MESSAGE (S. DOC. NO. 83)

The PRESIDING OFFICER (Mr. HUNT in the chair) laid before the Senate the following message from the President of the United States, which was read, and, with the accompanying bill, ordered to lie on the table and to be printed:

To the Senate of the United States:

I am returning herewith, without my approval, S. 1864, Eighty-second Congress, "An act to authorize payments by the Administrator of Veterans' Affairs on the purchase of automobiles or other conveyances by certain disabled veterans, and for other purposes."

The purpose of the enactment is to authorize payment of not to exceed \$1,600 on the purchase price of an automobile or other conveyance for any veteran of World War II, or of service on or after June 27, 1950, and prior to a date to be determined by the President or the Congress, who is entitled to compensation under laws administered by the Veterans' Administration for the loss, or loss of use, of one or both hands or feet, or for defective vision to a prescribed degree.

Previous laws accorded a similar benefit to each World War II veteran entitled to compensation for loss, or loss of use, of one or both legs, at or above the ankle, with the requirement that the veteran be qualified to operate the vehicle. Although the authority for that

program expired on June 30, 1951, nearly all of the eligible World War II veterans with leg disabilities have already qualified for and received a conveyance. The principal effect of the present proposal on World War II veterans would be to grant assistance in obtaining a vehicle to those with service-connected disabilities of the upper extremities and to those with seriously impaired vision. It would also qualify veterans of the emergency period beginning June 27, 1950, for this benefit for the first time.

This proposal is very similar in essential respects to S. 2115, Eighty-first Congress, which was passed by the Congress in the fall of 1949, and on which I withheld my approval for reasons set forth at length in a memorandum of disapproval of October 31, 1949.

It is significant that the considerations set forth in that memorandum of disapproval were accepted as sound by the Senate Committee on Labor and Public Welfare when it reported favorably on the original version of S. 1864, Eighty-second Congress, on July 25, 1951. At that time the bill would have simply extended the previous World War II program of assistance in obtaining automobiles for veterans with compensable leg disabilities to include those suffering the same types of disabilities in the active service since June 27, 1950. Apparently recognizing the necessity for restricting this benefit to those having a definite need, in addition to compensation and other existing benefits, for assistance to overcome the handicap of decreased mobility, the committee stated that it had "confined this bill to the same sound standards of rehabilitation which have governed this program since its inception for the benefit of World War II veterans." The Senate accepted and passed the original bill embodying this principle.

However, the bill as finally adopted by both Houses of the Congress is subject to most of the basic objections raised against S. 2115, Eighty-first Congress. While, unlike the previous bill, this one does not include World War I veterans, it does depart materially from the principle upon which the original World War II program was founded, by extending the program to include veterans with disabilities of the upper extremities and blind veterans. As indicated with reference to S. 2115, the factor of materially diminished mobility, which was an underlying basis of the original program of automobiles for disabled World War II veterans with injury or loss of lower limbs, would be largely disregarded in the cases of the relatively large group of veterans with disabilities of the upper extremities who would be brought in by this bill. In addition, this proposal would dispense with the requirement of the original program that the veteran must be able to drive the vehicle, at least in those instances where someone else is available to drive for him. S. 1864 would, with respect to a considerable proportion of the beneficiaries, abandon the principle upon which the original program was based.

The question of policy arising from this legislation should certainly be deter-

under detailed examination on the witness stand, repeatedly swore that the testimony he had given concerning me and concerning the gentleman from California [Mr. SHELLEY], at the secret subcommittee hearing in Beaumont, Tex., in 1940, was true. I was amazed to find that John L. Leech had appeared at these hearings as a Government witness for the Immigration and Naturalization Service of the Department of Justice.

Mr. Speaker, when I first addressed the House on the subject of this perjured testimony on January 11, 1945, the distinguished majority leader the gentleman from Massachusetts [Mr. McCORMACK] expressed the opinion that there was a conspiracy among certain individuals in California to smear me. During the next 4 or 5 years I was repeatedly made the target of Communist smear attacks. Finally, during the congressional campaign of 1948 I filed suit for libel against the San Francisco Examiner, a Hearst newspaper.

On Sunday, February 27, 1949, the following letter, signed by the publisher of the San Francisco Examiner, was printed on the first page of all editions of that newspaper:

SAN FRANCISCO EXAMINER,
February 24, 1949.

HON. FRANK R. HAVENNER,
Congress of the United States,
Washington, D. C.

DEAR CONGRESSMAN HAVENNER: As part of the amicable settlement of the libel suit brought by you against us, we are pleased to address this letter to you publicly.

Your suit was instituted as a result of editorials and articles appearing in the San Francisco Examiner.

We are convinced that you are not a Communist nor in sympathy with communism.

We are convinced that you are a true American in the American tradition. We are sorry that we attempted to cast a doubt on your Americanism during your various campaigns for public office.

It is not necessary to reserve the right to differ with you in the future on specific issues, but we do not wish this apology to carry the implication that any promise has been made to support you. As a real American, we know you wish us to assert an independent judgment on all issues.

Very truly yours,

CLARENCE R. LINDNER.

Mr. Speaker, the astonishing renewal of this perjured testimony against two Members of Congress by a witness appearing on behalf of the Government of the United States strengthens my belief that the majority leader, Mr. McCORMACK, was right when he said that there was a conspiracy to smear me, and that this conspiracy should be investigated by Congress. I now urgently request that the Committee on the Judiciary, under the authority granted it by House Resolution 95, conduct a complete investigation of all of the charges made by John L. Leech against the gentleman from California [Mr. SHELLEY] and myself.

Mr. McCORMACK. Mr. Speaker, will the gentleman yield?

Mr. HAVENNER. I yield to the gentleman from Massachusetts.

Mr. McCORMACK. I remember well the experience which the gentleman from California went through. I remember the discussion on the floor of

the House several years ago and the remarks that I made on that occasion. Of course, nobody believes this infamous liar. I hesitate personally to criticize, because I like to exercise restraint, but where the evidence is so overwhelming about a man of hate, and I have nothing but contempt for persons of that kind, in this case to term him as "an infamous liar" is tolerance on my part.

Then gentleman from California has been subjected to the attacks of this man, and behind him is someone who started him and who spearheaded him. There is no question about that, in my mind. But the best evidence that it has not fallen on fruitful ground is the fact that the people of the gentleman's district have continuously reelected him. But that is not the answer. The pain and the suffering the gentleman from California has undergone, and that his loved ones have undergone, cannot be softened. When we in public life are unjustifiably attacked, it is not ourselves who suffer most, but our loved ones. I can understand thoroughly the position of the gentleman from California, his justifiable wrath at these unjust, these false attacks and the continuation of them.

We remember well how several years ago the gentleman himself demanded that a committee of this Congress investigate the conspiracy against him, and now another colleague of ours is attacked. This is convincing proof to anyone that the gentleman from California who is addressing the House as well as the distinguished gentleman from California [Mr. SHELLEY] fear nothing, but they want to expose this vicious conspiracy which for some reason or other is trying to destroy the character and reputation of two honorable men. This is not a matter that addresses itself to the House concerning one who is a member of the Democratic party. It could just as well apply to any colleague of mine on the other side. This is an attack against a Member of the House.

I hope the Committee on the Judiciary will take cognizance of the gentleman's request and if any authorization by the House is necessary I hope the House will grant it and investigate the charges of this Leech. His name is certainly consistent with his character. I hope they will investigate the conspiracy that exists to undermine the character and reputation of the gentleman from California—and now another one. I never heard the slightest intimation of an attack against the gentleman from California [Mr. SHELLEY] before, but it has come—and it might be any one of us, attacked by some man of hate. It might be someone in our own community, full of hatred and resentment. Tomorrow it might be another section of the country. Today it is California, but it might be Massachusetts or somewhere else. Minds that hate, no matter where they exist, are contemptible, destructive.

My purpose is mainly to commend the gentleman for his fine service in this House. We do not always agree, but I never impugn the motives of any one of my colleagues, nor their intent. It

is a good thing to have in this body Members who disagree, for then we get the cross current of the country; but no one ever heard me attack the motives of any one of our Members. I might disagree as to what results might flow from his actions, but that is different.

The gentleman from California who is addressing the House has been here for years and rendered honorable and outstanding service, as has the gentleman from California [Mr. SHELLEY]. So it is not a question of defending either one of them; it is a question of looking behind the scenes, finding out who are the vicious forces and what purpose they have in mind in conceiving and carrying on this conspiracy to destroy the standing and reputation and to poison the minds of Americans against the patriotism of the gentleman from California [Mr. HAVENNER] and now the gentleman from California [Mr. SHELLEY].

I sincerely hope, I repeat, that if not in the remaining days of this session, at least in the early days of the next session, appropriate action will be taken by one of our committees; and if they lack authority, that the House will grant the authority to investigate this contemptible conspiracy.

Mr. HAVENNER. I thank the gentleman from Massachusetts.

I would like to say to the gentleman from Massachusetts that I discussed this matter with the chairman of the Judiciary Committee and I think he believes his committee now has the necessary authority to make an exhaustive and thorough investigation of this matter. I gathered from his conversation with me today that he is willing to do so.

Mr. BURDICK. Mr. Speaker, will the gentleman yield?

Mr. HAVENNER. I yield to the gentleman from North Dakota.

Mr. BURDICK. I just want to remark that what this man said against the gentleman 1,800 or 2,000 miles from where he was he could have said of any Member of Congress and if it could be secluded for 4 years any Member of Congress would be handicapped the same way. So, as an old-time prosecutor for the Government, I am convinced that there was and is a conspiracy. There is some reason why that was done. There is some purpose behind that more than to injure the gentleman personally. Why not pick out somebody else? They could have picked me out. Nobody would believe that story if they did say it. I am in a sparsely settled country where they do not have many newspapers. But they picked out the wrong fellow when they picked the gentleman out because everyone knows that he was secretary to the great Senator from California, Hiram Johnson, for years here in the Capitol. He has been in public life and in front of people for a quarter of a century. Here in this Congress he is respected by every Member and has been for years. The people of California elect him term after term. It seems to me they picked out the wrong man to foster on a witch-hunt charge of communism. I will do whatever I can as a Member of Congress to see that the gentleman gets that investigation

because I am interested in finding out why Congressman HAVENNER was singled out for attack.

Mr. HAVENNER. I thank the gentleman.

Mr. EBERHARTER. Mr. Speaker, will the gentleman yield?

Mr. HAVENNER. I yield to the gentleman from Pennsylvania.

Mr. EBERHARTER. I just want to say, Mr. Speaker, that I agree wholeheartedly with the sentiments expressed by the gentleman from Massachusetts, our majority leader [Mr. McCORMACK]. We who have served with the gentleman from California for many years in this House have not the slightest doubt but what a conspiracy exists, as he stated this afternoon. I strongly believe that every Member of this House on both sides of the aisle will join in insisting that an investigation be made of this conspiracy, because these methods of attacking without any justification whatsoever people in public life must be stopped if we are to carry forward the principles of our country. I am certain that we will do the country good and stop some of this stuff if a real investigation is made of this conspiracy.

Mr. HAVENNER. I thank the gentleman.

Mr. EBERHARTER. I may also add that I am confirmed in that conviction by what has just been said by the gentleman from North Dakota [Mr. BURDICK].

Mr. YORTY. Mr. Speaker, will the gentleman yield?

Mr. HAVENNER. I yield to the gentleman from California.

Mr. YORTY. Mr. Speaker, I have known the gentleman from California [Mr. HAVENNER] for many, many years. I knew him by reputation long before I had the pleasure of meeting him. He is one of the most highly respected and beloved public servants that California has ever sent to this Congress. For that reason it is very profitable to some people and profitable to the Communists to get a gentleman of his standing and character named as a Communist by some person who, as the majority leader referred to correctly, is a liar. Because that sort of propaganda confuses the people and leads them to believe that all charges of communism are just as false as the one they know to be false leveled against a gentleman like the gentleman from California [Mr. HAVENNER]. So I have no doubt that if the committee will thoroughly go into this conspiracy back of it they will find the Communists themselves trying to spread these false rumors, as they have in other cases.

I am very much surprised that the Government would use a witness like this man Leech in a case as important as this case, thereby discrediting their whole case against her by using a witness whose testimony is not reliable.

Alice Orans was assistant director of relief in Los Angeles County in 1939 when my own State Committee on Un-American Activities investigated communism in relief organizations. I heard her testimony and I became convinced,

as did the whole committee, without question that she was a Communist and a leader in the Communist movement to take over the relief organizations in the State of California.

She led 500 pickets out in front of my house and trampled the grass in front of it and the grass in front of my neighbor's house carrying placards up and down the street. We found out later that she was not an American citizen. She is a citizen of Russia. I myself conferred with the FBI and turned over my files about Alice Orans to them.

In my judgment she ought to be deported. To think that the Government would use a witness like Leech in an important case like this, and by leveling false and ridiculous charges against a fine gentleman like the gentleman from California [Mr. HAVENNER] is just beyond belief.

REVENUE ACT OF 1951

Mr. COOPER (on behalf of Mr. DOUGHTON) submitted the following conference report and statement on the bill (H. R. 4473) to provide revenue, and for other purposes.

CONFERENCE REPORT (H. REPT. NO. 1213)

The committee of conference on the disagreeing votes of the two Houses on the amendments of the Senate to the bill (H. R. 4473), to provide revenue, and for other purposes, having met, after full and free conference, have agreed to recommend and do recommend to their respective Houses as follows:

That the Senate recede from its amendments numbered 2, 3, 5, 94, 98, 119, 120, 123, 124, 125, 126, 130, 132, 133, 134, 135, 136, 138, 139, 140, 144, 145, 146, 147, 148, 149, 150, 152, 155, 157, 158, 159, 160, 161, 162, 164, 165, 170, 177, 182, 183, 201, 202, and 203.

That the House recede from its disagreement to the amendments of the Senate numbered 9, 14, 15, 16, 17, 18, 19, 20, 21, 22, 23, 24, 25, 26, 27, 29, 30, 31, 32, 33, 34, 35, 36, 37, 38, 39, 40, 41, 42, 44, 47, 48, 50, 51, 52, 56, 57, 58, 59, 60, 61, 62, 63, 65, 66, 68, 69, 70, 71, 72, 73, 74, 75, 76, 87, 95, 103, 105, 106, 108, 109, 112, 113, 114, 115, 116, 117, 153, 169, 171, 176, 180, 181, 186, 187, 189, 190, 192, 195, 196, 204, 205, 206, 207, 208, 209, 212, 218, 223, 229, 230, 232, 233, 242, 243, and 244 and agree to the same.

Amendment numbered 1: That the House recede from its disagreement to the amendment of the Senate numbered 1, and agree to the same with the following amendments:

Strike out the surtax table beginning on page 1 of the Senate engrossed amendments and insert the following:

"If the surtax net income is:		The surtax shall be:	
Not over \$2,000-----	17.4% of the surtax net income.		
Over \$2,000 but not over \$4,000.	\$348, plus 19.4% of excess over \$2,000.		
Over \$4,000 but not over \$6,000.	\$736, plus 24% of excess over \$4,000.		
Over \$6,000 but not over \$8,000.	\$1,216, plus 27% of excess over \$6,000.		
Over \$8,000 but not over \$10,000.	\$1,756, plus 32% of excess over \$8,000.		
Over \$10,000 but not over \$12,000.	\$2,396, plus 36% of excess over \$10,000.		
Over \$12,000 but not over \$14,000.	\$3,116, plus 40% of excess over \$12,000.		
Over \$14,000 but not over \$16,000.	\$3,916, plus 45% of excess over \$14,000.		

"If the surtax net income is:		The surtax shall be:	
Over \$16,000 but not over \$18,000.	\$4,816, plus 48% of excess over \$16,000.		
Over \$18,000 but not over \$20,000.	\$5,776, plus 51% of excess over \$18,000.		
Over \$20,000 but not over \$22,000.	\$6,796, plus 54% of excess over \$20,000.		
Over \$22,000 but not over \$26,000.	\$7,876, plus 57% of excess over \$22,000.		
Over \$26,000 but not over \$32,000.	\$10,156, plus 60% of excess over \$26,000.		
Over \$32,000 but not over \$38,000.	\$13,756, plus 63% of excess over \$32,000.		
Over \$38,000 but not over \$44,000.	\$17,536, plus 66% of excess over \$38,000.		
Over \$44,000 but not over \$50,000.	\$21,496, plus 70% of excess over \$44,000.		
Over \$50,000 but not over \$60,000.	\$25,696, plus 72% of excess over \$50,000.		
Over \$60,000 but not over \$70,000.	\$32,896, plus 75% of excess over \$60,000.		
Over \$70,000 but not over \$80,000.	\$40,396, plus 79% of excess over \$70,000.		
Over \$80,000 but not over \$90,000.	\$48,296, plus 81% of excess over \$80,000.		
Over \$90,000 but not over \$100,000.	\$56,396, plus 84% of excess over \$90,000.		
Over \$100,000 but not over \$150,000.	\$64,796, plus 86% of excess over \$100,000.		
Over \$150,000 but not over \$200,000.	\$107,796, plus 87% of excess over \$150,000.		
Over \$200,000-----	\$151,296, plus 88% of excess over \$200,000."		

Strike out the surtax table on page 3 of the Senate engrossed amendments and insert the following:

"If the surtax net income is:		The surtax shall be:	
Not over \$2,000-----	19.2% of the surtax net income.		
Over \$2,000 but not over \$4,000.	\$384, plus 21.6% of excess over \$2,000.		
Over \$4,000 but not over \$6,000.	\$816, plus 26% of excess over \$4,000.		
Over \$6,000 but not over \$8,000.	\$1,336, plus 31% of excess over \$6,000.		
Over \$8,000 but not over \$10,000.	\$1,956, plus 35% of excess over \$8,000.		
Over \$10,000 but not over \$12,000.	\$2,656, plus 39% of excess over \$10,000.		
Over \$12,000 but not over \$14,000.	\$3,436, plus 45% of excess over \$12,000.		
Over \$14,000 but not over \$16,000.	\$4,336, plus 50% of excess over \$14,000.		
Over \$16,000 but not over \$18,000.	\$5,336, plus 53% of excess over \$16,000.		
Over \$18,000 but not over \$20,000.	\$6,396, plus 56% of excess over \$18,000.		
Over \$20,000 but not over \$22,000.	\$7,516, plus 59% of excess over \$20,000.		
Over \$22,000 but not over \$26,000.	\$8,696, plus 63% of excess over \$22,000.		
Over \$26,000 but not over \$32,000.	\$11,216, plus 64% of excess over \$26,000.		

"If the surtax net income is:

Over \$100,000 but not over \$150,000.	\$67,216, plus \$100,000.	87% of excess over
Over \$150,000 but not over \$200,000.	\$110,716, plus \$150,000.	88% of excess over
Over \$200,000 -----	\$154,716, plus \$200,000."	89% of excess over

"TABLE II

"Taxable years beginning after Oct. 31, 1951, and before January 1, 1954

No. 196—12

"TABLE III

"Taxable years beginning after December 31, 1953

If adjusted gross income is—		And the number of exemptions is—				If adjusted gross income is—		And the number of exemptions is—												
At least	But less than	1	2	3	4 or more	At least	But less than	1		2			3			4	5	6	7	8 or more
								And tax-payer is single or married filing separately	And tax-payer is head of house-hold	And tax-payer is single or married filing separately	And tax-payer is head of house-hold	And a joint return is filed	And tax-payer is single or married filing separately	And tax-payer is head of house-hold	And a joint return is filed					
The tax shall be—						The tax shall be—														
\$0	\$675	\$0	\$0	\$0	\$0	\$2,325	\$2,350	\$301	\$301	\$181	\$181	\$181	\$61	\$61	\$61	\$0	\$0	\$0	\$0	\$0
675	700	4	0	0	0	2,350	2,375	305	305	185	185	185	65	65	65	0	0	0	0	0
700	725	8	0	0	0	2,375	2,400	310	310	190	190	190	70	70	70	0	0	0	0	0
725	750	13	0	0	0	2,400	2,425	314	314	194	194	194	74	74	74	0	0	0	0	0
750	775	17	0	0	0	2,425	2,450	319	319	199	199	199	79	79	79	0	0	0	0	0
775	800	22	0	0	0	2,450	2,475	323	323	203	203	203	83	83	83	0	0	0	0	0
800	825	26	0	0	0	2,475	2,500	328	328	208	208	208	88	88	88	0	0	0	0	0
825	850	31	0	0	0	2,500	2,525	332	332	212	212	212	92	92	92	0	0	0	0	0
850	875	35	0	0	0	2,525	2,550	337	337	217	217	217	97	97	97	0	0	0	0	0
875	900	40	0	0	0	2,550	2,575	341	341	221	221	221	101	101	101	0	0	0	0	0
900	925	44	0	0	0	2,575	2,600	346	346	226	226	226	106	106	106	0	0	0	0	0
925	950	49	0	0	0	2,600	2,625	350	350	230	230	230	110	110	110	0	0	0	0	0
950	975	53	0	0	0	2,625	2,650	355	355	235	235	235	115	115	115	0	0	0	0	0
975	1,000	58	0	0	0	2,650	2,675	359	359	239	239	239	119	119	119	0	0	0	0	0
1,000	1,025	62	0	0	0	2,675	2,700	364	364	244	244	244	124	124	124	4	0	0	0	0
1,025	1,050	67	0	0	0	2,700	2,725	368	368	248	248	248	128	128	128	8	0	0	0	0
1,050	1,075	71	0	0	0	2,725	2,750	373	373	253	253	253	133	133	133	13	0	0	0	0
1,075	1,100	76	0	0	0	2,750	2,775	377	377	257	257	257	137	137	137	17	0	0	0	0
1,100	1,125	80	0	0	0	2,775	2,800	382	382	262	262	262	142	142	142	22	0	0	0	0
1,125	1,150	85	0	0	0	2,800	2,825	386	386	266	266	266	146	146	146	26	0	0	0	0
1,150	1,175	89	0	0	0	2,825	2,850	391	391	271	271	271	151	151	151	31	0	0	0	0
1,175	1,200	94	0	0	0	2,850	2,875	395	395	275	275	275	155	155	155	35	0	0	0	0
1,200	1,225	98	0	0	0	2,875	2,900	400	400	280	280	280	160	160	160	40	0	0	0	0
1,225	1,250	103	0	0	0	2,900	2,925	405	404	284	284	284	164	164	164	44	0	0	0	0
1,250	1,275	107	0	0	0	2,925	2,950	410	409	289	289	289	169	169	169	49	0	0	0	0
1,275	1,300	112	0	0	0	2,950	2,975	415	414	293	293	293	173	173	173	53	0	0	0	0
1,300	1,325	116	0	0	0	2,975	3,000	420	419	298	298	298	178	178	178	58	0	0	0	0
1,325	1,350	121	1	0	0	3,000	3,050	427	426	305	305	305	185	185	185	65	0	0	0	0
1,350	1,375	125	5	0	0	3,050	3,100	437	435	314	314	314	194	194	194	74	0	0	0	0
1,375	1,400	130	10	0	0	3,100	3,150	447	445	323	323	323	203	203	203	83	0	0	0	0
1,400	1,425	134	14	0	0	3,150	3,200	457	454	332	332	332	212	212	212	92	0	0	0	0
1,425	1,450	139	19	0	0	3,200	3,250	467	464	341	341	341	221	221	221	101	0	0	0	0
1,450	1,475	143	23	0	0	3,250	3,300	476	473	350	350	350	230	230	230	110	0	0	0	0
1,475	1,500	148	28	0	0	3,300	3,350	486	482	359	359	359	239	239	239	119	0	0	0	0
1,500	1,525	152	32	0	0	3,350	3,400	496	492	368	368	368	248	248	248	128	8	0	0	0
1,525	1,550	157	37	0	0	3,400	3,450	506	501	377	377	377	257	257	257	137	17	0	0	0
1,550	1,575	161	41	0	0	3,450	3,500	516	511	386	386	386	266	266	266	146	26	0	0	0
1,575	1,600	166	46	0	0	3,500	3,550	526	520	395	395	395	275	275	275	155	35	0	0	0
1,600	1,625	170	50	0	0	3,550	3,600	536	530	404	404	404	284	284	284	164	44	0	0	0
1,625	1,650	175	55	0	0	3,600	3,650	546	539	414	413	413	293	293	293	173	53	0	0	0
1,650	1,675	179	59	0	0	3,650	3,700	556	549	424	423	422	302	302	302	182	62	0	0	0
1,675	1,700	184	64	0	0	3,700	3,750	566	558	434	432	431	311	311	311	191	71	0	0	0
1,700	1,725	188	68	0	0	3,750	3,800	575	567	443	441	440	320	320	320	200	80	0	0	0
1,725	1,750	193	73	0	0	3,800	3,850	585	577	453	451	449	329	329	329	209	89	0	0	0
1,750	1,775	197	77	0	0	3,850	3,900	595	586	463	460	458	338	338	338	218	98	0	0	0
1,775	1,800	202	82	0	0	3,900	3,950	605	596	473	470	467	347	347	347	227	107	0	0	0
1,800	1,825	206	86	0	0	3,950	4,000	615	605	483	479	476	356	356	356	236	116	0	0	0
1,825	1,850	211	91	0	0	4,000	4,050	625	615	493	489	485	365	365	365	245	125	5	0	0
1,850	1,875	215	95	0	0	4,050	4,100	635	624	503	498	494	374	374	374	254	134	14	0	0
1,875	1,900	220	100	0	0	4,100	4,150	645	634	513	508	503	383	383	383	263	143	23	0	0
1,900	1,925	224	104	0	0	4,150	4,200	655	643	523	517	512	392	392	392	272	152	32	0	0
1,925	1,950	229	109	0	0	4,200	4,250	665	653	533	527	521	401	401	401	281	161	41	0	0
1,950	1,975	233	113	0	0	4,250	4,300	674	662	542	536	530	410	410	410	290	170	50	0	0
1,975	2,000	238	118	0	0	4,300	4,350	684	671	552	545	539	420	419	419	299	179	59	0	0
2,000	2,025	242	122	2	0	4,350	4,400	694	681	562	555	548	430	429	428	308	188	68	0	0
2,025	2,050	247	127	7	0	4,400	4,450	704	690	572	564	557	440	438	437	317	197	77	0	0
2,050	2,075	251	131	11	0	4,450	4,500	714	700	582	574	566	450	448	446	326	206	86	0	0
2,075	2,100	256	136	16	0	4,500	4,550	724	709	592	583	575	460	457	455	335	215	95	0	0
2,100	2,125	260	140	20	0	4,550	4,600	734	719	602	593	584	470	467	464	344	224	104	0	0
2,125	2,150	265	145	25	0	4,600	4,650	744	728	612	602	593	480	476	473	353	233	113	0	0
2,150	2,175	269	149	29	0	4,650	4,700	754	738	622	612	602	490	486	482	362	242	122	2	0
2,175	2,200	274	154	34	0	4,700	4,750	764	747	632	621	611	500	495	491	371	251	131	11	0
2,200	2,225	278	158	38	0	4,750	4,800	773	756	641	630	620</								

And the Senate agree to the same.

Amendment numbered 4: That the House recede from its disagreement to the amendment of the Senate numbered 4, and agree to the same with an amendment as follows: In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

"(b) Imposition of tax: There shall be levied, collected, and paid for each taxable year upon the normal-tax net income of every corporation (except a corporation subject to a tax imposed by section 231 (a), Supplement G, or Supplement Q)—

"(1) Calendar year 1951: In the case of a taxable year beginning on January 1, 1951, and ending on December 31, 1951, a tax of 28¾ per centum of the normal-tax net income.

"(2) Taxable years beginning after March 31, 1951, and before April 1, 1954: In the case of taxable years beginning after March 31, 1951, and before April

Amendment numbered 7: That the House recede from its disagreement to the amendment of the Senate numbered 7, and agree to the same with an amendment as follows: In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

"(c) Mutual insurance companies, other than life or marine:

"(1) Section 207 (a) (1) (relating to normal tax and surtax on mutual insurance companies, other than life or marine) is hereby amended by striking out subparagraphs (A) and (B) and inserting in lieu thereof the following:

"(A) Taxable years beginning after December 31, 1950, and before April 1, 1951: In the case of taxable years beginning after December 31, 1950, and before April 1, 1951, and ending after March 31, 1951—

"(i) Normal tax: A normal tax of 28¾ per centum of the normal-tax net income, or 57½ per centum of the amount by which the normal-tax net income exceeds \$3,000, whichever is the lesser; plus

"(ii) Surtax: A surtax of 22 per centum of the corporation surtax net income in excess of \$25,000.

"(B) Taxable years beginning after March 31, 1951, and before April 1, 1954: In the case of taxable years beginning after March 31, 1951, and before April 1, 1954—

"(i) Normal tax: A normal tax of 30 per centum of the normal-tax net income, or 60 per centum of the amount by which the normal-tax net income exceeds \$3,000, whichever is the lesser; plus

"(ii) Surtax: A surtax of 22 per centum of the corporation surtax net income in excess of \$25,000.

"(C) Taxable years beginning after March 31, 1954: In the case of a taxable year beginning after March 31, 1954—

"(i) Normal tax: A normal tax of 25 per centum of the normal-tax net income, or 50 per centum of the amount by which the normal-tax net income exceeds \$3,000, whichever is the lesser; plus

"(ii) Surtax: A surtax of 22 per centum of the corporation surtax net income in excess of \$25,000.

"(2) Section 207 (a) (3) (relating to a normal tax and surtax on interinsurers and reciprocal underwriters) is hereby amended by striking out subparagraphs (A) and (B) and inserting in lieu thereof the following:

"(A) Taxable years beginning after December 31, 1950, and before April 1, 1951: In the case of taxable years beginning after December 31, 1950, and before April 1, 1951, and ending after March 31, 1951—

"(i) Normal tax: A normal tax of 28¾ per centum of the normal-tax net income, or 57½ per centum of the amount by which the normal-tax net income exceeds \$50,000, whichever is the lesser; plus

"(ii) Surtax: A surtax of 22 per centum of the corporation surtax net income in excess of \$25,000, or 33 per centum of the amount by which the corporation surtax net income exceeds \$50,000, whichever is the lesser.

"(B) Taxable years beginning after March 31, 1951, and before April 1, 1954: In the case of taxable years beginning after March 31, 1951, and before April 1, 1954—

"(i) Normal tax: A normal tax of 30 per centum of the normal-tax net income, or 60 per centum of the amount by which the normal-tax net income exceeds \$50,000, whichever is the lesser; plus

"(ii) Surtax: A surtax of 22 per centum of the corporation surtax net income in excess of \$25,000, or 33 per centum of the amount by which the corporation surtax net income exceeds \$50,000, whichever is the lesser.

"(C) Taxable years beginning after March 31, 1954: In the case of a taxable year beginning after March 31, 1954—

"(i) Normal tax: A normal tax of 25 per centum of the normal-tax net income, or 50 per centum of the amount by which the normal-tax net income exceeds \$50,000, whichever is the lesser; plus

"(ii) Surtax: A surtax of 22 per centum of the corporation surtax net income in excess of \$25,000, or 33 per centum of the amount by which the corporation surtax net income exceeds \$50,000, whichever is the lesser."

"(d) Regulated investment companies: Section 362 (b) (relating to tax on regulated investment companies) is hereby amended by striking out paragraphs (3) and (4) and inserting in lieu thereof the following:

"(3) In the case of taxable years beginning after December 31, 1950, and before April 1, 1951, and ending after March 31, 1951, there shall be levied, collected, and paid for each taxable year upon its Supplement Q net income a tax equal to 28¾ per centum of the amount thereof. In the case of taxable years beginning after March 31, 1951, and before April 1, 1954, there shall be levied, collected, and paid for each taxable year upon its Supplement Q net income a tax equal to 30 per centum of the amount thereof. In the case of taxable years beginning after March 31, 1954, there shall be levied, collected, and paid for each taxable year upon its Supplement Q net income a tax equal to 25 per centum of the amount thereof.

"(4) In the case of taxable years beginning after December 31, 1950, there shall be levied, collected, and paid for each taxable year upon its Supplement Q surtax net income a tax equal to 22 per centum of the amount thereof in excess of \$25,000."

"(e) Business income of certain section 101 organizations: Section 421 (a) (1) (relating to imposition of tax on business income of certain section 101 organizations) is hereby amended by inserting before the period at the end thereof the following: "except that (A) in the case of taxable years beginning before April 1, 1951, and ending after March 31, 1951, the normal tax shall be 28¾ per centum of the Supplement U net income, and (B) in the case of taxable years beginning after March 31, 1951, and before April 1, 1954, the normal tax shall be 30 per centum of the Supplement U net income."

"(f) Amendment of section 15: Section 15 (relating to surtax on corporations) is hereby amended to read as follows:

"Sec. 15. Surtax on corporations.

"(a) Corporation surtax net income: For the purposes of this chapter, the term "corporation surtax net income" means the net income minus the sum of the following credits:

"(1) The credit for dividends received provided in section 26 (b);

"(2) In the case of a public utility, the credit for dividends paid on its preferred stock provided in section 26 (h);

"(3) In the case of a western hemisphere trade corporation (as defined in section 109), the credit provided in section 26 (i).

"(b) Imposition of tax: There shall be levied, collected, and paid for each taxable year upon the corporation surtax net income of every corporation (except a corporation subject to a tax imposed by section 231 (a), Supplement G, or Supplement Q) a surtax of 22 per centum of the amount of the corporation surtax net income in excess of \$25,000.

"(c) Disallowance of surtax exemption and minimum excess profits credit: If any corporation transfers, on or after January 1, 1951, all or part of its property (other than money) to another corporation which was created for the purpose of acquiring such property or which was not actively engaged in business at the time of such acquisition, and if such transfer the transferor corporation or its stockholders, or both, are in

control of such transferee corporation during any part of the taxable year of such transferee corporation, then such transferee corporation shall not for such taxable year (except as may be otherwise determined under section 129 (b)) be allowed either the \$25,000 exemption from surtax provided in subsection (b) or the \$25,000 minimum excess profits credit provided in the last sentence of section 431, unless such transferee corporation shall establish by the clear preponderance of the evidence that the securing of such exemption or credit was not a major purpose of such transfer. For the purposes of this subsection, control means the ownership of stock possessing at least 80 per centum of the total combined voting power of all classes of stock entitled to vote or at least 80 per centum of the total value or shares of all classes of stock of the corporation. In determining the ownership of stock for the purpose of this subsection, the ownership of stock shall be determined in accordance with the provisions of section 503, except that constructive ownership under section 503 (a) (2) shall be determined only with respect to the individual's spouse and minor children. The provisions of section 129 (b), and the authority of the Secretary under such section, shall, to the extent not inconsistent with the provisions of this subsection, be applicable to this subsection. This subsection shall not apply to any taxable year with respect to which the tax imposed by subchapter D of this chapter is not in effect."

"(g) Technical amendment: Section 14 (relating to normal tax on special classes of corporations in the case of taxable years beginning before July 1, 1950) is hereby repealed."

And the Senate agree to the same.

Amendment numbered 8: That the House recede from its disagreement to the amendment of the Senate numbered 8, and agree to the same with an amendment as follows: In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

"SEC. 122. Credits of corporations.

"(a) Dividends received credit: Paragraphs (1) and (2) of section 26 (b) (relating to credit for dividends received) are hereby amended to read as follows:

"(1) In general: 85 per centum of the amount received as dividends (other than dividends described in paragraph (2) on the preferred stock of a public utility) from a domestic corporation which is subject to taxation under this chapter.

"(2) Certain preferred stock:

"(A) Calendar year 1951: In the case of a taxable year beginning on January 1, 1951, and ending on December 31, 1951, 61 per centum of the amount received as dividends on the preferred stock of a public utility which is subject to taxation under this chapter and with respect to which the credit provided in section 26 (h) for dividends paid is allowable.

"(B) Taxable years beginning after March 31, 1951, and before April 1, 1954: In the case of taxable years beginning after March 31, 1951, and before April 1, 1954, 62 per centum of the amount received as dividends on the preferred stock of a public utility which is subject to taxation under this chapter and with respect to which the credit provided in section 26 (h) for dividends paid is allowable.

"(C) Taxable years beginning after March 31, 1954: In the case of taxable years beginning after March 31, 1954, 59 per centum of the amount received as dividends on the preferred stock of a public utility which is subject to taxation under this chapter and with respect to which the credit provided in section 26 (h) for dividends paid is allowable."

"(b) Credit for dividends paid on certain Preferred Stock: The first sentence of section

26 (h) (1) (relating to amount of credit for dividends paid on certain preferred stock) is hereby amended to read as follows: "In the case of a public utility, (A) for a taxable year beginning on January 1, 1951, and ending on December 31, 1951, an amount equal to 28 per centum of the lesser of (i) the amount of dividends paid during the taxable year on its preferred stock or (ii) the adjusted net income for such taxable year minus the credit for dividends received provided in subsection (b) for such year, (B) for a taxable year beginning after March 31, 1951, and before April 1, 1954, an amount equal to 27 per centum of the lesser of (i) the amount of dividends paid during the taxable year on its preferred stock or (ii) the adjusted net income for such taxable year minus the credit for dividends received provided in subsection (b) for such year, and (C) for a taxable year beginning after March 31, 1954, an amount equal to 30 per centum of the lower of (i) the amount of dividends paid during the taxable year on its preferred stock or (ii) the adjusted net income for such taxable year minus the credit for dividends received provided in subsection (b) for such year."

"(c) Western Hemisphere trade corporations: Section 26 (1) (relating to credit of a western hemisphere trade corporation) is hereby amended to read as follows:

"(i) Western Hemisphere trade corporations: In the case of a western hemisphere trade corporation (as defined in section 109)—

"(1) Calendar year 1951: In the case of a taxable year beginning on January 1, 1951, and ending on December 31, 1951, an amount equal to 28 per centum of its normal-tax net income computed without regard to the credit provided in this subsection.

"(2) Taxable years beginning after March 31, 1951, and before April 1, 1954: In the case of a taxable year beginning after March 31, 1951, and before April 1, 1954, an amount equal to 27 per centum of its normal-tax net income computed without regard to the credit provided in this subsection.

"(3) Taxable years beginning after March 31, 1945: In the case of a taxable year beginning after March 31, 1954, an amount equal to 30 per centum of its normal-tax net income computed without regard to the credit provided in this subsection."

And the Senate agree to the same.

Amendment numbered 10: That the House recede from its disagreement to the amendment of the Senate numbered 10, and agree to the same with an amendment as follows: Strike out the matter proposed to be stricken out by the Senate amendment and insert the following:

"SEC. 123. Computation of alternative capital gains tax.

"Section 117 (c) (1) (relating to alternative tax on corporations) is hereby amended by striking out the second paragraph and inserting in lieu thereof the following:

"(A) A partial tax shall first be computed upon the net income reduced by the amount of such excess, at the rates and in the manner as if this subsection had not been enacted.

"(B) There shall then be ascertained an amount equal to 25 per centum of such excess, except that in the case of any taxable year beginning after March 31, 1951, and before April 1, 1954, there shall be ascertained an amount equal to 26 per centum of such excess.

"(C) The total tax shall be the partial tax computed under subparagraph (A) plus the amount computed under subparagraph (B)."

And the Senate agree to the same.

Amendment numbered 11: That the House recede from its disagreement to the amendment of the Senate numbered 11, and

agree to the same with an amendment as follows: On page 24, line 16, of the Senate engrossed amendments, strike out "123" and insert "124"; and the Senate agree to the same.

Amendment numbered 12: That the House recede from its disagreement to the amendment of the Senate numbered 12, and agree to the same with an amendment as follows: On page 25, line 21, of the Senate engrossed amendments, strike out "124" and insert "125"; and the Senate agree to the same.

Amendment numbered 13: That the House recede from its disagreement to the amendment of the Senate numbered 13, and agree to the same with the following amendments:

On page 27 of the Senate engrossed amendments strike out lines 1 to 5, inclusive, and insert in lieu thereof the following:

"(3) that portion of a tentative tax consisting of—

"(A) a tentative normal tax of 30 per centum of the normal-tax net income, plus

"(B) a tentative surtax of 20 per centum of the surtax net income in excess of \$25,000."

On page 31 of the Senate engrossed amendments strike out subsection (k) and insert in lieu thereof the following:

"(k) Taxable years of corporations beginning before April 1, 1954, and ending after March 31, 1954: In the case of a taxable year of a corporation beginning before April 1, 1954, and ending after March 31, 1954, the tax imposed by sections 13 and 15, or section 421 (a) (1), shall be an amount equal to the sum of—

"(1) that portion of a tentative tax, computed under the provisions of sections 13 and 15, or section 421 (a) (1), applicable to years beginning on January 1, 1953, which the number of days in such taxable year prior to April 1, 1954, bears to the total number of days in such taxable year, plus

"(2) that portion of a tentative tax, computed under the provisions of sections 13 and 15, or section 421 (a) (1), applicable to years beginning on April 1, 1954, as if such provisions were applicable to such taxable year, which the number of days in such taxable year after March 31, 1954, bears to the total number of days in such taxable year."

And the Senate agree to the same.

Amendment numbered 28: That the House recede from its disagreement to the amendment of the Senate numbered 28, and agree to the same with the following amendments:

Strike out the surtax table beginning on page 39 of the Senate engrossed amendments and insert the following:

"If the surtax net income is: The surtax shall be:

Not over \$2,000----- 19.2% of the surtax net income.

Over \$2,000 but not over \$4,000. \$384, plus 20.4% of excess over \$2,000.

Over \$4,000 but not over \$6,000. \$792, plus 24% of excess over \$4,000.

Over \$6,000 but not over \$8,000. \$1,272, plus 26% of excess over \$6,000.

Over \$8,000 but not over \$10,000. \$1,792, plus 31% of excess over \$8,000.

Over \$10,000 but not over \$12,000. \$2,412, plus 32% of excess over \$10,000.

Over \$12,000 but not over \$14,000. \$3,052, plus 38% of excess over \$12,000.

Over \$14,000 but not over \$16,000. \$3,812, plus 41% of excess over \$14,000.

Over \$16,000 but not over \$18,000. \$4,632, plus 44% of excess over \$16,000.

Over \$18,000 but not over \$20,000. \$5,512, plus 45% of excess over \$18,000.

"If the surtax net income is:

Over \$20,000 but not over \$22,000. \$6,412, plus 49% of excess over \$20,000.

Over \$22,000 but not over \$24,000. \$7,392, plus 51% of excess over \$22,000.

Over \$24,000 but not over \$28,000. \$8,412, plus 54% of excess over \$24,000.

Over \$28,000 but not over \$32,000. \$10,572, plus 57% of excess over \$28,000.

Over \$32,000 but not over \$38,000. \$12,852, plus 60% of excess over \$32,000.

Over \$38,000 but not over \$44,000. \$16,452, plus 63% of excess over \$38,000.

Over \$44,000 but not over \$50,000. \$20,234, plus 68% of excess over \$44,000.

Over \$50,000 but not over \$60,000. \$24,312, plus 69% of excess over \$50,000.

Over \$60,000 but not over \$70,000. \$31,212, plus 70% of excess over \$60,000.

Over \$70,000 but not over \$80,000. \$38,212, plus 74% of excess over \$70,000.

Over \$80,000 but not over \$90,000. \$45,612, plus 76% of excess over \$80,000.

Over \$90,000 but not over \$100,000. \$53,212, plus 78% of excess over \$90,000.

Over \$100,000 but not over \$150,000. \$61,012, plus 82% of excess over \$100,000.

Over \$150,000 but not over \$200,000. \$102,012, plus 85% of excess over \$150,000.

Over \$200,000 but not over \$300,000. \$144,512, plus 88% of excess over \$200,000.

Over \$300,000----- \$232,512, plus 89% of excess over \$300,000."

Strike out the surtax table beginning on page 41 of the Senate engrossed amendments and insert the following:

"If the surtax net income is: The surtax shall be:

Not over \$2,000----- 17% of the surtax net income.

Over \$2,000 but not over \$4,000. \$340, plus 18% of excess over \$2,000.

Over \$4,000 but not over \$6,000. \$700, plus 21% of excess over \$4,000.

Over \$6,000 but not over \$8,000. \$1,120, plus 23% of excess over \$6,000.

Over \$8,000 but not over \$10,000. \$1,580, plus 27% of excess over \$8,000.

Over \$10,000 but not over \$12,000. \$2,120, plus 29% of excess over \$10,000.

Over \$12,000 but not over \$14,000. \$2,700, plus 33% of excess over \$12,000.

Over \$14,000 but not over \$16,000. \$3,360, plus 36% of excess over \$14,000.

Over \$16,000 but not over \$18,000. \$4,080, plus 39% of excess over \$16,000.

Over \$18,000 but not over \$20,000. \$4,860, plus 40% of excess over \$18,000.

Over \$20,000 but not over \$22,000. \$5,660, plus 44% of excess over \$20,000.

Over \$22,000 but not over \$24,000. \$6,540, plus 46% of excess over \$22,000.

Over \$24,000 but not over \$28,000. \$7,460, plus 49% of excess over \$24,000.

"If the surtax net income is:

	The surtax shall be:	
Over \$28,000 but not over \$32,000.	\$9,420, plus 51% of excess over \$28,000.	
Over \$32,000 but not over \$38,000.	\$11,460, plus 55% of excess over \$32,000.	
Over \$38,000 but not over \$44,000.	\$14,760, plus 59% of excess over \$38,000.	
Over \$44,000 but not over \$50,000.	\$18,300, plus 63% of excess over \$44,000.	
Over \$50,000 but not over \$60,000.	\$22,080, plus 65% of excess over \$50,000.	
Over \$60,000 but not over \$70,000.	\$28,580, plus 68% of excess over \$60,000.	
Over \$70,000 but not over \$80,000.	\$35,380, plus 71% of excess over \$70,000.	
Over \$80,000 but not over \$90,000.	\$42,480, plus 73% of excess over \$80,000.	
Over \$90,000 but not over \$100,000.	\$49,780, plus 77% of excess over \$90,000.	
Over \$100,000 but not over \$150,000.	\$57,480, plus 80% of excess over \$100,000.	
Over \$150,000 but not over \$200,000.	\$97,480, plus 84% of excess over \$150,000.	
Over \$200,000 but not over \$300,000.	\$139,480, plus 87% of excess over \$200,000.	
Over \$300,000 -----	\$226,480, plus 88% of excess over \$300,000."	

And the Senate agree to the same.

Amendment numbered 43: That the House recede from its disagreement to the amendment of the Senate numbered 43, and agree to the same with an amendment as follows: In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

"SEC. 311. Credit for dividends received.

"(a) Dividends from foreign corporation engaged in trade or business in the United States: Section 26 (b) (relating to dividends received credit) is hereby amended by inserting after paragraph (2) the following new paragraph:

"(3) Dividends received from certain foreign corporations: In the case of dividends received from a foreign corporation (other than a foreign personal holding company) which is subject to taxation under this chapter, if, for an uninterrupted period of not less than 36 months ending with the close of such foreign corporation's taxable year in which such dividends are paid (or, if the corporation has not been in existence for 36 months at the close of such taxable year, for the period the foreign corporation has been in existence as of the close of such taxable year) such foreign corporation has been engaged in trade or business within the United States and has derived 50 per centum or more of its gross income from sources within the United States—

"(A) an amount equal to 85 per centum of the dividends received out of its earnings or profits specified in clause (2) of the first sentence of section 115 (a), but such amount shall not exceed an amount which bears the same ratio to 85 per centum of such dividends received out of such earnings or profits as the gross income of such foreign corporation for the taxable year from sources within the United States bears to its gross income from all sources for such taxable year, and

"(B) an amount equal to 85 per centum of the dividends received out of that part of its earnings or profits specified in clause (1)

of the first sentence of section 115 (a) accumulated after the beginning of such uninterrupted period, but such amount shall not exceed an amount which bears the same ratio to 85 per centum of such dividends received out of such accumulated earnings or profits as the gross income of such foreign corporation from sources within the United States for the portion of such uninterrupted period ending at the beginning of such taxable year bears to its gross income from all sources for such portion of such uninterrupted period.

For determination of earnings or profits distributed in any taxable year, see section 115 (b)."

"(b) Technical amendment: Section 119 (a) (2) (B) (relating to rules as to source of income in the case of dividends) is hereby amended by inserting before the semicolon at the end thereof the following: 'to the extent exceeding the amount which is 100/85ths of the amount of the credit allowable under section 26 (b) in respect of such dividends'.

"(c) Effective date: The amendments made by this section shall be applicable only with respect to taxable years beginning after December 31, 1950."

And the Senate agree to the same.

Amendment numbered 45: That the House recede from its disagreement to the amendment of the Senate numbered 45, and agree to the same with an amendment as follows: In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

"SEC. 313. Mutual savings banks, building and loan associations, cooperative banks.

"(a) Mutual savings banks: Section 101 (2) (relating to exemption from tax of mutual savings banks) is hereby repealed.

"(b) Building and loan associations and cooperative banks: Section 101 (4) (relating to exemption from tax of building and loan associations and cooperative banks) is hereby amended to read as follows:

"(4) Credit unions without capital stock organized and operated for mutual purposes and without profit; and corporations or associations without capital stock organized prior to September 1, 1951, and operated for mutual purposes and without profit for the purpose of providing reserve funds for, and insurance of, shares or deposits in—

"(A) domestic building and loan associations,

"(B) cooperative banks without capital stock organized and operated for mutual purposes and without profit, or

"(C) mutual savings banks not having capital stock represented by shares;".

"(c) Exemptions from excess profits tax: Section 454 (corporations exempt from the excess profits tax) is hereby amended by adding at the end thereof the following:

"(h) Any mutual savings bank not having capital stock represented by shares, any domestic building and loan association (as defined in section 3797 (a) (19)), and any cooperative bank without capital stock organized and operated for mutual purposes and without profit."

"(d) Federal savings and loan associations: Section 5 (h) of the Home Owners' Loan Act of 1933, as amended (12 U. S. C. 1464 (h)), is hereby amended by striking out 'date' and inserting in lieu thereof the following: 'date, and except, in the case of taxable years beginning after December 31, 1951, income, war-profits, and excess-profits taxes)'.

"(e) Bad debt reserves: Section 23 (k) (1) (relating to deduction from gross income of bad debts) is hereby amended by adding at the end thereof the following: 'In the case of a mutual savings bank not having capital stock represented by shares, a domestic

building and loan association, and a cooperative bank without capital stock organized and operated for mutual purposes and without profit, the reasonable addition to a reserve for bad debts shall be determined with due regard to the amount of the taxpayer's surplus, or bad debt reserves existing at the close of December 31, 1951. In the case of a taxpayer described in the preceding sentence, the reasonable addition to a reserve for bad debts for any taxable year shall in no case be less than the amount determined by the taxpayer, as the reasonable addition for such year; except that the amount determined by the taxpayer under this sentence shall not be greater than the lesser of (A) the amount of its net income for the taxable year, computed without regard to this subsection, or (B) the amount by which 12 per centum of the total deposits or withdrawable accounts of its depositors at the close of such year exceeds the sum of its surplus, undivided profits, and reserves at the beginning of the taxable year."

"(f) Dividends paid to depositors: Section 23 (r) (relating to the deduction from gross income of certain dividends paid by banking corporations) is hereby amended to read as follows:

"Dividends paid by banking corporations:

"(1) In the case of mutual savings banks, cooperative banks, and domestic building and loan associations, amounts paid to, or credited to the accounts of, depositors or holders of accounts as dividends on their deposits or withdrawable accounts, if such amounts paid or credited are withdrawable on demand subject only to customary notice of intention to withdraw.

"(2) For deduction of dividends paid by certain other banking corporations, see section 121."

"(g) Deduction for repayment of certain loans: Section 23 (relating to deductions from gross income) is hereby amended by adding at the end thereof the following:

"(dd) Repayment by mutual savings banks, etc., of certain loans: In the case of a mutual savings bank not having capital stock represented by shares, a domestic building and loan association, or a cooperative bank without capital stock organized and operated for mutual purposes and without profit, amounts paid by the taxpayer during the taxable year in repayment of loans made prior to September 1, 1951, by (1) the United States or any agency or instrumentality thereof which is wholly owned by the United States, or (2) any mutual fund established under the authority of the laws of any State."

"(h) Definition of bank: Section 104 (a) (relating to definition of bank) is hereby amended by inserting at the end thereof the following: 'Such term also means a domestic building and loan association.'

"(i) Definition of domestic building and loan association: Section 3797 (a) (relating to definitions for the purposes of the Internal Revenue Code) is hereby amended by adding at the end thereof the following new paragraph:

"(19) Domestic building and loan association: 'The term domestic building and loan association' means a domestic building and loan association, a domestic savings and loan association, and a Federal savings and loan association, substantially all the business of which is confined to making loans to members."

"(j) Effective Date: The amendments made by this section shall be applicable only with respect to taxable years beginning after December 31, 1951."

And the Senate agree to the same.

Amendment numbered 46: That the House recede from its disagreement to the amendment of the Senate numbered 46, and agree to the same with the following amendments:

On page 67, line 8, of the Senate engrossed amendments, insert after the period the

following: "Allocations made after the close of the taxable year and on or before the fifteenth day of the ninth month following the close of such year shall be considered as made on the last day of such taxable year to the extent the allocations are attributable to income derived before the close of such year."

On page 67, line 10, of the Senate engrossed amendments, insert after "patronage" the following: "in the same or preceding years".

On page 68, line 25, of the Senate engrossed amendments, strike out the quotation marks and insert the following: "This subsection shall not apply in the cases of any corporation (including any cooperative or nonprofit corporation engaged in rural electrification) exempt from taxation under section 101 (10) or (11) or in the case of any corporation subject to a tax imposed by supplement G."

On page 69 of the Senate engrossed amendments strike out line 1 and all that follows through line 9.

On page 69, line 10, of the Senate engrossed amendments, strike out "(e)" and insert "(d)".

And the Senate agree to the same.

Amendment numbered 53: That the House recede from its disagreement to the amendment of the Senate numbered 53, and agree to the same with an amendment as follows: In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

"(i) in the case of sand, gravel, slate, stone (including pumice and scoria), brick and tile clay, shale, oyster shell, clam shell, granite, marble, sodium chloride, and, if from brine wells, calcium chloride, magnesium chloride, and bromine, 5 per centum.

"(ii) in the case of coal, asbestos, brucite, dolomite, magnesite, perlite, wollastonite, calcium carbonates, and magnesium carbonates, 10 per centum.

"(iii) in the case of metal mines, apatite, bauxite, fluor spar, flake graphite, vermiculite, beryl, garnet, feldspar, mica, talc (including pyrophyllite), lepidolite, spodumene, barite, ball clay, sagger clay, china clay, phosphate rock, rock asphalt, trona, bentonite, gilsonite, thenardite, borax, fuller's earth, tripoli, refractory and fire clay, quartzite, diatomaceous earth, metallurgical grade limestone, chemical grade limestone, and potash, 15 per centum, and"

And the Senate agree to the same.

Amendment numbered 54: That the House recede from its disagreement to the amendment of the Senate numbered 54, and agree to the same with an amendment as follows:

On page 74 of the Senate engrossed amendments strike out lines 12 and 13 and insert the following: "taxes) is hereby amended by striking out '50 per centum of the value of the net estate' and inserting in lieu thereof '35 per centum of the value of the gross estate'"; and the Senate agree to the same.

Amendment numbered 55: That the House recede from its disagreement to the amendment of the Senate numbered 55, and agree to the same with an amendment as follows:

On page 74, line 21, of the Senate engrossed amendments strike out "Exclusive" and insert "Exclusion"; and the Senate agree to the same.

Amendment numbered 59: That the House recede from its disagreement to the amendment of the Senate numbered 59, and agree to the same with an amendment as follows: Strike out the matter proposed to be stricken out by the Senate amendment and insert the following: "In the case of any taxable year beginning after October 31, 1951, and before November 1, 1953, there shall be ascertained, in lieu of the amount computed under the preceding sentence, an amount equal to 26 per centum of the excess of the net long-term capital gain over the net short-term capital loss." And the Senate agree to the same.

Amendment numbered 64: That the House recede from its disagreement to the amend-

ment of the Senate numbered 64, and agree to the same with an amendment as follows: On page 79 of the Senate engrossed amendments strike out all after "poultry" in line 14 to and including "acquisition" in line 17; and the Senate agree to the same.

Amendment numbered 67: That the House recede from its disagreement to the amendment of the Senate numbered 67, and agree to the same with an amendment as follows: In lieu of the matter proposed to be inserted by the Senate amendment insert the following: "This paragraph shall not apply to income realized by the owner as a co-adventurer, partner, or principal in the mining of such coal. The date of disposal of such coal shall be deemed to be the date such coal is mined. In determining the gross income, the adjusted gross income, or the net income of the lessee, the deductions allowable with respect to rents and royalties shall be determined without regard to the provisions of this paragraph. This paragraph shall have no application, in the case of coal, for the purposes of applying section 102 or subchapter A of chapter 2 (including the computation under section 117 (c) (1) of a tax in lieu of the tax imposed by section 500)"; and the Senate agree to the same.

Amendment numbered 77: That the House recede from its disagreement to the amendment of the Senate numbered 77, and agree to the same with an amendment as follows: Strike out the matter proposed to be stricken out by the Senate amendment and insert the following:

"SEC. 328. Treatment of gain on sales of certain property between spouses and between an individual and a controlled corporation.

"(a) Disallowance of capital gain treatment: Section 117 (relating to capital gains and losses) is hereby amended by adding at the end thereof the following new subsection:

"(o) Gain from sale of certain property between spouses or between an individual and a controlled corporation:

"(1) Treatment of gain as ordinary income: In the case of a sale or exchange, directly or indirectly, of property described in paragraph (2)—

"(A) between a husband and wife; or

"(B) between an individual and a corporation more than 80 per centum in value of the outstanding stock of which is owned by such individual, his spouse, and his minor children and minor grandchildren;

any gain recognized to the transferor from the sale or exchange of such property shall be considered as gain from the sale or exchange of property which is neither a capital asset nor property described in subsection (j).

"(2) Subsection applicable only to sales or exchanges of depreciable property:

"This subsection shall apply only in the case of a sale or exchange of property by a transferor which in the hands of the transferee is property of a character which is subject to the allowance for depreciation provided in section 23 (1)."

"(b) Effective date: The amendment made by subsection (a) shall be applicable with respect to taxable years ending after April 30, 1951, but shall apply only with respect to sales or exchanges made after May 3, 1951."

And the Senate agree to the same.

Amendment numbered 78: That the House recede from its disagreement to the amendment of the Senate numbered 78, and agree to the same with the following amendments:

On page 83, line 4, of the Senate engrossed amendments, strike out "328" and insert "329".

On page 83, line 10, of the Senate engrossed amendments, strike out "(o)" and insert "(p)".

On page 83, line 14, of the Senate engrossed amendments insert after "employment" and before the comma the following:

"and for a period of not less than 5 years (or for a period ending with his death)".

And the Senate agree to the same.

Amendment numbered 79: That the House recede from its disagreement to the amendment of the Senate numbered 79, and agree to the same with an amendment as follows: In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

"SEC. 330. Net operating loss carry-over.

"(a) Loss for taxable year beginning before 1948: So much of subparagraph (A) of section 122 (b) (2) (relating to the amount of carry-overs) as precedes 'the taxpayer' is hereby amended to read as follows:

"(A) Loss for taxable year beginning before 1948: Except as provided in subparagraph (D), if for any taxable year beginning before January 1, 1948,"

"(b) Allowance of three-year loss carry-over from taxable years 1948-1949: Section 122 (b) (2) (relating to the amount of carry-over) is hereby amended by adding after subparagraph (B) the following new subparagraphs:

"(C) Loss for taxable year beginning after December 31, 1947, and before January 1, 1950: If for any taxable year beginning after December 31, 1947, and before January 1, 1950, the taxpayer has a net operating loss, such net operating loss shall be a net operating loss carry-over for each of the three succeeding taxable years, except that the carry-over in the case of each such succeeding taxable year (other than the first succeeding taxable year) shall be the excess, if any, of the amount of such net operating loss over the sum of the net income for each of the intervening years computed—

"(i) with the exceptions, additions, and limitations provided in subsection (d) (1), (2), (4), and (6), and

"(ii) by determining the net operating loss deduction for each intervening taxable year without regard to such net operating loss or to the net operating loss for any succeeding taxable year and without regard to any reduction specified in subsection (c).

For the purpose of the preceding sentence, the net operating loss for any taxable year beginning after December 31, 1947, and before January 1, 1950, shall be reduced by the sum of the net income for each of the two preceding taxable years computed—

"(iii) with the exceptions, additions, and limitations provided in subsection (d) (1), (2), (4), and (6), and

"(iv) by determining the net operating loss deduction without regard to such net operating loss or to the net operating loss for the succeeding taxable year, and without regard to any reduction specified in subsection (c).

"(D) Loss for Taxable Year Beginning After December 31, 1946, and Before January 1, 1948, in the Case of a Corporation Which Commenced Business After December 31, 1945.—If for any taxable year beginning after December 31, 1946, and before January 1, 1948, a corporation which commenced business after December 31, 1945, has a net operating loss, such net operating loss shall be a net operating loss carry-over for each of the three succeeding taxable years, except that the carry-over in the case of each such succeeding taxable year (other than the first succeeding taxable year) shall be the excess, if any, of the amount of such net operating loss over the sum of the net income for each of the intervening years computed—

"(i) with the exceptions, additions, and limitations provided in subsection (d) (1), (2), (4), and (6), and

"(ii) by determining the net operating loss deduction for each intervening taxable year without regard to such net operating loss or to the net operating loss for any succeeding taxable year and without regard to any reduction specified in subsection (c). For the purpose of the preceding sentence,

the net operating loss for any taxable year beginning after December 31, 1946, shall be reduced by the sum of the net income for each of the two preceding taxable years computed—

“(iii) with the exceptions, additions, and limitations provided in subsection (d) (1), (2), (4), and (6), and

“(iv) by determining the net operating loss deduction without regard to such net operating loss or to the net operating loss for the succeeding taxable year, and without regard to any reduction specified in subsection (c).”

“(c) Effective date: The amendments made by this section shall be applicable in computing the net operating loss deduction for taxable years beginning after December 31, 1948.”

And the Senate agree to the same.

Amendment numbered 80: That the House recede from its disagreement to the amendment of the Senate numbered 80, and agree to the same with an amendment as follows: On page 87, line 17, of the Senate engrossed amendments, strike out “330” and insert “331”; and the Senate agree to the same.

Amendment numbered 81: That the House recede from its disagreement to the amendment of the Senate numbered 81, and agree to the same with the following amendments:

On page 88, line 7, of the Senate engrossed amendments, strike out “331” and insert “332”.

On page 88, line 21, of the Senate engrossed amendments, strike out “a majority” and insert the following: “50 per centum or more”.

And the Senate agree to the same.

Amendment numbered 82: That the House recede from its disagreement to the amendment of the Senate numbered 82, and agree to the same with an amendment as follows: On page 89, line 5, of the Senate engrossed amendments, strike out “332” and insert “333”; and the Senate agree to the same.

Amendment numbered 83: That the House recede from its disagreement to the amendment of the Senate numbered 83, and agree to the same with an amendment as follows: On page 89, line 19, of the Senate engrossed amendments, strike out “333” and insert “334”; and the Senate agree to the same.

Amendment numbered 84: That the House recede from its disagreement to the amendment of the Senate numbered 84, and agree to the same with the following amendments:

On page 90, line 22, of the Senate engrossed amendments, strike out “334” and insert “335”.

On page 91 of the Senate engrossed amendments strike out line 14 and insert the following: “coupons or in registered form, and the term ‘securities of the employer’ corporation includes securities of a parent or subsidiary corporation (as defined in section 130A (d) (2) and (3)) of the employer corporation,”; and the Senate agree to the same.

Amendment numbered 85: That the House recede from its disagreement to the amendment of the Senate numbered 85, and agree to the same with an amendment as follows: On page 91, line 20, of the Senate engrossed amendments, strike out “335” and insert “336”; and the Senate agree to the same.

Amendment numbered 86: That the House recede from its disagreement to the amendment of the Senate numbered 86, and agree to the same with an amendment as follows: In lieu of the matter proposed to be inserted by the Senate amendment insert the following: “337”; and the Senate agree to the same.

Amendment numbered 88: That the House recede from its disagreement to the amendment of the Senate numbered 88, and agree to the same with an amendment as fol-

lows: On page 97, line 4, of the Senate engrossed amendments, strike out “337” and insert “338”; and the Senate agree to the same.

Amendment numbered 89: That the House recede from its disagreement to the amendment of the Senate numbered 89, and agree to the same with an amendment as follows: On page 98, line 4, of the Senate engrossed amendments, strike out “338” and insert “339”; and the Senate agree to the same.

Amendment numbered 90: That the House recede from its disagreement to the amendment of the Senate numbered 90, and agree to the same with an amendment, as follows: In lieu of the matter proposed to be inserted by the Senate amendment insert the following: “340”; and the Senate agree to the same.

Amendment numbered 91: That the House recede from its disagreement to the amendment of the Senate numbered 91, and agree to the same with an amendment as follows: In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

“(c) Effective date: The amendments made by this section shall be applicable with respect to taxable years beginning after December 31, 1950. The determination as to whether a person shall be recognized as a partner for income tax purposes for any taxable year beginning before January 1, 1951, shall be made as if this section had not been enacted and without inferences drawn from the fact that this section is not expressly made applicable with respect to taxable years beginning before January 1, 1951. In applying this subsection where the taxable year of any family partner is different from the taxable year of the partnership—

“(1) if a taxable year of the partnership beginning in 1950 ends within or with, as to all of the family partners, taxable years which begin in 1951, then the amendments made by this section shall be applicable with respect to all distributive shares of income derived by the family partners from such taxable year of the partnership beginning in 1950, and

“(2) if a taxable year of the partnership ending in 1951 ends within or with a taxable year of any family partner which began in 1950, then the amendments made by this section shall not be applicable with respect to any of the distributive shares of income derived by the family partners from such taxable year of the partnership.”

And the Senate agree to the same.

Amendment numbered 92: That the House recede from its disagreement to the amendment of the Senate numbered 92, and agree to the same with the following amendments:

On page 103, line 5, of the Senate engrossed amendments, strike out “340” and insert “341.”

On page 106 of the Senate engrossed amendments, strike out all after line 3 over to and including line 23 on page 110 and insert:

“(3) Tax adjustment measured by prior benefits: If the provisions of this paragraph are applicable to the taxable year pursuant to an election made by the taxpayer under the provisions of paragraph (5)—

“(A) Amount of recovery: The amount of the recovery in the taxable year of any money or property in respect of property considered under subsection (a) as destroyed or seized in any prior taxable year shall be an amount equal to the aggregate of such money and the fair market value of such property, determined as of the date of the recovery. For the purpose of this paragraph, in the case of the recovery of the same property or interest considered under subsection (a) as destroyed or seized, the fair market value of such property or interest shall, at the option of the taxpayer, be considered an amount equal to the adjusted basis (for determining loss) of such property or interest in the hands of the taxpayer on the date

such property or interest was considered under subsection (a) as destroyed or seized. The amount of the recovery determined under this subparagraph shall be reduced for the purposes of subparagraphs (B) and (C) by the amount of the obligations or liabilities with respect to the property considered under subsection (a) as destroyed or seized in respect of which the recovery was received, if the taxpayer for any previous taxable year chose under subsection (b) (2) to treat such obligations or liabilities as discharged or satisfied out of such property, and such obligations or liabilities were not so discharged or satisfied prior to the date of the recovery.

“(B) Adjustment for prior tax benefits: That part of the amount of the recovery, in respect of any property considered under subsection (a) as destroyed or seized, which is not in excess of the allowable deductions in prior taxable years on account of such destruction or seizure of the property (the amount of such allowable deductions being first reduced by the aggregate amount of any prior recoveries in respect of the same property) shall be excluded from gross income for the taxable year of the recovery for the purpose of computing the tax under this chapter and chapter 2; but there shall be added to, and assessed and collected as a part of, the tax under this chapter for the taxable year of the recovery the total increase in the tax under this chapter and chapter 2 for all taxable years which would result by decreasing, in an amount equal to such part of the recovery so excluded, such deductions allowable in the prior taxable years with respect to the destruction or seizure of the property. Such increase in the tax for each such year so resulting shall be computed in accordance with regulations prescribed by the Secretary. Such regulations shall give effect to previous recoveries of any kind (including recoveries described in section 22 (b) (12)) with respect to any prior year, and shall provide for the case where there was no tax for the prior year, but shall otherwise treat the tax previously determined for any year in accordance with the principles set forth in section 3801 (d). All credits allowable against the tax for any year and all carryovers and carry-backs affected by so decreasing the allowable deductions shall be taken into account in computing the increase in the tax, except that the computation of the excess profits credit under chapter 2 E for any taxable year shall not be affected.

“(C) Gain upon recovery: The amount of any recovery or part thereof, in respect of property considered under subsection (a) as destroyed or seized, which is not excluded from gross income under the provisions of subparagraph (B) shall be considered for the taxable year of the recovery as gain on the involuntary conversion of property as a result of its destruction or seizure and shall be recognized or not recognized as provided in section 112 (f).

“(D) Recoveries treated as gross income for certain purposes: For the purposes of sections 51, 52, and 3801 (b) the recovery in the taxable year of any money or property in respect of property considered under subsection (a) as destroyed or seized in any prior taxable year shall be deemed to be an item includible in gross income for the taxable year in which the recovery is made.

“(4) Restoration of value of investments referable to destroyed or seized property: For the purpose of this subsection the restoration in whole or in part of the value of any interest described in subsection (a) (3) by reason of any recovery or money on property in respect of property to which such interest related and which was considered under subsection (a) (1) or (2) as destroyed or seized shall be deemed a recovery of property in respect of property considered under subsection (a) as destroyed or seized. In applying paragraph (3) of this subsection such restoration shall be treated as the re-

covery of the same interest considered under subsection (a) as destroyed or seized.

"(5) Election by taxpayer for application of paragraph (3): If the taxpayer elects to have the provisions of paragraph (3) applicable to any taxable year in which he recovered any money or property in respect of property considered under subsection (a) as destroyed or seized, the provisions of paragraph (3) shall be applicable to all taxable years of the taxpayer beginning after December 31, 1941, and such election, once made, shall be irrevocable. The election shall be made in such manner and at such time as the Secretary may by regulations prescribe, except that no election under this paragraph may be made after December 31, 1952, unless the taxpayer recovers money or property (in respect of property considered under subsection (a) as destroyed or seized) during a taxable year ending after the date of the enactment of the Revenue Act of 1951. If pursuant to such election the provisions of paragraph (3) are applicable to any taxable year—

"(A) the period of limitations provided in sections 275 and 276 on the making of assessments and the beginning of distraint or a proceeding in court for collection shall not, with respect to—

"(1) the amount to be added to the tax for such taxable year under the provisions of paragraph (3), and

"(ii) any deficiency for such taxable year or for any other taxable year, to the extent attributable to the basis of the recovered property being determined under the provisions of subsection (d) (2),

expire prior to the expiration of two years following the date of the making of such election, and such amount and such deficiency may be assessed at any time prior to the expiration of such period notwithstanding any law or rule of law which would otherwise prevent such assessment and collection, and

"(B) in case refund or credit of any overpayment resulting from the application of the provisions of paragraph (3) to such taxable year is prevented on the date of the making of such election, or within one year from such date, by the operation of any law or rule of law (other than section 3761, relating to compromises), refund or credit of such overpayment may, nevertheless, be made or allowed if claim therefor is filed within one year from such date.

In the case of any taxable year ending before the date of the making by the taxpayer of an election under this paragraph, no interest shall be paid on any overpayment resulting from the application of the provisions of paragraph (3) to such taxable year, and no interest shall be assessed or collected with respect to any amount or any deficiency specified in clause (A), for any period prior to the expiration of six months following the date of the making of such election by the taxpayer."

On page 112 of the Senate engrossed amendments strike out line 6 and all that follows through line 17 and insert:

"(2) Property recovered in taxable year to which subsection (c) (3) is applicable: In the case of a taxpayer who has made an election under the provisions of subsection (c) (5), the basis of property recovered shall be an amount equal to the value at which such property is included in the amount of the recovery under subsection (c) (3) (A) (determined without regard to the last sentence thereof), reduced by such part of the gain under subsection (c) (3) (C) which is not recognized as provided in section 112 (f)."

On page 113, line 2, of the Senate engrossed amendments, strike out "1940" and insert "1941"; and the Senate agree to the same.

Amendment numbered 93: That the House recede from its disagreement to the amendment of the Senate numbered 93, and agree to the same with an amendment as follows:

On page 113, line 4, of the Senate engrossed amendments, strike out "341" and insert "342"; and the Senate agree to the same.

Amendment numbered 96: That the House recede from its disagreement to the amendment of the Senate numbered 96, and agree to the same with an amendment as follows: In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

"Sec. 344. Nonbusiness casualty losses.

"(a) Removal of limitation: Section 122 (d) (5) (relating to net operating loss deduction) is hereby amended by inserting at the end thereof the following new sentence: 'This paragraph shall not apply with respect to deductions allowable for losses sustained after December 31, 1950, in respect of property, if the losses arise from fire, storm, shipwreck, or other casualty, or from theft.'"

(b) Effective date: The amendment made by this section shall be applicable in computing the net operating loss deduction for taxable years ending after December 31, 1948.

And the Senate agree to the same.

Amendment numbered 97: That the House recede from its disagreement to the amendment of the Senate numbered 97, and agree to the same with an amendment as follows: In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

"Sec. 345. Abatement of tax on certain trusts for members of Armed Forces dying in service.

"In the case of a trust which accumulated income for a beneficiary who died on or after December 7, 1941, and before January 1, 1948, while in active service as a member of the military or naval forces of the United States or of any of the other United Nations, there shall be allowed as a deduction in computing the net income of such trust (in addition to other deductions allowable under sections 23 and 162 of the Internal Revenue Code) income of the trust for any taxable year (before diminution for income tax) which was accumulated for such beneficiary if—

"(1) the income accumulated was for a taxable year of the trust which ended with or within a taxable year (ending on or after December 7, 1941) of such beneficiary during any part of which he was a member of such military or naval forces, or, in the case of the taxable year of the trust during which such beneficiary died, the income accumulated was for the period in such taxable year prior to the death of such beneficiary; and

"(2) the amount of such accumulated income was, without regard to this section, taxable to the trust, and

"(3) the income for such taxable year accumulated for the beneficiary, if not distributed to him prior to his death, was payable by the trust at or after his death only to his estate, spouse, or lineal ancestors or descendants."

And the Senate agree to the same.

Amendment numbered 99: That the House recede from its disagreement to the amendment of the Senate numbered 99, and agree to the same with an amendment as follows: In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

"Sec. 346. Life insurance departments of mutual savings banks.

"(a) Computation of tax: Supplement A of chapter 1 is hereby amended by adding at the end thereof the following new section:

"Sec. 110. Mutual savings banks conducting life insurance business.

"(a) Alternative tax: In the case of a mutual savings bank not having capital stock represented by shares, authorized under State law to engage in the business of issuing life insurance contracts, and which

conducts a life insurance business in a separate department the accounts of which are maintained separately from the other accounts of the mutual savings bank, there shall be levied, collected, and paid, in lieu of the taxes imposed by sections 13 and 15, or section 117 (c) (1), a tax consisting of the sum of the partial taxes determined under paragraphs (1) and (2):

"(1) A partial tax computed upon the net income determined without regard to any items of gross income or deductions properly allocable to the business of the life insurance department, at the rates and in the manner as if this section has not been enacted; and

"(2) a partial tax computed upon the net income (as defined in section 201 (c) (7)) of the life insurance department determined without regard to any items of gross income or deductions not properly allocable to such department, at the rates and in the manner provided in Supplement G with respect to life insurance companies.

"(b) Limitations of section: The provisions of subsection (a) shall be applicable only if the life insurance department would, if it were treated as a separate corporation, qualify as a life insurance company under section 201 (b)."

"(b) Technical amendment: Section 13 (relating to normal tax on corporations) is hereby amended by adding at the end thereof the following new subsection:

"(f) Mutual savings banks conducting life insurance business: For special tax, in lieu of the taxes imposed by this section and section 15, in the case of a mutual savings bank conducting a life insurance business, see section 110."

"(c) Effective date: The amendments made by this section shall be applicable only with respect to taxable years beginning after December 31, 1951."

And the Senate agree to the same.

Amendment numbered 100: That the House recede from its disagreement to the amendment of the Senate numbered 100, and agree to the same with the following amendments:

On page 120, line 17, of the Senate engrossed amendments, strike out "348" and insert "347."

On page 120, line 23, of the Senate engrossed amendments, strike out "the taxable year" and insert "a taxable year beginning before January 1, 1953".

And the Senate agree to the same.

Amendment numbered 101: That the House recede from its disagreement to the amendment of the Senate numbered 101, and agree to the same with an amendment as follows: In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

"Sec. 348. Deduction with respect to certain unrelated business net income.

"(a) Unrelated business net income: Section 422 (a) (relating to unrelated business net income) is hereby amended by adding at the end thereof the following: 'In the case of an organization described in section 3813 (a) (2) which is a member of a partnership all of whose members are organizations described in section 3813 (a) (2), if a trade or business regularly carried on by such partnership is an unrelated trade or business with respect to such organization such organization shall, for taxable years beginning before January 1, 1954, be allowed a deduction in an amount equal to the portion of the gross income of such partnership from such unrelated trade or business which such organization is required (by a provision of a written contract executed by such organization prior to January 1, 1950, which provision expressly deals with the disposition of the gross income of the partnership) to pay within the taxable year in discharge of indebtedness incurred by such organization in

acquiring its share of such trade or business, or to irrevocably set aside within the taxable year for the discharge of such indebtedness (to the extent that such amount has been so paid or set aside) if (1) such partnership was formed prior to January 1, 1950, for the purpose of carrying on such trade or business, and (ii) substantially all the assets used in carrying on such trade or business were acquired by it or by its members prior to such date. As used in the preceding sentence, the word "indebtedness" does not include indebtedness incurred after January 1, 1950."

"(b) Effective date: The amendment made by this section shall be applicable with respect to taxable years beginning after December 31, 1950, and prior to January 1, 1954."

And the Senate agree to the same.

Amendment numbered 102: That the House recede from its disagreement to the amendment of the Senate numbered 102, and agree to the same with an amendment as follows: On page 122, line 8, of the Senate engrossed amendments, strike out "350" and insert "349"; and the Senate agree to the same.

Amendment numbered 104: That the House recede from its disagreement to the amendment of the Senate numbered 104, and agree to the same with the following amendments:

On page 124, line 11, of the Senate engrossed "amendments", strike out "contributions—" and insert the following: "contributions;"

On page 124 of the Senate engrossed amendments, after line 11, insert the following:

"(v) an organization (organized prior to October 1, 1951) which is exempt under section 101 (6) and which is operated for the purpose of conducting an annual chautauqua program of educational, cultural, and religious activities at a permanent location—".

And the Senate agree to the same.

Amendment numbered 107: That the House recede from its disagreement to the amendment of the Senate numbered 107, and agree to the same with an amendment as follows: On page 126 of the Senate engrossed amendments strike out "January" in lines 18 and 19 and insert "April"; and the Senate agree to the same.

Amendment numbered 110: That the House recede from its disagreement to the amendment of the Senate numbered 110, and agree to the same with the following amendments:

On page 127 of the Senate engrossed amendments strike out "January" in lines 8, 16, 22, and 23 and insert "April".

On page 127, line 18, of the Senate engrossed amendments strike out "April" and insert "July".

On page 128 of the Senate engrossed amendments strike out "January" in lines 6 and 9 and insert "April".

And the Senate agree to the same.

Amendment numbered 111: That the House recede from its disagreement to the amendment of the Senate numbered 111, and agree to the same with an amendment as follows: In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

"Sec. 423. Reduction of tax on tobacco and snuff.

"(a) Reduction in rate: Section 2000 (a) (relating to tax on tobacco and snuff) is hereby amended by striking out '18 cents per pound', wherever it appears therein, and inserting in lieu thereof '10 cents per pound'.

"(b) Effective date: The amendment made by subsection (a) shall take effect on the first day of the first month which begins more than ten days after the date of the enactment of this Act."

And the Senate agree to the same.

Amendment numbered 118: That the House recede from its disagreement to the amendment of the Senate numbered 118, and agree to the same with an amendment as follows: Restore the matter proposed to be stricken out by the Senate amendment and on page 111 of the House engrossed bill, after line 16, insert: "On and after April 1, 1954, the tax imposed by this section shall be 1½ cents a gallon in lieu of 2 cents a gallon."; and the Senate agree to the same.

Amendment numbered 121: That the House recede from its disagreement to the amendment of the Senate numbered 121, and agree to the same with an amendment as follows: On page 130, line 18, of the Senate engrossed amendments, strike out "January" and insert "April"; and the Senate agree to the same.

Amendment numbered 122: That the House recede from its disagreement to the amendment of the Senate numbered 122, and agree to the same with an amendment as follows: On page 131, line 1, of the Senate engrossed amendments, strike out "January" and insert "April"; and the Senate agree to the same.

Amendment numbered 127: That the House recede from its disagreement to the amendment of the Senate numbered 127, and agree to the same with an amendment as follows: On page 131, line 8, of the Senate engrossed amendments, strike out "January" and insert "April"; and the Senate agree to the same.

Amendment numbered 128: That the House recede from its disagreement to the amendment of the Senate numbered 128, and agree to the same with an amendment as follows: On page 131, line 11, of the Senate engrossed amendments, strike out "January" and insert "April"; and the Senate agree to the same.

Amendment numbered 129: That the House recede from its disagreement to the amendment of the Senate numbered 129, and agree to the same with an amendment as follows: On page 131, line 14, of the Senate engrossed amendments, strike out "January" and insert "April"; and the Senate agree to the same.

Amendment numbered 131: That the House recede from its disagreement to the amendment of the Senate numbered 131, and agree to the same with an amendment as follows: On page 132 of the Senate engrossed amendments strike out "January" in lines 1 and 8 and insert "April"; and the Senate agree to the same.

Amendment numbered 137: That the House recede from its disagreement to the amendment of the Senate numbered 137, and agree to the same with an amendment as follows: On page 132, line 17, of the Senate engrossed amendments, strike out "January" and insert "April"; and the Senate agree to the same.

Amendment numbered 141: That the House recede from its disagreement to the amendment of the Senate numbered 141, and agree to the same with the following amendments:

On page 133, line 3, of the Senate engrossed amendments, strike out "444" and insert "454".

On page 132 of the Senate engrossed amendments strike out "January" in lines 11 and 18 and insert "April".

On page 133, line 20, of the Senate engrossed amendments strike out "February" and insert "May".

On page 134, line 2, of the Senate engrossed amendments, strike out "January" and insert "April".

And the Senate agree to the same.

Amendment numbered 142: That the House recede from its disagreement to the amendment of the Senate numbered 142,

and agree to the same with an amendment as follows: In lieu of the matter proposed to be inserted by the Senate amendment insert the following: "455"; and the Senate agree to the same.

Amendment numbered 143: That the House recede from its disagreement to the amendment of the Senate numbered 143, and agree to the same with an amendment as follows: In lieu of the matter proposed to be inserted by the Senate amendment insert the following: "456"; and the Senate agree to the same.

Amendment numbered 151: That the House recede from its disagreement to the amendment of the Senate numbered 151, and agree to the same with the following amendments:

On page 135, of the Senate engrossed amendments, strike out "452" in lines 8 and 13 and insert "462".

On page 135, line 16, of the Senate engrossed amendments, strike out "December 31, 1953" and insert "March 31, 1954".

And the Senate agree to the same.

Amendment numbered 154: That the House recede from its disagreement to the amendment of the Senate numbered 154, and agree to the same with an amendment as follows: In lieu of the matter proposed to be inserted by the Senate amendment insert the following: "464"; and the Senate agree to the same.

Amendment numbered 156: That the House recede from its disagreement to the amendment of the Senate numbered 156, and agree to the same with an amendment as follows: In lieu of the matter proposed to be inserted by the Senate amendment insert the following: "461 and 463"; and the Senate agree to the same.

Amendment numbered 163: That the House recede from its disagreement to the amendment of the Senate numbered 163, and agree to the same with the following amendments:

On page 136, line 18, of the Senate engrossed amendments, strike out "461" and insert "471".

On page 137, line 5, of the Senate engrossed amendments, strike out "461" and insert "471".

And the Senate agree to the same.

Amendment numbered 166: That the House recede from its disagreement to the amendment of the Senate numbered 166, and agree to the same with an amendment as follows: On page 137, line 13, of the Senate engrossed amendments, strike out "January" and insert "April"; and the Senate agree to the same.

Amendment numbered 167: That the House recede from its disagreement to the amendment of the Senate numbered 167, and agree to the same with an amendment as follows: On page 137, line 23, of the Senate engrossed amendments, strike out "January" and insert "April"; and the Senate agree to the same.

Amendment numbered 168: That the House recede from its disagreement to the amendment of the Senate numbered 168, and agree to the same with an amendment as follows: On page 138, line 5, of the Senate engrossed amendments, strike out "January" and insert "April"; and the Senate agree to the same.

Amendment numbered 172: That the House recede from its disagreement to the amendment of the Senate numbered 172, and agree to the same with an amendment as follows: In lieu of the matter proposed to be inserted by the Senate amendment insert the following: "490"; and the Senate agree to the same.

Amendment numbered 173: That the House recede from its disagreement to the amendment of the Senate numbered 173, and

agree to the same with the following amendments:

On page 138, line 19, of the Senate engrossed amendments, strike out "473" and insert "483".

On page 139, line 7, of the Senate engrossed amendments, strike out "producer or" and insert "producer of".

And the Senate agree to the same.

Amendment numbered 174: That the House recede from its disagreement to the amendment of the Senate numbered 174, and agree to the same with the following amendments:

On page 139, line 19, of the Senate engrossed amendments, strike out "474" and insert "484".

On page 140, line 10, of the Senate engrossed amendments, strike out "skates;"

On page 140 of the Senate engrossed amendments strike out lines 19, 20, and 21 and, in lieu thereof, insert the following: "15 per centum, except that on and after April 1, 1954, the rate shall be 10 per centum; fishing rods, creels, reels, and artificial lures, baits, and flies; 10 per centum."

And the Senate agree to the same.

Amendment numbered 175: That the House recede from its disagreement to the amendment of the Senate numbered 175, and agree to the same with an amendment as follows: In lieu of the matter proposed to be inserted by the Senate amendment insert the following: "485"; and the Senate agree to the same.

Amendment numbered 178: That the House recede from its disagreement to the amendment of the Senate numbered 178, and agree to the same with an amendment as follows: In lieu of the matter proposed to be inserted by the Senate amendment insert the following: "by striking out 'Electric direct motor-driven fans and air circulators;' and inserting in lieu thereof 'Electric direct-motor-driven fans and air circulators (not of the industrial type); and the following appliances of the household type:'; (2)"; and the Senate agree to the same.

Amendment numbered 179: That the House recede from its disagreement to the amendment of the Senate numbered 179, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following: "(3)", and on page 139 of the House engrossed bill, in lines 3 and 4, strike out "and the following appliances of the household type:"; and the Senate agree to the same.

Amendment numbered 184: That the House recede from its disagreement to the amendment of the Senate numbered 184, and agree to the same with an amendment as follows: Restore the matter proposed to be stricken out by the Senate amendment, omit the matter proposed to be inserted by the Senate amendment, and on page 139, line 11, of the House engrossed bill, strike out "485" and insert "486"; and the Senate agree to the same.

Amendment numbered 185: That the House recede from its disagreement to the amendment of the Senate numbered 185, and agree to the same with an amendment as follows: In lieu of the matter proposed to be inserted by the Senate amendment insert the following: "487"; and the Senate agree to the same.

Amendment numbered 188: That the House recede from its disagreement to the amendment of the Senate numbered 188, and agree to the same with an amendment as follows: In lieu of the matter proposed to be inserted by the Senate amendment insert the following: "15"; and the Senate agree to the same.

Amendment numbered 191: That the House recede from its disagreement to the amendment of the Senate numbered 191,

and agree to the same with an amendment as follows: In lieu of the matter proposed to be inserted by the Senate amendment insert the following: "488"; and the Senate agree to the same.

Amendment numbered 193: That the House recede from its disagreement to the amendment of the Senate numbered 193, and agree to the same with an amendment as follows: In lieu of the matter proposed to be inserted by the Senate amendment insert the following: "489"; and the Senate agree to the same.

Amendment numbered 194: That the House recede from its disagreement to the amendment of the Senate numbered 194, and agree to the same with an amendment as follows: On page 144, line 11, of the Senate engrossed amendments, strike out "January" and insert "April"; and the Senate agree to the same.

Amendment numbered 197: That the House recede from its disagreement to the amendment of the Senate numbered 197, and agree to the same with an amendment as follows: In lieu of the matter proposed to be inserted by the Senate amendment insert the following: "489"; and the Senate agree to the same.

Amendment numbered 198: That the House recede from its disagreement to the amendment of the Senate numbered 198, and agree to the same with an amendment as follows: In lieu of the matter proposed to be inserted by the Senate amendment insert the following: "a producer or importer of gasoline. The provisions of section 3443 shall be applicable to the floor stocks tax imposed by this subsection so as to entitle, subject to all the provisions of such section, (1) any manufacturer or producer to a refund or credit of such tax under subsection (a) (1) of such section, and (2) any person paying such floor stocks tax to a refund or credit thereof where gasoline is by such person or any other person used or resold for any of the purposes specified in subparagraphs (A) (i), (ii), and (iii) of subsection (a) (3) of such section."

And the Senate agree to the same.

Amendment numbered 199: That the House recede from its disagreement to the amendment of the Senate numbered 199, and agree to the same with the following amendments:

On page 145 of the Senate engrossed amendments strike out "January" in lines 6, 12, and 13 and insert "April".

On page 145, line 16, of the Senate engrossed amendments, strike out "April" and insert "July".

On page 146, line 9, of the Senate engrossed amendments, strike out "January" and insert "April".

And the Senate agree to the same.

Amendment numbered 200: That the House recede from its disagreement to the amendment of the Senate numbered 200, and agree to the same with an amendment as follows: In lieu of the matter proposed to be inserted by the Senate amendment insert the following: "490"; and the Senate agree to the same.

Amendment numbered 210: That the House recede from its disagreement to the amendment of the Senate numbered 210, and agree to the same with an amendment as follows: On page 147, line 10, of the Senate engrossed amendments, strike out "482" and insert "492"; and the Senate agree to the same.

Amendment numbered 211: That the House recede from its disagreement to the amendment of the Senate numbered 211, and agree to the same with an amendment as follows: In lieu of the matter proposed to be inserted by the Senate amendment insert the following: "493"; and the Senate agree to the same.

Amendment numbered 213: That the House recede from its disagreement to the

amendment of the Senate numbered 213, and agree to the same with an amendment as follows: On page 148, line 15, of the Senate engrossed amendments, strike out "484" and insert "494"; and the Senate agree to the same.

Amendment numbered 214: That the House recede from its disagreement to the amendment of the Senate numbered 214 and agree to the same with the following amendments:

On page 149, line 15, of the Senate engrossed amendments, strike out "485" and insert "495".

On page 149 of the Senate engrossed amendments, after the quotation marks in line 24 insert the following: "The determination as to the applicability of the tax imposed by section 3475 in the case of the transportation of any excavated material, other than transportation to which the amendment made by this subsection applies, shall be made as if this subsection had not been enacted and without inferences drawn from the fact that the amendment made by this subsection is not expressly applicable to the transportation of such other excavated material."

And the Senate agree to the same.

Amendment numbered 215: That the House recede from its disagreement to the amendment of the Senate numbered 215, and agree to the same with an amendment as follows: In lieu of the matter proposed to be inserted by the Senate amendment insert the following: "496"; and the Senate agree to the same.

Amendment numbered 216: That the House recede from its disagreement to the amendment of the Senate numbered 216, and agree to the same with the following amendments:

On page 150, line 8, of the Senate engrossed amendments, strike out "487" and insert "497".

On page 150 of the Senate engrossed amendments strike out "January" in lines 15 and 22 and insert "April".

On page 151 of the Senate engrossed amendments strike out "January" in lines 10 and 18 and insert "April".

And the Senate agree to the same.

Amendment numbered 217: That the House recede from its disagreement to the amendment of the Senate numbered 217, and agree to the same with an amendment as follows: On page 151, line 22, of the Senate engrossed amendments, strike out "488" and insert "498"; and the Senate agree to the same.

Amendment numbered 219: That the House recede from its disagreement to the amendment of the Senate numbered 219, and agree to the same with an amendment as follows: In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

"Sec. 501. Maximum tax for new corporations.

"Section 430 (relating to imposition of tax) is hereby amended as follows:

"(1) By adding at the end of subsection (a) thereof, as amended by section 121 of this Act, the following:

"(3) in the case of a corporation for which an amount is determined for the taxable year under subsection (e), the amount determined under such subsection."

"(2) By redesignating subsection (e) as subsection (f); and

"(3) By inserting after subsection (d) the following new subsection:

"(e) New corporations:

"(1) Alternative amount: In the case of a taxpayer which commenced business after July 1, 1945, and whose fifth taxable year ends after June 30, 1950, the amount referred to in subsection (a) (3) shall be—

"(A) If the taxable year is the first or second taxable year of the taxpayer, an amount equal to 5 per centum of the excess

profits net income for the taxable year, except that if the excess profits net income exceeds \$300,000, the amount shall be the sum of \$15,000 plus the amount determined under subparagraph (E) of this paragraph.

“(B) If the taxable year is the third taxable year of the taxpayer, an amount equal to 8 per centum of the excess profits net income for the taxable year, except that if the excess profits net income exceeds \$300,000, the amount shall be the sum of \$24,000 plus the amount determined under subparagraph (E) of this paragraph.

“(C) If the taxable year is the fourth taxable year of the taxpayer, an amount equal to 11 per centum of the excess profits net income for the taxable year, except that if the excess profits net income exceeds \$300,000, the amount shall be the sum of \$33,000 plus the amount determined under subparagraph (E) of this paragraph.

“(D) If the taxable year is the fifth taxable year of the taxpayer, an amount equal to 14 per centum of the excess profits net income for the taxable year, except that if the excess profits net income exceeds \$300,000, the amount shall be the sum of \$42,000 plus the amount determined under subparagraph (E) of this paragraph.

“(E) The amount determined under this subparagraph shall be—

“(i) if the taxable year ends before April 1, 1951, an amount equal to 15 per centum of the excess of the excess profits net income for the taxable year over \$300,000.

“(ii) if the taxable year begins on January 1, 1951, and ends on December 31, 1951, an amount equal to 17½ per centum of the excess of the excess profits net income for the taxable year over \$300,000.

“(iii) if the taxable year (other than a taxable year described in clause (ii) ends after March 31, 1951, an amount equal to 13 per centum of the excess of the excess profits net income for the taxable year over \$300,000.

“(2) First five taxable years: For the purpose of this subsection—

“(A) The taxable year in which the taxpayer commenced business and the first, second, third, and fourth succeeding taxable years shall be considered its first, second, third, fourth, and fifth taxable years, respectively.

“(B) The taxpayer shall be considered to have been in existence and to have had taxable years for any period during which it or any corporation described in any clause of this subparagraph was in existence, and the taxpayer shall be considered to have commenced business on the earliest date on which it or any such corporation commenced business:

“(i) Any corporation which during or prior to the taxable year was a party with the taxpayer to a transaction described in section 445 (g) (2) (A), (B), or (C), determined as if the date “July 1, 1945” were substituted for the date “December 1, 1950” in section 445 (g) (2) (C).

“(ii) Any corporation if a group of not more than four persons who control the taxpayer at any time during the taxable year also controlled such corporation at any time during the period beginning 12 months preceding their acquisition of control of the taxpayer and ending with the close of the taxable year; but only if at any time during such period (and while such persons controlled such corporation) such corporation was engaged in a trade or business substantially similar to the trade or business of the taxpayer during the taxable year. For the purpose of this clause, the term “control” means the ownership of more than 50 percent of the total combined voting power of all classes of stock entitled to vote, or more than 50 percent of the total value of shares of all classes of stock. A person shall not be considered a member of the group referred

to in this clause unless during the period referred to in this clause he owns stock in such corporation at a time when the members of the group control such corporation and he owns stock in the taxpayer at a time when the members of the group control the taxpayer. For the purpose of this clause, the ownership of stock shall be determined in accordance with the provisions of section 503, except that constructive ownership under section 503 (a) (2) shall be determined only with respect to the individual's spouse and minor children.

“(iii) In case the taxpayer during or prior to the taxable year was a purchasing corporation (as defined in part IV), the selling corporation (as defined in such part) whose properties were acquired in the part IV transaction; but this clause shall not apply unless for the taxable year or for any preceding taxable year the conditions of paragraphs (1), (2), and (3) of section 474 (c) were satisfied with respect to such transaction.

“(iv) Any corporation which, under regulations prescribed by the Secretary, is determined by one or more additional applications of clauses (i) to (iii) to stand indirectly in the same relation to the taxpayer as though such corporation were described in any such clause.

If as of the beginning of December 1, 1950, the adjusted basis for determining gain upon sale or exchange of the aggregate assets theretofore acquired by the taxpayer in transactions described in clauses (i) and (iii) (or acquired in the ordinary course of business in replacement of such assets) and held by it at such time constituted less than 20 percent of the adjusted basis for determining gain upon sale or exchange of its total assets held at such time, then transactions described in such clauses occurring prior to such date shall be disregarded in determining the date as of which the taxpayer shall be considered to have commenced business.

“(3) Limitation: The provisions of paragraph (1) of this subsection shall not apply to a taxpayer which derives more than 50 per centum of its gross income (determined without regard to dividends and without regard to gains from sales or exchanges of capital assets) for the taxable year from contracts and subcontracts to which the provisions of title I of the Renegotiation Act of 1951 (or the provisions of any prior renegotiation act) are applicable.”

And the Senate agree to the same.

Amendment numbered 220: That the House recede from its disagreement to the amendment of the Senate numbered 220, and agree to the same with the following amendments:

On page 160, line 4, of the Senate engrossed amendments insert, after “corporation”, the following: “at the time it renders such services or assistance”.

On page 160, line 12, of the Senate engrossed amendments strike out “renders” and insert “rendered”.

On page 160, line 19, of the Senate engrossed amendments strike out “constitutes” and insert “constituted”.

On page 161, line 1, of the Senate engrossed amendments strike out “owns” and insert the following: “at the time it rendered such services or assistance owned”.

And the Senate agree to the same.

Amendment numbered 221: That the House recede from its disagreement to the amendment of the Senate numbered 221, and agree to the same with an amendment as follows: On page 161, line 17, of the Senate engrossed amendments strike out the quotation marks and insert the following: “In computing the average base period net income for such substituted period, the excess profits net income for January, February, and March of 1950 shall be computed by use of the ‘weighted excess profits net income’, as defined in section 435 (e) (2) (E), for the

taxable year in which such months fall.”; and the Senate agree to the same.

Amendment numbered 222: That the House recede from its disagreement to the amendment of the Senate numbered 222, and agree to the same with the following amendments:

On page 164, line 4, of the Senate engrossed amendments strike out “regulation” and insert “regulations”.

On page 165, line 4, of the Senate engrossed amendments strike out the period and quotation marks and insert the following: “, and such monthly excess profits net income shall be in lieu of the monthly excess profits net income determined under paragraphs (1) and (2) of section 462 (b).”.

And the Senate agree to the same.

Amendment numbered 224: That the House recede from its disagreement to the amendment of the Senate numbered 224, and agree to the same with an amendment as follows: In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

“Sec. 506. Adjustments for changes in inadmissible assets in case of banks.

“(a) Amendment of section 435 (g): Section 435 (g) (relating to net capital addition or reduction) is hereby amended by redesignating paragraph (8) as paragraph (11) and by adding after paragraph (7) the following new paragraph:

“(8) Adjustments for changes in inadmissible assets in case of banks: In the case of a bank (as defined in section 104)—

“(A) If the increase in total assets for the taxable year exceeds the net capital addition computed without regard to the adjustment under paragraph (1) for an increase in inadmissible assets, then the net capital addition for the taxable year shall not be less than the excess of—

“(i) the amount determined under the first sentence of paragraph (1) over

“(ii) an amount which bears the same ratio to the increase in inadmissible assets for the taxable year, determined under paragraph (5), as the amount computed under such first sentence bears to the increase in total assets for the taxable year.

“(B) If the decrease in total assets for the taxable year exceeds the net capital reduction computed without regard to the adjustment under paragraph (2) for a decrease in inadmissible assets, then the net capital reduction for the taxable year shall not be less than the excess of—

“(i) the amount determined under the first sentence of paragraph (2) over

“(ii) an amount which bears the same ratio to the decrease in inadmissible assets for the taxable year, determined under paragraph (5), as the amount computed under such first sentence bears to the decrease in total assets for the taxable year.

For the purpose of this paragraph, the increase or decrease in total assets for the taxable year shall be computed in the same manner as the increase or decrease in inadmissible assets for the taxable year is computed under paragraph (5), except that such computations shall be made with respect to all assets, whether admissible or inadmissible assets as defined in section 440.”

“(b) Amendment of section 438: Section 438 (relating to new capital credit changes) is hereby amended by adding after subsection (f) the following new subsection:

“(g) Adjustments for inadmissible assets in case of banks: In the case of a bank (as defined in section 104), if the increase in total assets for the taxable year (determined in the manner provided in the last sentence of section 435 (g) (8)) exceeds the net new capital addition computed without regard to the adjustment under subsection (b) for an increase in inadmissible assets, then the net new capital addition for the

taxable year shall not be less than the excess of the amount determined under the first sentence of subsection (b) over an amount which bears the same ratio to the increase in inadmissible assets for the taxable year, determined under section 435 (g) (5), as the amount computed under such first sentence bears to such increase in total assets for the taxable year."

"(c) Amendment of section 435 (f): Section 435 (f) (relating to capital additions in base period) is hereby amended as follows:

"(1) By inserting immediately after the word 'reduced' in paragraph (1) thereof the following: '(but not below zero)'."

"(2) By adding at the end of paragraph (1) thereof the following:

"For special rule in the case of banks, see paragraph (6)."

"(3) By renumbering paragraph (6) as paragraph (7), and by adding immediately after paragraph (5) the following new paragraph:

"(6) Yearly base period capital of banks: In the case of a bank (as defined in section 104), the yearly base period capital for any taxable year shall be determined as follows:

"(A) A tentative yearly base period capital shall be computed under paragraph (1) without regard to paragraph (1) (A).

"(B) The tentative yearly base period capital so determined shall be reduced by the amount determined under section 440 (b) relating to inadmissible assets). For the purpose of this subparagraph, the computation under section 440 (b) shall include only the daily amounts (described in such section) for the first day of such taxable year."

"(d) Effective date of subsection (c) (3): The amendment made by subsection (c) (3) (adding a new paragraph (6) to section 435 (f)) shall be applicable with respect to taxable years beginning on or after the date of the enactment of this Act, and, at the election of the taxpayer made in accordance with regulations prescribed by the Secretary, shall be applicable to all taxable years ending after June 30, 1950."

And the Senate agree to the same.

Amendment numbered 225: That the House recede from its disagreement to the amendment of the Senate numbered 225, and agree to the same with an amendment as follows: On page 169 of the Senate engrossed amendments strike out lines 9 to 20, inclusive, 170 and insert the following:

"(92) Decrease in inadmissible assets:

"(A) Except as otherwise provided in subparagraph (B) (relating to banks), the excess of the amount computed under paragraph (2) (A) or (B), whichever is applicable to the taxpayer (whether or not any amount is determined under the first sentence of paragraph (2), over the amount, if any, computed under the first sentence of paragraph (2) shall be considered the net capital addition for the taxable year or shall be added to the next capital addition otherwise determined under paragraph (1), as the case may be. The amount of the excess so determined shall be subject to the exceptions and limitations provided in paragraph (10).

"(B) In the case of a bank (as defined in section 104), the computation under subparagraph (A) shall be made by substituting for the amount computed under paragraph (2) (A) or (B) whichever of the following amounts is the lesser:

"(i) An amount which bears the same ratio to the decrease in inadmissible assets as the sum of the equity capital (as defined in section 437 (c)) and the daily borrowed capital (as defined in section 439 (b)), each determined as of the first day of the first taxable year ending after June 30, 1950, bears to the total assets as of the beginning of such day;

"(ii) If paragraph (8) (B) is applicable, the amount computed under paragraph (8) (B) (ii)."

And the Senate agree to the same.

Amendment numbered 226: That the House recede from its disagreement to the amendment of the Senate numbered 226, and agree to the same with an amendment as follows: On page 172 of the Senate engrossed amendments strike out line 25 and all that follows over to and including the period in line 3 on page 173 and insert the following: "'Government obligations' means obligations described in section 22 (b) (4) any part of the interest from which is excludible from gross income or allowable as a credit against net income; but such term shall include only such obligations as in the hands of the taxpayer are properly described in section 117 (a) (1) (A)."; and the Senate agree to the same.

Amendment numbered 227: That the House recede from its disagreement to the amendment of the Senate numbered 227, and agree to the same with an amendment as follows: On page 175 of the Senate engrossed amendments strike out line 11 and all that follows through line 17 on page 177 and insert the following:

"(h) Alternative average base period net income:

"(1) Eligibility requirements: A taxpayer which commenced business on or before the first day of its base period shall be entitled to the benefits of this subsection if—

"(A) the aggregate excess profits net income (if any) for the 12 months selected under paragraph (2) (B) is less than 35 per centum of one-half of the aggregate excess profits net income for the 24 months remaining under such paragraph; and

"(B) normal production, output, or operation was interrupted or diminished because of the occurrence, within 12 months preceding (i) the first day of the 12-month period selected under paragraph (2) (B) (i), or (ii) the first day of any period of 6 or more consecutive months selected under paragraph (2) (B) (ii), of events unusual or peculiar in the experience of such taxpayer.

This subsection shall have no application unless the taxpayer has an aggregate excess profits net income for the 24 months remaining under paragraph (2) (B).

"(2) Computation: If the taxpayer is entitled to the benefits of this subsection, its average base period net income computed under this subsection shall be computed as follows:

"(A) By determining under subsection (b) the period subject to adjustment under this section. For the purposes of subparagraph (B) but not for the purposes of paragraph (1) (B) such period shall be considered a period of 36 consecutive months.

"(B) By selecting from such period whichever of the following 12 months results in the higher remaining aggregate excess profits net income—

"(i) the 12 consecutive months the elimination of which produces the highest remaining aggregate excess profits net income, or

"(ii) the 12 months which remain after retaining the 24 consecutive months which produce the highest remaining aggregate excess profits net income.

"(C) By computing for each of the 12 months selected under subparagraph (B) a substitute excess profits net income computed under subsection (e).

"(D) By computing the sum of—

"(i) the aggregate of the substitute excess profits net income, as determined under subparagraph (C), for the 12 months selected under subparagraph (B), but the amount computed under this clause shall not exceed one-half of the aggregate excess profits net income for the 24 months remaining under subparagraph (B), and

"(ii) the aggregate of the excess profits net income for each of the 24 months remaining under subparagraph (B), computed

in the manner provided by the second sentence of section 435 (d) (1).

"(E) By dividing by three the amount ascertained under subparagraph (D).

"(3) Aggregate excess profits net income: The 'aggregate excess profits net income' for any period shall be computed for the purposes of this subsection in the same manner as under subsection (b)."

And the Senate agree to the same.

Amendment numbered 228: That the House recede from its disagreement to the amendment of the Senate numbered 228, and agree to the same with an amendment as follows: On page 178 of the Senate engrossed amendments strike out line 10 and all that follows through the word "the" in line 11 and insert "The"; and the Senate agree to the same.

Amendment numbered 231: That the House recede from its disagreement to the amendment of the Senate numbered 231, and agree to the same with an amendment as follows: On page 181, line 3, of the Senate engrossed amendments insert, after "Commission or", the following: "if the rates for such furnishing or sale are subject"; and the Senate agree to the same.

Amendment numbered 234: That the House recede from its disagreement to the amendment of the Senate numbered 234, and agree to the same with an amendment as follows: On page 183 of the Senate engrossed amendments strike out line 15 and all that follows through line 21 on page 184 and insert the following:

"(1) The adjusted basis of the taxpayer's total facilities (as defined in section 444 (d)) as of the beginning of its base period (when added to the total facilities at such time of all corporations with which the taxpayer has the privilege under section 141 of filing a consolidated return for its first taxable year under this subchapter) did not exceed \$10,000,000;

"(2) The basis (unadjusted) of the taxpayer's total facilities (as defined in section 444 (d) at the close of its base period was 250 per centum or more of the basis (unadjusted) of its total facilities at the beginning of its base period;

"(3) The percentage of the taxpayer's aggregate gross income which was from contracts with the United States and related subcontracts was (A) at least 70 per centum for the period comprising all taxable years beginning after December 31, 1941, and ending before January 1, 1946, (B) less than 20 per centum for the period comprising all taxable years ending after December 31, 1945, and before January 1, 1950, and (C) less than 20 per centum for the period comprising all taxable years ending after December 31, 1949, and beginning before July 1, 1950; and

"(4) The average monthly excess profits net income of the taxpayer (computed in the manner provided in section 443 (e) for—

"(A) the period comprising all taxable years ending with or within the last 24 months of its base period, and

"(B) the last taxable year ending before the first day of its base period,

are each 300 per centum or more of the average monthly excess profits net income (so computed) of the taxpayer for the period comprising all taxable years ending with or within the first 24 months of its base period."

And the Senate agree to the same.

Amendment numbered 235: That the House recede from its disagreement to the amendment of the Senate numbered 235, and agree to the same with an amendment as follows: In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

"Sec. 517. Base period catastrophe.

"Section 459, as added by section 516 of this Act, is hereby amended by adding after

subsection (a) thereof the following new subsection:

“(b) Base period catastrophe:

“Eligibility requirements: A taxpayer shall be entitled to the benefits of this subsection only if it was engaged throughout its base period primarily in manufacturing and if—

“(A) the taxpayer suffered during the last thirty-six months of its base period a catastrophe by fire, storm, explosion, or other casualty which destroyed or rendered inoperative a production facility constituting a complete plant or plants having in the hands of the taxpayer immediately prior to the catastrophe an adjusted basis equal to 15 per centum or more of the adjusted basis of all the taxpayer's production facilities at such time;

“(B) as a result of such catastrophe the taxpayer's normal production or operation was substantially interrupted for a period of more than twelve consecutive months; and

“(C) the taxpayer, prior to the end of its base period, replaced such production facility with a production facility which at the end of its base period had in its hands an adjusted basis not less than the adjusted basis immediately prior to the catastrophe of the production facility destroyed or rendered inoperative.

“(2) Computation: The taxpayer's base period net income determined under this subsection shall be the amount computed under subparagraph (A) or the amount computed under subparagraph (B), whichever results in the lesser tax under this subchapter for the taxable year for which the tax is being computed:

“(A) The amount computed under section 435 (d) by substituting for the excess profits net income for each month in the taxable year in which the catastrophe described in paragraph (1) occurred an amount equal to the aggregate, divided by the number of months in the base period preceding such taxable year, of the excess profits net income for each month (computed under section 435 (d) (1)) in the base period preceding such taxable year. The average base period net income computed under this subparagraph shall, for the purpose of section 435 (a) (1) (B), be considered an average base period net income determined under section 435 (d).

“(B) The amount computed under section 435 (e) (2) (G) (i) and (ii).”

And the Senate agree to the same.

Amendment numbered 236: That the House recede from its disagreement to the amendment of the Senate numbered 236, and agree to the same with the following amendments:

On page 187, line 16, of the Senate engrossed amendments insert after the semicolon the following: “and”

On page 188, line 2, of the Senate engrossed amendments insert after the semicolon the following: “and either”

On page 188, line 9, of the Senate engrossed amendments strike out “consolidation began; and” and insert the following: “operations were consolidated; or”

On page 188, line 21, of the Senate engrossed amendments strike out “consolidation began” and insert the following: “operations were consolidated”.

On page 188, line 23, of the Senate engrossed amendments insert after the period the following: “In determining such excess amount proper adjustment shall be made for increase in labor costs and newsprint following such consolidation. Proper adjustment shall also be made for any case in which a taxable year referred to in this subsection is a period of less than twelve months.”

And the Senate agree to the same.

Amendment numbered 237: That the House recede from its disagreement to the amendment of the Senate numbered 237, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

“SEC. 519. Television broadcasting companies.

“Section 459, as added by sections 516 to 518 of this Act, is hereby amended by adding after subsection (c) thereof the following new subsections:

“(d) Television broadcasting companies;

“(1) In general: In the case of a taxpayer engaged in the business of television broadcasting throughout a period beginning before January 1, 1951, and ending with the close of the taxable year, the taxpayer's average base period net income determined under this subsection shall be the amount computed under paragraph (2) or (3), whichever is applicable.

“(2) If engaged in television broadcasting at close of base period: If the taxpayer was engaged in the business of television broadcasting at the close of its base period, the average base period net income computed under this paragraph shall be computed as follows:

“(A) If the taxpayer was engaged during its base period in any business or businesses other than television broadcasting, by computing the average base period net income under section 435 (d) for such other business or businesses (determined without regard to income, deductions, losses, or other items attributable to the television broadcasting business).

“(B) By multiplying such part of its total assets (as defined in section 442 (f)), for the last day of its base period, as was attributable to the television broadcasting business by—

“(1) the base period rate of return determined under section 447 (c) for the industry classification which includes radio broadcasting, or

“(ii) if the taxpayer was engaged during its base period in the business of radio broadcasting, its individual rate of return computed under paragraph (4),

whichever rate of return produces the greater average base period net income under this subsection. If the amount computed under this subparagraph is computed by the use of the rate of return specified in clause (i), the amount so computed shall be reduced by an amount equal to such portion of the total interest paid or incurred by the taxpayer, for the period of 12 months following the close of its base period, as is attributable to its television broadcasting business.

“(C) By adding the amount computed under subparagraph (B) to the amount, if any, computed under subparagraph (A).

“(3) Commencing television broadcasting after base period and before 1951: If the taxpayer acquires its television broadcasting business after the close of its base period and before January 1, 1951, the average base period net income computed under this paragraph shall be computed as provided in paragraph (2), except that—

“(A) the applicable rate of return under paragraph (2) (B) shall be multiplied by such part of its total assets (as defined in section 442 (f)), for the last day of the calendar month in which it first engaged in such business, as was attributable to such business, and

“(B) the reduction specified in the last sentence of paragraph (2) (B) shall, if applicable, be equal to such portion of the total interest paid or incurred by the taxpayer,

for the period of 12 months following the month in which it first engaged in such business, as is attributable to such business.

“(4) Individual rate of return: The individual rate of return shall be computed as follows:

“(A) By determining the amount of the taxpayer's total assets (as defined in section 442 (f)) attributable to the business of radio broadcasting for the last day of each month in its base period.

“(B) By computing the aggregate of the amounts ascertained under subparagraph (A) and dividing by 48.

“(C) By computing for each month in the base period the excess profits net income of the radio broadcasting business (determined without regard to income, deductions, losses, or other items attributable to any other business), by adding such amounts for all of the months in the base period, and by dividing by 4.

“(D) By dividing the amount computed under subparagraph (C) by the amount computed under subparagraph (B).

“(5) Rules for application of subsection:

“(A) For the purpose of section 435 (a) (1) (B), an average base period net income determined under this subsection shall be considered an average base period net income determined under section 435 (d); but, in computing the base period capital addition under section 435 (f), the computations under such section shall be adjusted, under regulations prescribed by the Secretary, so as to exclude therefrom items attributable to the television broadcasting business.

“(B) If any part of the total assets referred to in paragraph (2) (B) or paragraph (3) (A), whichever is applicable, were acquired, directly or indirectly, through the use of assets attributable at any time during the base period to a business of the taxpayer other than television broadcasting, the amount determined under paragraph (2) (A) shall be properly adjusted by eliminating from the excess profits net income (computed for the purpose of paragraph (2) (A)) for each month prior to such acquisition such portion thereof as is attributable to the assets used, directly or indirectly, for such acquisition. For the purpose of this subparagraph, the excess profits net income for any month shall be attributed to such assets on the basis of the ratio, as of the beginning of the day of the acquisition, of such assets to total assets (as defined in section 442 (f)) determined without regard to assets attributable to the television broadcasting business.

“(7) The Secretary shall by regulations prescribe rules for the application of this subsection, including rules for the computation of the taxpayer's net capital addition or reduction.

“(6) Application of part II: The Secretary shall prescribe regulations for the application of part II for the purpose of this subsection in the case of an acquiring corporation or a component corporation in a transaction described in section 461 (a) which occurred prior to January 1, 1951.

“(e) Basis of assets: For the purposes of this section, any reference to the adjusted basis of property or to the basis (unadjusted) of property means the adjusted basis or the basis (unadjusted), as the case may be, for determining gain upon sale or exchange.”

And the Senate agree to the same.

Amendment numbered 238: That the House recede from its disagreement to the amendment of the Senate numbered 238, and agree to the same with an amendment as follows: In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

"SEC. 520. Increase in capacity for production or operation.

"Section 444 (f) (relating to increase in capacity for production or operation) is hereby amended to read as follows:

"(f) Rules for application of section:

"(1) The benefits of this section shall not be allowed unless the taxpayer makes application therefor in accordance with section 447 (e).

"(2) If, during its first taxable year ending after June 30, 1950, the taxpayer completed construction of (including the installation of the machinery or equipment for use in) a factory building or other manufacturing establishment, such factory building or other manufacturing establishment and such machinery or equipment shall, for the purpose of determining whether there is an increase in capacity under the provisions of subsection (b), be considered to have been added to its total facilities on the last day of its base period if—

"(A) the taxpayer, prior to the end of its base period, had completed construction work representing more than 40 per centum of the total cost of construction of such factory building or other manufacturing establishment, and

"(B) the completion of such factory building or other manufacturing establishment was in pursuance of a plan to which the taxpayer was committed prior to the end of its base period.

This paragraph shall not apply in determining the amount of the taxpayer's total assets for the purpose of subsection (c)."

And the Senate agree to the same.

Amendment numbered 239: That the House recede from its disagreement to the amendment of the Senate numbered 239, and agree to the same with an amendment as follows: In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

"SEC. 521. Excess profits credit based on income in connection with certain taxable acquisitions.

"(a) General rule: Subchapter D (relating to the excess profits tax) of chapter 1 is hereby amended by inserting immediately following section 472 the following new part:

"Part IV—Excess Profits Credit Based on Income in Connection With Certain Taxable Acquisitions Occurring Prior to December 1, 1950.

"SEC. 474. Excess profits credit based on income—certain taxable acquisitions.

"(a) Definitions: For the purpose of this part—

"(1) Purchasing corporation: The term "purchasing corporation" means a corporation which, before December 1, 1950, acquired—

"(A) In a transaction other than a transaction described in section 461 (a), substantially all of the properties (other than cash) of another corporation, of a partnership, or of a business owned by a sole proprietorship; or

"(B) Properties of another corporation or of a partnership if (i) such properties constituted, immediately prior to the acquisition, substantially all of the properties (other than cash) of one or more separate businesses of such other corporation or such partnership, (ii) such other corporation or such partnership was engaged in one or more separate businesses other than those described in clause (i), and (iii) substantially all of the properties (other than cash) of such other corporation or such partnership were acquired, in furtherance of a single plan of complete liquidation for such other corporation or such partnership, by the purchasing corporation, and by one or more other persons, in transactions other than transactions described in section 461 (a).

"(2) Selling corporation: The term "selling corporation" means a corporation, a partnership, or a business owned by a sole proprietorship, as the case may be, properties of which were acquired by a purchasing corporation in a transaction described in paragraph (1).

"(3) Part IV transaction: The term "part IV transaction" means a transaction described in paragraph (1).

"(b) Average base period net income of purchasing corporation: The average base period net income of a purchasing corporation, if computed with reference to this part, shall be determined under section 435 (d). The average base period net income under section 435 (d) of a purchasing corporation shall be determined by computing its excess profits net income either with or without reference to this part, whichever produces the lesser tax under this subchapter for the taxable year for which the tax is being computed. If computed with reference to this part, the excess profits net income of a purchasing corporation for any month of its base period shall be its excess profits net income (or deficits therein), computed without reference to this part, and increased or decreased, as the case may be, by the addition or reduction resulting from including—

"(1) In the case of a transaction described in subsection (a) (1) (A), the excess profits net income (or deficit therein) for such month of the selling corporation, or

"(2) In the case of a transaction described in subsection (a) (1) (B), the excess profits net income (or deficit therein) for such month of the selling corporation properly attributable to the business or businesses acquired by the purchasing corporation and properly allocable to such purchasing corporation.

The excess profits net income of a purchasing corporation for any month, recomputed as provided in the previous sentence, shall not be less than zero.

"(c) Limitations: This part shall apply only if each of the following conditions is satisfied:

"(1) The selling corporation (A) did not, after the part IV transaction (or the last transaction described in subsection (a) (1) (B)), continue any business activities other than those incident to its complete liquidation, and (B) within a reasonable time after ceasing business activities, completely liquidated in a transaction other than a transaction described in section 461 (a), and ceased existence.

"(2) During so much of the base period of the purchasing corporation and of the period thereafter as preceded the part IV transaction, the properties acquired in the part IV transaction were substantially all of the properties (other than cash) which were used, or which in the ordinary course of business replaced properties used, by the selling corporation (or by a component corporation, as defined in section 461 (b), of such selling corporation) in the production of the excess profits net income (or deficit therein) which under subsection (b) increases or decreases the excess profits net income of the purchasing corporation. For the purpose of this paragraph, if a business in the hands of both the selling corporation and the purchasing corporation was operated under a substantially identical franchise or license, granted by the same person, such franchise or license shall be deemed acquired by the purchasing corporation from the selling corporation.

"(3) The business or businesses acquired in the part IV transaction (including the properties so acquired or properties in replacement thereof) were operated by the purchasing corporation from the date of such transaction to the end of the taxable year or were transferred during the taxable year by the purchasing corporation in a part II transaction to which the provisions of section 462 (b) (4) are applicable.

"(d) Special Rules:

"(1) For the purpose of subsection (a) (1), the properties of a selling corporation shall be considered to have been acquired by a purchasing corporation only if acquired from—

"(A) such selling corporation, or

"(B) persons who received the properties upon the liquidation of such selling corporation and who forthwith transferred such properties to the purchasing corporation in a transaction other than a transaction described in section 461 (a).

"(2) The computations required by this part in the case of a selling corporation which is a partnership or a business owned by a sole proprietorship shall be made, under regulations prescribed by the Secretary, as if such partnership or such business owned by a sole proprietorship had been a corporation.

"(3) In no case shall more than 100 per centum of the excess profits net income (or deficit therein) for any month of a selling corporation be allocated to the purchasing corporation or, in the case of transactions described in subsection (a) (1) (B), to the several persons (or to any one or more of such persons) receiving the properties of such selling corporation in such transactions.

"(e) Successive transactions:

"(1) Part IV transaction following part IV transaction: In the case of a selling corporation which was a purchasing corporation in a previous part IV transaction, or which acquired properties of a purchasing corporation in a transaction to which section 462 (b) (4) is applicable, the computations under this part with respect to the selling corporation shall be made without regard to the previous part IV transaction.

"(2) Part IV transaction following part II transaction: Subject to the provisions of paragraph (1), in the case of a selling corporation which was an acquiring corporation as defined in section 461 (a) in a previous transaction, its excess profits net income (or deficit therein) which increases or decreases the excess profits net income (or deficit therein) of the purchasing corporation under subsection (b) (1) or (2), and its capital changes which are taken into account under this part in determining the capital changes of the purchasing corporation, shall be determined with the application of the rules of part II to such selling corporation with respect to the part II transaction.

"(3) Part II transaction following part IV transaction: For rules applicable in the case of a part II transaction following a part IV transaction, see sections 462 (b) (4), 463 (c), and 464 (c).

"(f) Regulations: The Secretary shall by regulations prescribe rules for the application of this part. Such regulations shall include the following rules:

"(1) Base period capital addition: Rules (consistent with the principles of section 464) for the determination of the base period capital addition of the purchasing corporation by reference to the capital changes of the selling corporation and of the purchasing corporation.

"(2) Net capital addition or reduction: Rules (consistent with the principles of section 463) for the determination of the net capital addition or reduction of the purchasing corporation by reference to the capital changes of the selling corporation and of the purchasing corporation.

"(3) Excess profits net income: Rules (consistent with the principles of section 462 (1)) for the determination of the amount of excess profits net income (or deficit therein) of the selling corporation attributable to the business or businesses acquired by a purchasing corporation in a transaction described in subsection (a) (1) (B) and properly allocable to such purchasing corporation.

"(4) Duplication: Rules for the application under this part of the principles of section 462 (j) (1) and the other provisions

of part II relating to the prevention of duplication.

"(5) Excess profits credit: In the event that the part IV transaction occurred in a taxable year of the purchasing corporation which ended after June 30, 1950, rules (consistent with the principles of section 462 (1) (1)) for the determination of the excess profits credit of such corporation for the year in which the transaction occurred.

Such rules shall not include the principles of section 461 (c) (relating to the excess profits credit of the component corporation), of section 462 (b) (2) (relating to constructive excess profits net income for months during which a corporation was not in existence), of section 462 (1) (relating to minimum average base period net income in the case of certain acquiring corporations), or of such other provisions of part II as relate to sections 435 (e), 442, 443, 444, 445, or 446."

"(b) Technical amendments:

"(1) Section 435 (a) (3) (relating to amount of excess profits credit) is hereby amended by inserting before the period at the end thereof the following: ', and in the case of certain taxable acquisitions, see part IV of this subchapter'.

"(2) Section 461 (relating to definitions under part II) is amended by inserting at the end thereof the following new subsections:

"(g) Component corporation which was a purchasing corporation in a previous transaction: See section 462 (b) (4) for rules applicable if the component corporation was a purchasing corporation (as defined in part IV) in a previous part IV transaction, or if (as an acquiring corporation in a previous part II transaction) it was subject to the provisions of section 462 (b) (4).

"(h) Definition of part II transaction: For the purpose of this subchapter, the term "part II transaction" means a transaction described in section 461 (a)."

"(3) Section 462 (b) (relating to the method of recomputing the excess profits net income of an acquiring corporation under part II) is hereby amended by adding at the end thereof the following new paragraph:

"(4) If the average base period net income of the acquiring corporation is determined under section 435 (d) with reference to this subsection, and if the provisions of section 474 (b) (relating to the computation of excess profits net income in the case of certain purchasing corporations) were applicable to the component corporation immediately prior to the part II transaction (or would have been applicable if such part II transaction had occurred in a taxable year of the component corporation ending after June 30, 1950), then the excess profits net income (or deficit therein) of the component corporation shall, for the purpose of this subsection, be determined with the application of the provisions of section 474 (b). For the purpose of this paragraph, if a component corporation was an acquiring corporation in a previous part II transaction and, immediately prior to the later part II transaction, the provisions of this paragraph were applicable to such component corporation, its excess profits net income (or deficit therein) shall be determined with the application of the provisions of the preceding sentence. This paragraph shall be applicable to an acquiring corporation only if—

"(A) the properties acquired by the acquiring corporation from the component corporation include substantially all of the properties (other than cash), or properties acquired in the ordinary course of business in the replacement of properties, which the component corporation acquired either from the selling corporation in the part IV transaction or from a previous component corporation subject (immediately prior to such acquisition) to the provisions of this paragraph;

"(B) the business or businesses acquired by the acquiring corporation were operated by the acquiring corporation from the date of such transaction to the end of the taxable year or were transferred during the taxable year by the acquiring corporation in a part II transaction to which the provisions of this paragraph are applicable; and

"(C) in the event that the part II transaction is one described in section 461 (a) (1) (E), the provisions of section 462 (1) (6) are satisfied."

"(4) Section 462 (1) (6) (relating to allocation rules in the case of transactions described in section 461 (a) (1) (E)) is hereby amended by adding at the end thereof the following: 'Notwithstanding the provisions of paragraph (1), if an acquiring corporation in a transaction described in section 461 (a) (1) (E) determines its average base period net income under section 435 (d) by recomputing its excess profits net income under the provisions of section 462 (b) (4), the amount of the component corporation's excess profits net income for any month which shall be taken into account by the acquiring corporation shall be such portion of the component corporation's excess profits net income for such month as is determined on the basis of the earnings experience of the assets transferred and the assets retained by the component corporation.'

"(5) Section 463 (relating to capital changes) is amended by inserting at the end thereof the following new subsection:

"(c) Component corporation which was a purchasing corporation in a previous transaction: The Secretary shall provide by regulations for the application of this section in cases to which section 462 (b) (4) is applicable."

"(6) Section 464 (relating to capital changes during the base period) is amended by inserting at the end thereof the following new subsection:

"(c) The Secretary shall provide by regulation for the application of this section in cases to which section 462 (b) (4) is applicable."

And the Senate agree to the same.

Amendment numbered 240: That the House recede from its disagreement to the amendment of the Senate numbered 240, and agree to the same with an amendment as follows: In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

"SEC. 522. Strategic minerals.

"Section 450 (b) (1) (relating to corporations engaged in mining of strategic minerals) is hereby amended by inserting after 'chromite,' the following: 'bauxite,'"

And the Senate agree to the same.

Amendment numbered 241: That the House recede from its disagreement to the amendment of the Senate numbered 241, and agree to the same with an amendment as follows: On page 199, line 16, of the Senate engrossed amendments strike out "510" and insert "506 (d)"; and the Senate agree to the same.

Amendment numbered 245: That the House recede from its disagreement to the amendment of the Senate numbered 245, and agree to the same with the following amendments: In lieu of the matter proposed to be inserted by the Senate amendment insert the following: "or to the benefit of a hospital, or an institution for the rehabilitation of physically handicapped persons, which maintains or is building for proper maintenance a hospital or institution staffed or to be staffed by qualified professional persons for the treatment of the sick and/or the rehabilitation of the physically handicapped."

On page 150, line 25, of the House bill strike out the quotation marks and insert the following: "The determination as to

whether an organization other than one described in this subsection is exempt under section 101 of the Internal Revenue Code from taxation for any taxable year beginning before January 1, 1951, shall be made as if this subsection and section 301 (b) of this Act had not been enacted and without inferences drawn from the fact that this subsection and the amendment made by section 301 (b) are not expressly made applicable with respect to taxable years beginning before January 1, 1951."

And the Senate agree to the same.

Amendment numbered 246: That the House recede from its disagreement to the amendment of the Senate numbered 246, and agree to the same with an amendment as follows: Strike out the matter proposed to be stricken out by the Senate amendment and insert the following:

"SEC. 602. Excess profits credit based on income.

"(a) Percentage of average base period net income taken into account:

"(1) In general: Paragraph (1) (A), and paragraph (2), of section 435 (a) (relating to excess profits credit based on income) are each amended by striking out '85 per centum' and inserting in lieu thereof '83 per centum'.

"(2) Taxable years beginning before July 1, 1951, and ending after June 30, 1951: Section 435 (a) is hereby amended by adding at the end thereof the following new paragraphs:

"(4) Calendar year 1951: In the case of a taxable year beginning on January 1, 1951, and ending on December 31, 1951, there shall be used, for the purposes of paragraph (1) (A) and paragraph (2) in lieu of 85 per centum of the average base period net income, an amount equal to 84 per centum of the average base period net income.

"(5) Taxable years (other than calendar year 1951) beginning before July 1, 1951, and ending after June 30, 1951: In the case of any taxable year (other than a taxable year described in paragraph (4)) beginning before July 1, 1951, and ending after June 30, 1951, there shall be used, for the purposes of paragraph (1) (A) and paragraph (2), in lieu of 85 per centum of the average base period net income, an amount equal to the sum of—

"(A) that portion of an amount equal to 85 per centum of the average base period net income which the number of days in such taxable year prior to July 1, 1951, bears to the total number of days in such taxable year, plus.

"(B) that portion of an amount equal to 83 per centum of the average base period net income which the number of days in such taxable year after June 30, 1951, bears to the total number of days in such taxable year."

"(b) Effective date: The amendments made by subsection (a) shall be applicable only with respect to taxable years ending after June 30, 1951."

And the Senate agree to the same.

Amendment numbered 247: That the House recede from its disagreement to the amendment of the Senate numbered 247, and agree to the same with the following amendments:

On page 200, line 13, of the Senate engrossed amendments strike out "602" and insert "603".

On page 201 of the Senate engrossed amendments strike out lines 15 to 25, inclusive, and insert the following:

"(A) shall not, with respect to any such tax, exceed an amount which bears the same ratio to the amount of such tax actually paid to such foreign country as the value of property which is—

"(i) situated within such foreign country,

"(ii) subjected to such tax, and

"(iii) included in the gross estate bears to the value of all property subjected to such tax; and

"(B) shall not, with respect to all such taxes, exceed an amount which bears the same ratio to the tax imposed by section 810".

On page 202, line 14, of the Senate engrossed amendments strike out "taxes" and insert "tax".

On page 205 of the Senate engrossed amendments strike out all after line 23 over to and including line 12 on page 206 and insert the following:

"(A) For the purposes of paragraph (2) (A), "such taxes paid to the foreign country" shall, with respect to any tax paid to the foreign country, be the amount computed under section 813 (c) (2) (A)."

And the Senate agree to the same.

Amendment numbered 248: That the House recede from its disagreement to the amendment of the Senate numbered 248, and agree to the same with an amendment as follows: In lieu of the matter proposed to be inserted by the Senate amendment insert the following: "604"; and the Senate agree to the same.

Amendment numbered 249: That the House recede from its disagreement to the amendment of the Senate numbered 249, and agree to the same with an amendment as follows: On page 208, line 21, of the Senate engrossed amendments, strike out "604" and insert "605"; and the Senate agree to the same.

Amendment numbered 250: That the House recede from its disagreement to the amendment of the Senate numbered 250, and agree to the same with an amendment as follows: On page 209, line 14, of the Senate engrossed amendments, strike out "605" and insert "606"; and the Senate agree to the same.

Amendment numbered 251: That the House recede from its disagreement to the amendment of the Senate numbered 251, and agree to the same with an amendment as follows: On page 210, line 14, of the Senate engrossed amendments, strike out "606" and insert "607"; and the Senate agree to the same.

Amendment numbered 252: That the House recede from its disagreement to the amendment of the Senate numbered 252, and agree to the same with an amendment as follows: On page 211, line 2, of the Senate engrossed amendments, strike out "607" and insert "608"; and the Senate agree to the same.

Amendment numbered 253: That the House recede from its disagreement to the amendment of the Senate numbered 253, and agree to the same with an amendment as follows: On page 211, line 9, of the Senate engrossed amendments, strike out "608" and insert "609"; and the Senate agree to the same.

Amendment numbered 254: That the House recede from its disagreement to the amendment of the Senate numbered 254, and agree to the same with an amendment as follows: In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

"SEC. 610. Reversionary interests in case of life insurance.

"If refund or credit of any overpayment resulting from the application of section 503 of the Revenue Act of 1950 was prevented on October 25, 1950, by the operation of any law or rule of law (other than section 3760 of the Internal Revenue Code, relating to closing agreements, and other than section 3761 of such code, relating to compromises), refund or credit of such overpayment may, nevertheless, be made or allowed if claim therefor was filed after October 25, 1949, and on or before October 25, 1950."

And the Senate agree to the same.

Amendment numbered 255: That the House recede from its disagreement to the amendment of the Senate numbered 255, and agree to the same with an amendment

as follows: On page 212, line 14, of the Senate engrossed amendments, strike out "610" and insert "611"; and the Senate agree to the same.

Amendment numbered 256: That the House recede from its disagreement to the amendment of the Senate numbered 256, and agree to the same with an amendment as follows: On page 214, line 2, of the Senate engrossed amendments, strike out "611" and insert "612"; and the Senate agree to the same.

Amendment numbered 257: That the House recede from its disagreement to the amendment of the Senate numbered 257, and agree to the same with an amendment as follows: On page 214, line 14, strike out "612" and insert "613"; and the Senate agree to the same.

Amendment numbered 258: That the House recede from its disagreement to the amendment of the Senate numbered 258, and agree to the same with an amendment as follows: On page 215, line 6, of the Senate engrossed amendments, strike out "613" and insert "614"; and the Senate agree to the same.

Amendment numbered 259: That the House recede from its disagreement to the amendment of the Senate numbered 259, and agree to the same with an amendment as follows: On page 216, line 2, of the Senate engrossed amendments, strike out "614" and insert "615"; and the Senate agree to the same.

Amendment numbered 260: That the House recede from its disagreement to the amendment of the Senate numbered 260 and agree to the same with an amendment as follows: In lieu of the matter proposed to be inserted by the Senate amendment insert the following: "616"; and the Senate agree to the same.

Amendment numbered 261: That the House recede from its disagreement to the amendment of the Senate numbered 261, and agree to the same with an amendment as follows: On page 216, line 8, of the Senate engrossed amendments, strike out "616" and insert "617"; and the Senate agree to the same.

Amendment numbered 262: That the House recede from its disagreement to the amendment of the Senate numbered 262, and agree to the same with an amendment as follows: In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

"SEC. 618. Prohibition upon denial of Social Security Act funds.

"No State or any agency or political subdivision thereof shall be deprived of any grant-in-aid or other payment to which it otherwise is or has become entitled pursuant to title I, IV, X, or XIV of the Social Security Act, as amended, by reason of the enactment or enforcement by such State of any legislation prescribing any conditions under which public access may be had to records of the disbursement of any such funds or payments within such State if such legislation prohibits the use of any list or names obtained through such access to such records for commercial or political purposes."

And the Senate agree to the same.

Amendment numbered 263: That the House recede from its disagreement to the amendment of the Senate numbered 263, and agree to the same with an amendment as follows: In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

"SEC. 619. Removal of tax exemption from expense allowances of the President, the Vice President, the Speaker, and Members of Congress.

"(a) Expense allowance of the President: Section 102 of title 3 of the United States

Code is amended by striking out 'no tax liability shall accrue and for which no accounting shall be made by him' and inserting in lieu thereof 'no accounting, other than for income tax purposes, shall be made by him.'

"(b) Expense allowance of the Vice President: Section 111 of title 3 of the United States Code is amended by striking out 'for which no tax liability shall occur or accounting be made by him' and inserting in lieu thereof 'for which no accounting, other than for income tax purposes, shall be made by him'.

"(c) Expense allowance of the Speaker of the House of Representatives: Subsection (e) of the first section of the Act entitled 'An Act to increase rates of compensation of the President, Vice President, and the Speaker of the House of Representatives', approved January 19, 1949 (Public Law 2, 81st Congress), is amended by striking out 'for which no tax liability shall occur or accounting be made by him' and inserting in lieu thereof 'for which no accounting, other than for income tax purposes, shall be made by him'.

"(d) Expense allowances of Members of Congress: Section 601 (b) of the Legislative Reorganization Act of 1946 is amended by striking out 'for which no tax liability shall incur, or accounting be made' and inserting in lieu thereof 'for which no accounting, other than for income tax purposes, shall be made'.

"(e) Effective dates: The amendments made by subsections (a) and (b) of this section shall become effective at noon on January 20, 1953, and the amendments made by subsections (c) and (d) shall become effective at noon on January 3, 1953."

And the Senate agree to the same.

Amendment numbered 264: That the House recede from its disagreement to the amendment of the Senate numbered 264, and agree to the same with an amendment as follows: In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

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"Sec. 402. Exemptions from admissions tax.
 "(a) Reinstatement of prewar exemptions.
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 "(c) Admissions to municipal swimming pools, etc.

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 "(a) Ballrooms and dance halls.
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"Part II—Tax on cigarettes"

"Sec. 421. Tax on cigarettes.
 "(a) Increase in rate.
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"Sec. 431. Retailers' excise tax on toilet preparations.
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"Sec. 441. Diesel fuel used in highway vehicles.
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"Sec. 451. Increase in tax on distilled spirits from \$9 to \$10.50 per gallon.
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 "(a) Increase in tax on fermented malt liquors from \$8 to \$9 per barrel.
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 "(a) Wholesale dealers in liquors.
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"Sec. 463. Tax on coin-operated gaming devices.

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"Sec. 471. Wagering taxes.
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"Part VIII—Manufacturers' excise taxes"

"Sec. 481. Automobiles, trucks, and parts or accessories.
 "(a) Increase in tax on trucks.
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 "(c) Increase in tax on parts or accessories.
 "(d) Rebuilt parts or accessories.
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 "(h) Removal of tax on tires for toys, etc.

"Sec. 482. Navigation receivers sold to the United States.
 "(a) Exemption on sales to United States of certain radio sets.
 "(b) Tax-free sales of radio parts.
 "(c) Refund in case of use of parts.
 "(d) Refund in case of resale to United States.
 "(e) Use by manufacturer of taxable parts.
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"Sec. 483. Tax-free sales of refrigerator components to wholesalers for resale to manufacturers.

"Sec. 484. Sporting goods.

"Sec. 485. Electric, gas, and oil appliances.

"Sec. 486. Adjustments of tax rates on photographic apparatus and film; repeal of tax on certain items.
 "(a) Items subject to tax.
 "(b) Floor stocks refund on bulbs.

"Sec. 487. Imposition of tax on mechanical pencils, fountain and ball point pens, and mechanical lighters for cigarettes, cigars, and pipes.

"Sec. 488. Repeal of tax on electrical energy.
 "(a) Repeal of tax.
 "(b) Effective date.

"Sec. 489. Tax on gasoline.
 "(a) Increase in rate.
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"Sec. 490. Effective date of Part VIII.

"Part IX—Miscellaneous excise tax amendments"

"Sec. 491. Reduction of tax on telegraph dispatches.
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 "(b) Effective date.
 "(c) Amounts paid pursuant to bills rendered.
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 "(a) Telephone calls from members of armed forces in combat zones.
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"Sec. 493. Exemption of fishing trips from tax on transportation.
 "(a) Exemption.
 "(b) Effective date.

"Sec. 494. Tax on transportation of persons.
 "(a) Exemption of certain foreign travel.
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"Sec. 495. Transportation of material excavated in the course of construction work.
 "(a) Amendment of section 3475.
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 "(a) Imported articles.
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"Sec. 498. Tax refunds on spirits lost in floods of 1951.
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"Sec. 502. Payments from foreign sources for technical assistance, etc.
 "(a) Amendment of section 433 (a) (1).
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"Sec. 503. Average base period net income in case of certain fiscal year taxpayers.

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 "(a) Amendment of section 440.
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"Sec. 510. Definition of total assets for purposes of sections 442-446.

"Sec. 511. Average base period net income—change in products or services.

"Sec. 512. Average base period net income—new corporation.

"Sec. 513. Excess profits credit—regulated public utilities.

"Sec. 514. Consolidated returns of regulated public utilities.

"Sec. 515. Nontaxable income from certain mining properties.

"Sec. 516. Transition from war production and increase in peacetime capacity.
 "(a) In general.
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"Sec. 517. Base period catastrophe.

"Sec. 518. Consolidation of newspapers.

"Sec. 519. Television broadcasting companies.

"Sec. 520. Increase in capacity for production or operation.

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 "(a) Percentage of average base period net income taken into account.
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 "(a) Credit against basic estate tax.
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"Sec. 604. Estate and gift tax treatment of United States bonds held by certain nonresident aliens.
 "(a) Estate tax.
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"Sec. 605. Estate tax exemption for works of art loaned by nonresident aliens.
 "(a) Amendment of section 863 (c).
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"Sec. 606. Exemption from additional estate tax of members of armed forces upon death.

"Sec. 607. Transfers conditioned upon survivorship.

"Sec. 608. Transfers with income reserved.

"Sec. 609. Transfers taking effect at death.

"Sec. 610. Reversionary interests in case of life insurance.

"Sec. 611. Income pursuant to award of Interstate Commerce Commission.

"Sec. 612. Credit in prior taxable years for dividends received on preferred stock of a public utility.

- "Sec. 613. Consolidated returns—Includible corporations.
- "Sec. 614. Time for performing certain acts postponed in case of China Trade Act corporations.
- "Sec. 615. Treaty obligations.
- "Sec. 616. Reorganization Plan Numbered 26 of 1950.
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- "Sec. 619. Removal of tax exemption from expense allowances of the President, the Vice President, the Speaker and Members of Congress.
- "(a) Expense allowance of the President.
- "(b) Expense allowance of the Vice President.
- "(c) Expense allowance of the Speaker of the House of Representatives.
- "(d) Expense allowances of Members of Congress.
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And the Senate agree to the same.

R. L. DOUGHTON,
JERE COOPER,
JOHN D. DINGELL,
W. D. MILLS,
RICHARD M. SIMPSON,

Managers on the Part of the House.

WALTER F. GEORGE,
TOM CONNALLY,
HARRY F. BYRD,
E. D. MILLIKIN,
ROBERT A. TAFT,

Managers on the Part of the Senate.

STATEMENT

The managers on the part of the House at the conference on the disagreeing votes of the two Houses on the amendments of the Senate to the bill (H. R. 4473) to provide revenue, and for other purposes, submit the following statement in explanation of the effect of the action agreed upon by the conferees and recommended in the accompanying conference report:

Amendment No. 1: The House bill provided for an increase in individual income-tax rates by a percentage increase of 12½ percent of the tax liability under existing law, with an over-all effective ceiling rate of 90 percent of the net income of the taxpayer. The House bill also increased the alternative tax on capital gains by 12½ percent. The Senate amendment eliminated the increase in the alternative tax on capital gains and provided, in general, for an increase of 11 percent of the present tax liability, or 8 percent of the amount by which the surtax net income exceeds present taxes, whichever produced the lesser increase in tax. The Senate amendment provided an over-all ceiling rate of 88 percent of the net income of the taxpayer.

Under the conference agreement the increase in the combined normal tax and surtax under existing law will, in general, be 11¾ percent of the present rates or 9 percent of the amount by which the surtax net income exceeds present taxes, whichever is the lesser, except that the increase in the first surtax bracket will be only 11 percent. Special rates are provided for the calendar year 1951 so as to reflect November 1, 1951, as the effective date of the increase in tax. The ceiling rate of 88 percent contained in the Senate amendment is retained under the conference agreement, and no increase in tax is provided with respect to the alternative tax on capital gains. Under the House bill no termination date was provided for the increase in the taxes. The Senate amendment provided for the termination of the increased rates on January 1, 1954, and the conference agreement retains the termination date.

Amendments Nos. 2 and 3: These amendments are clerical. The Senate recedes.

Amendments Nos. 4 and 5: The House bill provided for an increase in the normal tax on corporations, in general, from 25 to 30 percent of normal tax net income, applicable to taxable years beginning after December 31, 1950. The Senate provided for an increase in the corporation normal tax from 25 to 27 percent and an increase in the corporation surtax from 22 to 25 percent. Under the Senate amendment, the increases in normal tax and surtax were to be effective as of April 1, 1951, and were to terminate on December 31, 1953. Special rates were provided for the calendar year 1951 to reflect the April 1 effective date. Under the conference agreement on amendments 4 and 5, the normal tax is increased from 25 to 30 percent as provided in the House bill with no increase in the surtax. The increase in normal tax is to be effective as of April 1, 1951, with a normal tax rate of 28¾ percent for the calendar year 1951. The conference agreement provides that the increase in normal tax is to terminate as of March 31, 1954.

Amendment No. 6: The House bill amended section 430 (a) (2) of the code (relating to maximum excess profits tax) so as to increase the percentage used under existing law for computing the maximum excess profits tax from 62 to 70 percent. The Senate amendment provided a new method for computing the maximum excess profits tax which, in general, was 16½ percent of the excess profits net income for the calendar year 1951 and was 17 percent of the excess profits net income for taxable years beginning after March 31, 1951. The 17 percent figure of the Senate amendment was comparable to a 69 percent figure under the method provided in the House bill. The House recedes with an amendment which adopts the Senate method of computing the maximum tax but increases the 17 percent figure to 18 percent (comparable to the House bill 70 percent figure) for taxable years beginning after March 31, 1951. Under the conference agreement the maximum excess profits tax for the calendar year 1951 is 17¼ percent of the excess profits net income for such year.

Amendments Nos. 7, 8, and 9: Senate amendments Nos. 7 and 8 amended section 207 (a) (tax on certain insurance companies), 362 (b) (tax on regulated investment companies), section 421 (a) (tax on business income of certain tax exempt organizations), and section 26 (relating to credits for corporations) of the code to make changes conforming to the action of the Senate with respect to the corporate normal and surtax rate increases. These amendments also made other technical conforming changes in the code. Senate amendment No. 9 struck out section 123 of the House bill which provided for the allowance of only one surtax exemption and one minimum excess profits credit to certain controlled groups of corporations. The House recedes on amendments Nos. 7 and 8 with conforming amendments and an amendment adding a new section 15 (c) to the code (relating to disallowance of surtax exemptions and minimum excess profits credit) and the House recedes on amendment No. 9.

The new subsection (c) of section 15 applies to the situation where a corporation, on or after January 1, 1951, transfers property (other than money) to one or more corporations created for the purpose of acquiring such property, or to one or more corporations not actively engaged in business at the time of such acquisition, if after such transfer the transferor corporation or its stockholders, or both, are in control of the transferee during any part of a taxable year of such transferee corporation. In such case the transferee corporation shall not be allowed either the \$25,000 exemption from surtax or the \$25,000 minimum excess profits

credit unless it establishes by the clear preponderance of the evidence that the securing of the \$25,000 exemption or the \$25,000 minimum excess profits credit, or both, was not a major purpose of the transfer of the property to it by the transferor. The term "control" is defined as the ownership of stock possessing at least 80 percent of the total combined voting power of all classes of stock entitled to vote or at least 80 percent of the total value of shares of all classes of stock of the corporation. Under the amendment the ownership of stock is to be determined in accordance with the provisions of section 503, except that constructive ownership under section 503 (a) (2) is to be determined only with respect to the individual's spouse and minor children. The Secretary, to the extent not inconsistent with the provisions of the new subsection, is granted the same authority as under section 129 (b) to allow in whole or in part a surtax exemption or a minimum excess profits credit which might otherwise be disallowed under the subsection or to apportion such exemption or credit among the corporations involved. For example: Corporation A transfers on January 1, 1952, all of its property to corporations B and C in exchange for the entire stock of such corporations. Immediately thereafter corporation A is dissolved, its stockholders becoming the stockholders of B and C. Assuming that a major purpose for such transfers is to secure additional surtax exemptions and minimum excess profits credits, the Secretary has the authority to allow one such exemption and credit and to apportion such exemption and credit between corporations B and C. It is provided that the subsection shall not be applicable to any taxable year with respect to which the tax imposed by subchapter D of chapter 1 (relating to the excess profits tax) is not in effect. It is not intended that the new subsection shall in any way delimit or abrogate any of the existing provisions of the code (including sec. 129), or any principle established by judicial decision, which have the effect of preventing the avoidance of income or excess profits taxes.

Amendment No. 10: This amendment strikes out all of section 124 of the House bill which provided, in the case of corporations, for an increase from 25 percent to 28.125 percent of the alternative tax (under sec. 117 (c) (1) of the code) on capital gains. The House recedes with an amendment changing the section number from 124 to 123, and providing for an increase of the alternative tax from 25 percent to 26 percent, effective in the case of taxable years beginning after March 31, 1951, and before April 1, 1954. Under the conference agreement, the amendment will have no effect on taxable years beginning before April 1, 1951, even though the taxable year ends after that date, but the 26-percent rate will apply in full to a taxable year ending after March 31, 1954, if the taxable year begins before April 1, 1954.

Amendment No. 11: This amendment provides, in general, that corporations subject to a tax imposed by chapter 1 of the code for a taxable year ending after March 31, 1951, but prior to October 1, 1951, shall after the date of the enactment of the bill and on or before January 15, 1952, make a return for such taxable year with respect to such tax and such taxable year. The House recedes with a clerical amendment.

Amendment No. 12: This amendment, which corresponds to section 125 of the House bill, provides the effective date of part II of title I. The House recedes with a clerical amendment.

Amendment No. 13: This amendment, relating to the computation of tax by certain fiscal year taxpayers, corresponds to subsection (a) of section 131 of the House bill with such changes as are necessary to reflect the

normal tax and surtax rates and the termination dates provided by the Senate amendments. The House recedes with amendments conforming to the conference action with respect to the corporate income tax rates.

Amendments Nos. 14, 15, 16, 17, 18, 19, 20, and 21: These amendments are clerical amendments. The House recedes.

Amendment No. 22: This amendment strikes out part I of title II of the House bill providing for the withholding of tax at the source on dividends, interest, and royalties. The House recedes.

Amendment No. 23: This amendment, which corresponds to part II of title II of the House bill (relating to increase in withholding of tax at source on wages) amends section 1622 (a) of the code by changing the percentage rate of withholding from 18 percent to 20 percent in the case of wages paid on or after November 1, 1951, and before January 1, 1954. It also amends section 1622 (c) (1), relating to wage-bracket withholding, to provide new tables which reflect the increased tax rates. It also provides, as did the House bill, for additional withholding of tax on wages upon agreement by employer and employee and provides that the amendments made thereby shall be applicable only with respect to wages paid on or after November 1, 1951. The House recedes.

Amendments Nos. 24, 25, 26, and 27: These amendments are clerical and conforming amendments. The House recedes.

Amendment No. 28: Section 301 of the House bill amended section 12 (c) of the code to provide for a head of a household approximately one-half of the income-splitting benefits provided for a husband and wife who file a joint return. Under the Senate amendment the head of a household was afforded approximately one-fourth of such benefits. The House recedes with an amendment conforming to the House action in affording approximately one-half of such benefits and making the necessary changes in the surtax tables to conform to the conference action with respect to individual income tax rates and effective date provisions.

Amendment No. 29: Under the House bill, a taxpayer might qualify as a head of a household by reason of such household constituting the principal place of abode of a descendant of a stepson or stepdaughter of the taxpayer. Under the Senate amendment, such descendants are eliminated from the category of persons in respect of whom the taxpayer may qualify as head of a household. The House recedes.

Amendment No. 30: This amendment adds subsection (b) to section 301 of the bill to provide that in the case of a head of a household who elects the benefits of section 51 (f) (1) of the code (relating to tax computed by collector in case of wage earners) the tax shall be computed by the collector under supplement T without regard to the taxpayer's status as head of a household. The House recedes.

Amendment No. 31: This amendment amends section 22 (b) (1) of the code (relating to exclusion of life insurance proceeds from gross income) to provide for a limited exclusion for amounts paid by an employer to the beneficiaries of an employee by reason of the employee's death. The House recedes.

Amendment No. 32: This amendment amends sections 113 (a) (5) and (22) (b) (2) of the code to provide that the basis of a survivor's interest in a joint and survivor annuity, the value of which is required to be included in the estate of a decedent annuitant dying after December 31, 1950, shall be considered to be acquired by "bequest, devise, or inheritance" and that such basis (that is, the value of such survivor's interest at the time of the decedent's death) shall be considered, for purposes of determining the amount to be included in the income of the

survivor, to be the consideration paid for the survivor's annuity. The House recedes.

Amendment No. 33: This amendment provides for the permanent enactment of section 22 (b) (9) of the code, relating to exclusion from gross income of income attributable to the discharge of certain indebtedness in the case of a corporation which consents to reduction in basis of its properties in an amount equal to the income excluded, and extends for three years the application of section 22 (b) (10), relating to the exclusion of income of a railroad corporation attributable to the discharge of its indebtedness in a receivership proceeding. The amendment is similar to H. R. 2416, which was passed by the House on April 12, 1951 (H. Rept. No. 311). The House recedes.

Amendment No. 34: This amendment makes certain changes in section 22 (b) (13) of the Internal Revenue Code, relating to the additional allowance for certain members of the Armed Forces.

Section 22 (b) (13) of existing law excludes from gross income certain compensation received for active service in the Armed Forces of the United States for any month during any part of which the recipient served in a combat zone after June 24, 1950, and prior to January 1, 1952. This amendment extends this latter date from January 1, 1952, to January 1, 1954.

This amendment also extends the exclusion to certain compensation received for active service in the Armed Forces of the United States, for any month during any part of which the recipient was hospitalized at any place as a result of wounds, disease, or injury incurred while serving in a combat zone after June 24, 1950, and prior to January 1, 1954, provided that during all of such month there are combatant activities in some combat zone. The House recedes.

Amendment No. 35: This amendment revises section 22 (d) (6) (F) (iii) of the code, which provision was added to section 22 (d) (6) by Public Law 919 (81st Cong., 2d sess.), so as to vary the application of the rule with respect to replacement of involuntary liquidations of inventories in certain cases where such replacement is made during taxable years ending after June 30, 1950, and prior to January 1, 1953. The effect of the amendment would be to permit the replacement of the World War II involuntary liquidations during taxable years ending after June 30, 1950, and prior to January 1, 1953, without requiring that the involuntary liquidations occurring during such years be first replaced, thus enabling the replacement of the World War II liquidations to be made in time to permit them to qualify for the benefits of section 22 (d) (6). The House recedes.

Amendment No. 36: This amendment amends section 23 (x) (relating to the deduction of medical expenses) by eliminating the 5 percent limitation with respect to the deduction of medical, dental, and so forth, expenses paid during the taxable year, not compensated for by insurance or otherwise, for the care of the taxpayer or his spouse if either the taxpayer or his spouse attains the age of 65 before the close of the taxable year. The limitation with respect to the maximum deduction allowable under section 23 (x) remains unchanged. The amendment is effective with respect to taxable years beginning after December 31, 1950. The House recedes.

Amendment No. 37: This amendment adds paragraph (7) to section 23 (aa) of the Internal Revenue Code to provide, in general, that an election to take or not to take the standard deduction for any taxable year may be changed after the time prescribed for filing a return for such year. The House recedes.

Amendment No. 38: This amendment is clerical. The House recedes.

Amendment No. 39: Section 302 of the House bill would add a new subparagraph (D) to section 23 (a) (1) of the code providing, in general, that all expenditures paid or incurred after December 31, 1950, in the development of a mine or other natural deposit (other than an oil or gas well), to the extent paid or incurred after the existence of ores or minerals in commercially marketable quantities has been disclosed, shall be deducted ratably as the produced ores or minerals benefited by such expenditures are sold. Section 302 of the House bill also amended section 113 (b) (1) by adding a new subparagraph (J) thereto to provide for adjustment to the basis of the mine or deposit for amounts allowed as a deduction under new subparagraph (D) as added to section 23 (a) (1).

The Senate bill made technical changes in the House provisions and inserted the substance of subparagraph (D) as added to section 23 (a) (1) by the House bill in a new subsection (cc) to be added to section 23 of the code. The Senate bill also added a provision to the new subsection (cc) which, in general, would allow the taxpayer to elect to deduct development expenditures either in the taxable year paid or incurred or ratably during the taxable years in which the produced ores or minerals benefited by such expenditures are sold. The House recedes.

Amendments Nos. 40 and 41: These amendments are clerical. The House recedes.

Amendment No. 42: This amendment changes section 25 (b) (1) (D) of the code to increase the gross income test of a dependent from \$500 to \$600. The House recedes.

Amendment No. 43: This amendment adds to section 26 (b) of the code a new paragraph to provide for a dividends received credit in the case of dividends received from a foreign corporation (other than a foreign personal holding company) subject to taxation under chapter 1 of the code which for a stipulated uninterrupted period of time has been engaged in trade or business within the United States and has derived during such period 50 percent or more of its gross income from sources within the United States.

The House recedes with an amendment under which the dividends received credit will be allowed with respect to dividends received from such a foreign corporation in an amount equal to—

(A) 85 percent of the dividends received out of its earnings or profits of the taxable year (computed as of the close of the taxable year without diminution by reason of any distributions made during the taxable year) without regard to the amount of the earnings or profits at the time the distribution was made, but such amount shall not exceed an amount which bears the same ratio to 85 percent of such dividends received out of such earnings or profits as the gross income of such foreign corporation for such taxable year from sources within the United States bears to its gross income from all sources for such taxable year, and

(B) 85 percent of the dividends received out of that part of its earnings or profits specified in clause (1) of the first sentence of section 115 (a) accumulated after the beginning of such uninterrupted period, but such amount shall not exceed an amount which bears the same ratio to 85 percent of such dividends received out of such accumulated earnings or profits as the gross income of such foreign corporation from sources within the United States for the portion of such uninterrupted period ending at the beginning of the taxable year bears to its gross income from all sources for such portion of such uninterrupted period.

The determination of earnings or profits distributed in any taxable year shall be made in accordance with section 115 (b) of the code.

The application of this amendment is illustrated by the following example: Corporation A (a foreign corporation filing its return on a calendar-year basis) whose stock is 100 percent owned by Corporation B (a domestic corporation filing its return on a calendar-year basis) for the first time engaged in trade or business in the United States on January 1, 1940, and qualified under this amendment for the entire period beginning from that date and ending with December 31, 1951. Corporation A had accumulated earnings or profits of \$50,000, immediately prior to January 1, 1940, and had earnings or profits of \$10,000 for each taxable year during the uninterrupted period from January 1, 1940, through December 31, 1951. It derived for the period from January 1, 1940, through December 31, 1950, 90 percent of its gross income from sources within the United States, and in 1951 derived 95 percent of its gross income from sources within the United States. During the calendar years 1940, 1941, 1942, 1943, and 1944 corporation A distributed in each year \$15,000; during the calendar years 1945, 1946, 1947, 1948, 1949, and 1950 it distributed in each year \$5,000; and during the year 1951, \$50,000. For 1951 a dividends-received credit of \$31,025 will be given corporation B with respect to the \$50,000 received from corporation A, computed as follows:

(1) \$8,075 which is \$8,500 (85 percent of the \$10,000 of earnings or profits of the taxable year) multiplied by 95 percent (the portion of the gross income of A corporation derived during the taxable year from sources within the United States) plus

(2) \$22,950 which is \$25,500 (85 percent of \$30,000 (that part of the earnings and profits accumulated after the beginning of the uninterrupted period)) multiplied by 90 percent (the portion of the gross income derived from sources within the United States during that portion of the uninterrupted period ending at the beginning of the taxable year).

If, in the foregoing example, corporation A for the taxable year 1951 had incurred a deficit of \$10,000 (shown to have been incurred prior to December 31), and if it had distributed \$50,000 on December 31, 1951, the dividends-received credit which corporation B would receive would be \$15,300, computed by multiplying \$17,000 (85 percent of \$20,000 earnings or profits accumulated after the beginning of the uninterrupted period) by 90 percent (the portion of the gross income from United States sources during that part of the uninterrupted period ending at the beginning of the taxable year).

Amendment No. 44: This amendment adds to section 51 of the code (relating to individual returns) a new subsection (g) providing for the filing of a joint return by a taxpayer and his spouse for a taxable year for which a joint return could have been made under section 51 (b) even though the time prescribed by law for filing the return for such taxable year has expired. This provision is effective with respect to taxable years beginning after December 31, 1950. The House recedes.

Amendment No. 45: This amendment adds section 313 to the bill which relates to income-tax treatment of mutual savings banks, building and loan associations, and cooperative banks, effective with respect to taxable years beginning after December 31, 1951. The House recedes with an amendment.

Subsection (a) of section 313 as agreed to in conference repeals section 101 (2) of the code (relating to exemption from tax of mutual savings banks).

Subsection (b) amends section 101 (4) of the code to repeal the exemption from tax of building and loan associations and cooperative banks. Credit unions without capital stock organized and operated for mutual purposes and without profit will remain

tax-exempt under section 101 (4) of the code.

The amendment to section 101 (4) of the code made by subsection (b) will also continue to exempt from tax corporations or associations without capital stock organized prior to September 1, 1951, and operated for mutual purposes and without profit for the purpose of providing reserve funds for, and insurance of, shares or deposits in (A) domestic building and loan associations (as defined in sec. 3797 (a) (19)), (B) cooperative banks without capital stock organized and operated for mutual purposes and without profit, or (C) mutual savings banks not having capital stock represented by shares.

Subsection (c) amends section 454 of the code to add to the list of corporations exempt from the excess profits tax any mutual savings bank not having capital stock represented by shares, any domestic building and loan association (as defined in sec. 3797 (a) (19)), and any cooperative bank without capital stock organized and operated for mutual purposes and without profit.

Subsection (d) amends section 5 (h) of the Home Owners Loan Act of 1933 (48 Stat. 132; 12 U. S. C., sec. 1464 (h)), to remove the language in such section exempting Federal savings and loan associations from Federal income tax, war-profits, and excess profits taxes, in the case of taxable years beginning after December 31, 1951. These associations will not, of course, be subject to the excess profits tax, by reason of the amendment made by subsection (c).

Subsection (e) amends section 23 (k) (1) (relating to deduction from gross income of bad debts) to provide rules with respect to a reasonable addition to a reserve for bad debts in the case of a mutual savings bank not having capital stock represented by shares, a domestic building and loan association, and a cooperative bank without capital stock organized and operated for mutual purposes and without profit. Where 12 percent of the total deposits or withdrawable accounts of the institution's depositors at the close of the taxable year exceeds the sum of its surplus, undivided profits and reserves at the beginning of the taxable year it may take a deduction for a reasonable addition to a reserve for bad debts for such year in any amount determined by it to be a reasonable addition for such year, except that such amount shall not be greater than the lesser of (A) the amount of its net income for such year computed without regard to this provision, or (B) the amount by which such 12 percent of its total deposits exceeds its surplus, undivided profits, and reserves at the beginning of such year. Where the sum of the institution's surplus, undivided profits, and reserves at the beginning of the taxable year equals or exceeds 12 percent of its total deposits or withdrawable accounts at the close of such year, any deduction for such year for a reasonable addition to a reserve for bad debts will be determined under the general provisions of section 23 (k) (1). In determining a deduction for a reasonable addition to a reserve for bad debts, and in determining the sum of the surplus, undivided profits, and reserves, there will be taken into account surplus, undivided profits, and bad debt reserves accumulated prior to the close of December 31, 1951 (i. e., during the period for which the institution was not subject to taxation).

Subsection (f) amends section 23 (r) (relating to the deduction from gross income of certain dividends paid by banking corporations) to provide that in the case of mutual savings banks, cooperative banks, and domestic building and loan associations (for definition of domestic building and loan associations, see section 3797 (a) (19) as added by section 313 (1) of the bill), there shall be allowed as deductions in computing net income any amounts paid to, or credited to the

accounts of, depositors or holders of accounts as dividends on their deposits or withdrawable accounts, if such amounts may be withdrawn on demand subject only to customary notice of intention to withdraw. For example, if an institution has the right to receive 30 days' notice prior to the withdrawal of a deposit or of any amounts paid or credited to the account thereof, the amounts credited will nevertheless be considered as withdrawable on demand subject only to customary notice of intention to withdraw.

Subsection (g) amends section 23 of the code (relating to deductions from gross income) to provide a deduction for repayment of certain loans by a mutual savings bank not having capital stock represented by shares, a domestic building and loan association (as defined in section 3797 (a) (19) of the code) or a cooperative bank without capital stock organized and operated for mutual purposes and without profit. It provides that amounts paid by the taxpayer during the taxable year in repayment of loans made prior to September 1, 1951, by the United States or any agency or instrumentality thereof which is wholly owned by the United States, or by a mutual fund established under the authority of the laws of any State, shall be allowed as a deduction in computing net income of the taxpayer. An example for this purpose of an agency or instrumentality wholly owned by the United States would be the Reconstruction Finance Corporation.

Subsection (h) amends section 104 (a) of the code (defining the term "bank") to include, within the definition of bank, a domestic building and loan association.

Subsection (i) amends section 3797 (a) of the code (relating to definitions for the purpose of the Internal Revenue Code) to define the term "domestic building and loan association" to mean a domestic building and loan association, a domestic savings and loan association, and a Federal savings and loan association, substantially all the business of which is confined to making loans to members. This amendment is of a clarifying nature and is not intended to change the existing meaning of a domestic building and loan association.

Subsection (j) provides that the amendments made by the section shall be applicable only with respect to taxable years beginning after December 31, 1951.

Amendment No. 46: This amendment in general amends section 101 (12) of the code to subject tax-exempt cooperatives to normal tax and surtax on earnings not definitely allocated to the accounts of patrons.

The House recedes with an amendment making a clerical change, and with the following additional amendments. First, it is provided that amounts allocated to patrons with respect to income not derived from patronage, if made after the close of the taxable year and on or before the fifteenth day of the ninth following month, shall be considered as made during the taxable year to the extent such allocations are attributable to income derived before the close of the taxable year. Second, it is made clear that in taking into account patronage dividends to patrons with respect to their patronage in computing the net income of the cooperative, it is immaterial whether such dividends relate to patronage of the taxable year of the cooperative or to patronage of preceding taxable years. Third, the provision of the Senate amendment relating to withholding on patronage dividends in the event withholding is required on corporate dividends is stricken from the bill. Fourth, it is provided that the provisions of subsection (f) of section 148 (relating to information returns of patronage dividends paid by corporations), as amended by the Senate amendment, shall not apply in the case of any corporation (including any cooperative or non-profit corporation engaged in rural electrifi-

cation) exempt from taxation under section 101 (10) or (11) or in the case of any insurance corporation subject to a tax imposed by supplement G.

Under the conference agreement, patronage dividends allocated by a cooperative to its patrons will not be treated as taxable income to the cooperative.

Amendment No. 47: This amendment, which adds a new subparagraph (D) to section 102 (d) (1) of the Internal Revenue Code, provides that the excess of the net long-term capital gain for the taxable year over the net short-term capital loss for such year, less the taxes imposed by chapter 1 of the code attributable to such excess, shall be deducted from the net income in computing section 102 net income. However, the fact that such excess is not to be taken into account in the tax basis on which the penalty tax under section 102 is imposed will not prevent capital gains from being taken into consideration in determining whether earnings or profits of a corporation have been permitted to accumulate beyond the reasonable needs of the business. The House recedes.

Amendment No. 48: This amendment amends section 112 (b) (7) of the code (relating to election as to recognition of gain in certain corporate liquidations), so as to make it applicable to cases in which the liquidation is pursuant to a plan adopted after December 31, 1950, and the transfer of all the property under the liquidation occurs within one calendar month in 1951 or 1952. The House recedes.

Amendment No. 49: This amendment amends sections 112 (b) and 113 (a) of the code to provide for the nonrecognition of gain in certain cases, where, pursuant to a plan of reorganization, a shareholder of a corporation which is a party to the reorganization receives stock (other than preferred stock) in another corporation which is a party to the reorganization without the surrender by such shareholder of stock. This amendment is applicable with respect to taxable years ending after the date of the enactment of this act, but applies only with respect to distribution of stock made after such date. The House recedes.

Amendment No. 50: This is a clerical amendment. The House recedes.

Amendment No. 51: Section 303 of the House bill provides in general, that any gain from a sale of property used by the taxpayer as his principal residence will not be recognized if the taxpayer within a period beginning 1 year prior to the date of such sale and ending 1 year after such date purchases property and uses it as his principal residence except to the extent that the taxpayer's selling price of the old residence exceeds his cost of purchasing the new residence. The Senate amendment provides that, where the taxpayer is constructing the new residence, such period shall include 18, rather than 12, months after such sale. If the taxpayer commenced construction of the new residence more than 1 year prior to the date of the sale of the old residence, in determining the taxpayer's cost of building the new residence there will be included only so much of the cost as is attributable to the construction made during the period beginning 1 year prior to the date of the sale of the old residence and ending 18 months after such date. The House recedes.

Amendment No. 52: This is a clerical amendment. The House recedes.

Amendment No. 53: The House bill granted a percentage depletion allowance at the rate of 5 percent in the case of deposits of asbestos, sand, gravel, stone (including pumice, scoria, and slate), brick clay, tile clay, shale, oyster shell, clam shell, granite, and marble. The Senate amendment granted percentage depletion in the case of asbestos at the rate of 10 percent and added to the above list sodium chloride and, if produced from brine wells, calcium chloride, magne-

sium chloride, potassium chloride, and bromine. The Senate amendment removed slate from the parenthetical clause following stone and included it as a separate item in this 5-percent category. The House bill increased the 5-percent rate of percentage depletion now allowed for coal to 10 percent. The Senate amendment followed this treatment in the case of coal and included in this new 10-percent category those minerals which the House bill would have allowed percentage depletion at a rate of 15 percent. These minerals are borax, fuller's earth, tripoli, refractory and fire clay, quartzite, perlite, diatomaceous earth, metallurgical grade limestone, and chemical grade limestone. The Senate amendment also added wollastonite, magnesite, dolomite, brucite, and calcium and magnesium carbonates to this 10-percent list, and added aplite and garnet to the list now allowed percentage depletion at the 15-percent rate.

The bill, as passed by both the House and Senate, made technical amendments to section 114 (b) (4) (A) which do not alter its substance. The House bill changed the parenthetical clause, stating that thenardite produced from brines or mixtures of brine would be allowed percentage depletion, to state that thenardite, including thenardite from brines or mixtures of brine, would be permitted such allowance. The Senate amendment achieved the same effect by striking the parenthetical clause.

The amendments made by both Houses are applicable only with respect to taxable years beginning after December 31, 1950.

The House recedes with an amendment which restores borax, fuller's earth, tripoli, refractory and fire clay, quartzite, diatomaceous earth, metallurgical grade limestone, and chemical grade limestone to the 15-percent category in which they appeared in the House bill and which removes potassium chloride from the list of minerals to which the Senate bill granted the percentage depletion allowance at the 5-percent rate. Potassium chloride is entitled, under existing law, to percentage depletion allowance at 15 percent. Under the conference agreement calcium carbonates are granted an allowance of 10 percent, while marble, which is a calcium carbonate, receives 5 percent. It is intended, in any case where a mineral is specifically provided for at a stated rate of percentage allowance, that the specific provision will govern over the allowance provided (whether higher or lower) for a more general classification.

It is the intention, in including stone in the 5 percent percentage depletion category, to limit such term to its commonly understood meaning. This depletion would be allowed in the case of common stone which is crushed for use in building roads but would not be allowed in the case of precious stones such as diamonds.

Amendment No. 54: Section 115 (g) (3) of the Internal Revenue Code provides in substance that section 115 (g) (1), relating to the treatment as dividends of amounts distributed in redemption of stock, shall be inapplicable where the redemption is of stock the value of which is included in determining the value of the gross estate of a decedent provided, among other limitations, that the value of the stock in such corporation comprises more than 50 percent of the value of the net estate of the decedent. Under the Senate amendment, the 50-percent limitation would be reduced to 25 percent. The House recedes with an amendment under which the value of the stock of the corporation must comprise more than 35 percent of the value of the gross estate of the decedent. The amendment would be applicable with respect to distributions in redemptions made after the date of enactment of the act.

Amendment No. 55: This amendment amends section 116 (a) of the Internal Revenue Code so as to apply the exemption

of earned income received from sources without the United States to (1) an individual citizen of the United States who has been a bona fide resident of a foreign country or countries for an uninterrupted period which includes an entire taxable year or (2) an individual citizen of the United States who during any period of 18 consecutive months is physically present in a foreign country or countries for a total of at least 510 full days in such period. Amounts paid by the United States or any agency thereof do not come within the provision of this amendment. The amendment further amends the Internal Revenue Code to adapt the provisions respecting collection of income tax at source on wages to the substantive changes made to section 116 (a) of the code, and to eliminate withholding of Federal income tax with respect to wages which are required by law of any foreign country to be withheld upon for income taxes of such foreign country. The House recedes with a clerical amendment.

Amendment Nos. 56, 57, and 58: These are clerical amendments. The House recedes.

Amendment No. 59: This amendment strikes out the provision of the House bill which provided for an increase, in the case of individuals, of the alternative tax on capital gains from 25 percent to 28.125 percent. The House recedes with an amendment providing (effective in the case of taxable years beginning after October 31, 1951, and before November 1, 1953) for an increase of the alternative tax from 25 percent to 26 percent. Under the conference agreement, the amendment will have no effect on a taxable year beginning before November 1, 1951, even though the taxable year ends after that date, but the 26-percent rate will apply in full to a taxable year ending after November 1, 1953, if the taxable year began before that date.

Amendment Nos. 60, 61, and 62: These are clerical amendments. The House recedes.

Amendment No. 63: This amendment provides rules for the application of section 117 (j) in cases where land bearing an unharvested crop is sold. The provision applies in cases where the land has been held for more than 6 months. The period that the crop has been on the land is immaterial. The House recedes.

Amendment No. 64: The House bill contained a provision which, effective for taxable years after 1950, amended section 117 (j) (1) of the code to provide that the term "property used in the trade or business" includes livestock held by the taxpayer for draft, breeding, or dairy purposes for 12 months or more. The Senate amendment restates this provision to provide that the term "property used in the trade or business" includes livestock, regardless of age, held by the taxpayer for draft, breeding, or dairy purposes, and held by him for 12 months or more from the date of acquisition. The Senate amendment also provided that the term does not include poultry except that the term does include turkeys regardless of age, held by the taxpayer for breeding purposes, and held by him for 12 months or more from the date of acquisition. The Senate amendment also included rules respecting effective date. The House recedes with an amendment striking out the reference to turkeys. This provision of the bill is not intended to change the present application of section 117 (j) of the code to race horses in any situation in which such race horses fall within the term "property used in the trade or business."

Amendments Nos. 65 through 72: Section 307 of the House bill (which corresponds to section 325 of the Senate bill) extended capital gains treatment to certain coal royalties. The Senate amendments added certain additional rules and conforming amendments to other sections of the code. The House recedes on amendments Nos. 65, 66, 68, 69, 70, 71, and 72, and recedes on

amendment No. 67 with an amendment which strikes all references to timber, and which provides that the provisions in regard to coal added by the bill shall have no application for the purpose of applying section 102 or subchapter A of chapter 2, including the computation under section 117 (c) (1) of a tax in lieu of the tax imposed by section 500.

Amendment No. 73: This is a clerical amendment. The House recedes.

Amendment No. 74: The House bill provided that the amendments relating to collapsible corporations shall be applicable to taxable years beginning after December 31, 1950. This amendment limits the effective date to taxable years ending after August 31, 1951, and limits the application of the amendment to gains realized after such date. The House recedes.

Amendment No. 75: This is a clerical amendment. The House recedes.

Amendment No. 76: Section 309 of the House bill added a new subsection (n) to section 117 of the code to provide rules for the treatment of capital gains and ordinary losses by a dealer in securities in order to prevent the dealer from obtaining the most beneficial tax result by a shift in securities from one account to another or by insufficient identification of securities alleged to be within a particular account. Under the amendment the provisions of section 117 (n) are made inapplicable to the extent that these provisions are inconsistent with the provisions of section 117 (i) relating to bond, etc., losses of banks. The House recedes.

Amendment No. 77: This amendment strikes out section 310 of the House bill. The House recedes with an amendment which adds a new subsection (o) to section 117 of the Internal Revenue Code so as to provide that in the case of a sale or exchange, directly or indirectly, of depreciable property (1) between husband and wife, or (2) between an individual and a corporation in which he, his spouse, and his minor children and minor grandchildren own more than 80 percent of the value of the outstanding stock, any gain recognized to the transferor shall be considered ordinary income and not capital gain. The transfer of the property can be from the corporation to the stockholder or from the stockholder to the corporation. The property transferred must be property which in the hands of the transferee is property of a character which is subject to the allowance for depreciation provided in section 23 (1) of the code. This amendment shall be applicable only with respect to sales or exchanges made after May 3, 1951.

Amendment No. 78: This amendment adds a new subsection to section 117 of the code, to provide that certain payments received by an employee after the termination of his employment, which under existing law are taxable as ordinary income, shall be treated as gains from the sale or exchange of a capital asset held for more than 6 months. The House recedes with clerical amendments and with an amendment which provides that such payments (commencing after termination of the employment) must be payable for a period of not less than 5 years or for the period of the employee's life following the termination of his employment.

Amendment No. 79: This amendment, for which there is no corresponding provision in the House bill, amends section 122 (b) (2) (relating to the amount of net operating loss carry-overs) to provide for a 4-year carry-over of 1948 and 1949 net operating losses by both corporate and noncorporate taxpayers, and for a 4-year carry-over of 1946 and 1947 net operating losses by certain new corporations. The amendments to section 122 (b) (2) are made applicable in computing the net operating-loss deduction for taxable years beginning after December 31, 1948. The House recedes with an amend-

ment which eliminates the provisions of the Senate amendment for the carry-over of 1946 net operating losses by new corporations, reduces from four to three the number of years to which the 1947 net operating loss may be carried forward by new corporations, and reduces from four to three the number of years to which 1948 and 1949 net operating losses may be carried forward by all taxpayers.

Amendment No. 80: This amendment amends subsection (d) of section 130A, relating to definition of the term "restricted stock option," to provide that if the grant of an option is subject to stockholder approval, the date of the grant of the option shall be determined as if the option had not been subject to stockholder approval.

The amendment is made effective as if it had been enacted as a part of section 218 of the Revenue Act of 1950. The House recedes with a clerical amendment.

Amendment No. 81: This amendment adds to the bill a new section 331 pursuant to the provisions of which (1) a domestic corporation which owns at least 10 percent of the voting stock of a foreign corporation from which it receives dividends in a taxable year will, for purpose of computing the foreign tax credit of such domestic corporation, be deemed to have paid a proportion of certain foreign taxes paid, or deemed to be paid, by such foreign corporation, and (2) such foreign corporation will, for the purpose of the above computation, be deemed to have paid a proportion of certain foreign taxes paid by any other foreign corporation from which it receives dividends in a taxable year, if the former foreign corporation owns a majority of the voting stock of the latter foreign corporation. The House recedes with a clerical amendment and an amendment pursuant to which (2) above will be operative if the former foreign corporation owns 50 percent or more of the voting stock of the latter foreign corporation.

Amendment No. 82: This amendment amends section 147 of the code to give to the Secretary the authority to require information returns reporting payments of interest, regardless of amount. Under existing law, except in the case of certain payments, information returns may not be required from persons making payment of interest unless the payment is \$600 or more. The House recedes with a clerical amendment.

Amendment No. 83: This amendment adds a new section 154 to supplement D of chapter 1 of the code, relating to returns and payment of taxes.

Such section 154 provides that, where any individual dies after June 24, 1951, and prior to January 1, 1954, while in active service as a member of the Armed Forces of the United States, if his death occurred while serving in a combat zone, as determined under section 22 (b) (13) of the code, or at any place as a result of wounds, disease, or injury incurred while so serving, (1) the tax imposed by chapter 1 of the code will not apply with respect to the taxable year in which falls the date of his death, or with respect to any prior taxable year which ended on or after the first day he was so serving in a combat zone after June 24, 1950, and (2) the tax (including interest, additions to the tax, and additional amounts) imposed by chapter 1 of the code and under the corresponding title of each prior revenue law for all taxable years preceding those specified in (1) above, which is unpaid at the date of his death shall not be assessed, and if assessed the assessment shall be abated, and if collected shall be credited or refunded as an overpayment. The House recedes with a clerical amendment.

Amendment No. 84: This amendment amends section 165 (b) of the code, relating to distributions to an employee by a trust which qualifies for exemption under section 165 (a).

Under section 165 (b), amounts distributed or made available to an employee by such a trust (in excess of the employee's contributions) are taxed to the employee only in the years in which distributed or made available and, if the total distributions are paid to the employee in one taxable year on account of the employee's separation from the service, the amount of the distribution (to the extent exceeding the employee's contribution) is taxed at capital gain rates (as from sale or exchange of a capital asset held for more than 6 months).

Under the amendment, where such a total distribution occurs in 1 taxable year and consists in whole or in part of securities of the employer corporation, that part of the excess (of the amounts distributed over the amount of the employee's contributions) as consists of net unrealized appreciation attributable to that part of the total distributions made in securities of such employer corporation shall be excluded from income in the year of distribution, and shall be subject to tax only when the securities are sold (or otherwise disposed of in a taxable transaction). The amount of the net unrealized appreciation which is excluded shall in the hands of the recipient not be included in the basis of the stock or other securities distributed.

The House recedes with an amendment providing that the proposed treatment is also to apply to securities issued by a parent or subsidiary corporation of the employer corporation.

Amendment No. 85: Under section 311 of the House bill, the special rule for 1949 and 1950, set forth in section 202 (b) (2) of the code for use in determining the reserve and other policy liability credit of life insurance companies, would have been extended to apply to taxable years beginning in 1951. Under this amendment there is substituted for this provision a system for taxing such companies, but only for taxable years beginning in 1951, which is different from that contained in present law. Under this system, in lieu of allowing life insurance companies an adjustment of their normal tax net income and of their corporation surtax net income, by means of the reserve and other policy liability credit, for purposes of a tax imposed at the regular corporate rates, a low-rate tax is imposed on the normal tax net income of such companies without allowance of any such credit. Under the Senate amendment there is imposed for 1951 a tax equal to 3¾ percent of the first \$200,000 of the 1951 adjusted normal tax net income of such companies and 6½ percent of the amount in excess thereof. The House recedes with a clerical amendment.

Amendment No. 86: This is a clerical amendment. The House recedes with a clerical amendment.

Amendment No. 87: This amendment makes technical and clarifying changes in the section of the House bill providing for tax treatment under supplement Q of chapter 1 of the code of certain registered management investment companies certified by the Securities and Exchange Commission as principally engaged in furnishing capital to corporations principally engaged in development or exploitation of inventions, technological improvements, new processes, or products not previously generally available. The House recedes.

Amendment No. 88: This amendment for which there is no corresponding provision in the House bill, makes a minor change in the definition of "system group" contained in section 373 (d) of the Internal Revenue Code. Under this amendment, in determining whether one or more of the corporations in a utility system owns the required 90 percent of each class of the stock of another corporation in the same system, there is disregarded not only stock which is preferred to both dividends

and assets, which type of stock may be disregarded for this purpose under present law, but also stock which is limited and preferred as to dividends but which is not preferred as to assets, provided that the total value of such stock is less than 1 percent of the aggregate value of all classes of stock which are not preferred as to both dividends and assets. This amendment is applicable to all taxable years affected by exchanges and distributions made after December 31, 1947. The House recedes with a clerical amendment.

Amendment No. 89: This amendment subjects governmental colleges and universities, and corporations wholly owned by such colleges or universities, to the supplement U tax on their unrelated business net income, effective for taxable years beginning after December 31, 1951. The House recedes with a clerical amendment.

Amendment No. 90: This is a clerical amendment. The House recedes with a clerical amendment.

Amendment No. 91: This amendment provides for retroactive application to taxable years beginning after December 31, 1938, and before January 1, 1951, of the provisions added by the bill to the Internal Revenue Code with respect to the treatment of family partnerships for income tax purposes, which provisions are applicable generally to taxable years beginning after December 31, 1950. The House recedes with an amendment revising the effective date provision to provide that the amendments made by the bill with respect to family partnerships shall be applicable only with respect to taxable years beginning after December 31, 1950, and to provide rules for cases where the taxable year of the partner differs from that of the partnership.

In applying the proposed treatment of family partnerships to taxable years beginning after December 31, 1950, where the taxable year of a partnership begins in 1950 and ends within or with, as to all the family partners, taxable years which begin in 1951, the proposed treatment shall apply to all distributive shares derived by the family partners from the taxable year of the partnership beginning in 1950; however, where a taxable year of the partnership ending in 1951 (whether beginning in 1950 or 1951) ends within or with a taxable year of a family partner which began in 1950, the proposed treatment is not applicable to any of the distributive shares of income derived by the family partners from such taxable year of the partnership.

Amendment No. 92: This amendment, for which there is no corresponding provision in the bill as it passed the House, amends section 127 of the code to provide an alternative treatment of war loss recoveries, applicable at the election of the taxpayer. Under the amendment the amount of the recovery, to the extent that it does not exceed the allowable deductions in prior taxable years on account of the destruction or seizure of property in respect of which the recovery is received, is excluded from gross income for the taxable year in which the recovery is received. In lieu of including such amount in gross income for the taxable year of the recovery, there is to be added to the tax imposed by chapter 1 for such taxable year the total increase in the tax under chapter 1 and chapter 2 for all taxable years which would result by decreasing, in an amount equal to such part of the recovery so excluded, deductions allowable in prior taxable years with respect to the destruction or seizure of the property. To the extent that the amount of the recovery exceeds the allowable deductions in prior taxable years on account of the destruction or seizure of the property, such amount is treated for the taxable year of the recovery as gain on the involuntary conversion of property and is recognized or nonrecognized as provided in section 112 (f). This amend-

ment also provides a new rule for the determination of the unadjusted basis of property where the alternative treatment of the recovery is applicable pursuant to election made by the taxpayer. The House recedes with amendments which revise section 127 (c) (3) (A) and (5), and make minor changes in the phrasing of section 127 (c) (3) (B) and (C) and section 127 (d) (2). The effective date of the amendment is also changed so that it will be applicable to taxable years beginning after December 31, 1941.

Section 127 (c) (3) (A), relating to the definition of "amount of recovery" for the purposes of the new alternative treatment is revised under the conference agreement so that in the case of recovery of the same property or interest considered under section 127 (a) as destroyed or seized, such property or interest may be included in the amount of recovery at its fair market value, determined as of the date of recovery or at the option of the taxpayer at the adjusted basis (for determining loss) of such property or interest in the hands of the taxpayer on the date of the loss. Subparagraph (A) is also revised to provide that for the purposes of section 127 (c) (3) (B) and (C) (but not section 127 (d) (2)) the amount of recovery shall be reduced by the amount of the obligations or liabilities with respect to the property recovered, if the taxpayer for any previous taxable year chose under section 127 (b) (2) to treat such obligations or liabilities as discharged or satisfied out of such property, and such obligations or liabilities were not so discharged or satisfied prior to the date of the recovery.

These two new rules incorporated into section 127 (c) (3) (A) may be illustrated by the following examples:

Example (1): The taxpayer on December 11, 1941, owned Blackacre, a property located in Germany. The adjusted basis of such property in the hands of the taxpayer on such date was \$1,000,000. Under section 127 (a) such property was deemed destroyed or seized in the year 1941 and the taxpayer's loss of \$1,000,000 was an allowable deduction for such year whether or not the taxpayer claimed such deduction. A recovery with respect to such loss is required to be taken into account under section 127 (c). Assume that in 1946 the taxpayer recovered this property and that on the date of recovery it had a fair market value of \$500,000. If the taxpayer elects to proceed under the provisions of section 127 (c) (3), he has an option to include in the amount of the recovery respecting this property either the fair market value on the date of the recovery (\$500,000) or an amount equal to the adjusted basis of the property as of the date of the loss (\$1,000,000). Assuming the taxpayer had no previous recovery with respect to this property, its unadjusted basis under section 127 (d) (2) for the period subsequent to recovery would be \$500,000 or \$1,000,000 depending upon whether the taxpayer chose to include the property in the amount of recovery in 1946 at its fair market value on the date of the recovery or its adjusted basis as of the date of loss. If the taxpayer chooses to treat \$1,000,000 (the adjusted basis of the property on the date of the loss in 1941) as the amount of the recovery, there would be added to the tax for 1946 the total increase in the tax which would result by decreasing from \$1,000,000 to zero the amount of the deduction allowable in 1941 on account of the destruction or seizure of Blackacre. If the taxpayer chooses to treat only \$500,000 (fair market value on date of recovery) as the amount of the recovery, there would be added to the tax for 1946 the amount of the total increase in tax resulting from decreasing to \$500,000 the amount of the deduction allowable in 1941. If the \$1,000,000 allowable as a deduction in 1941 did not result in any tax benefit, then there would be nothing to be added to the tax for 1946, whether the

taxpayer chooses the amount of the recovery as \$500,000 or as \$1,000,000.

Example (2): The taxpayer on December 11, 1941, owned an industrial plant in Germany. The adjusted basis of such property in the hands of the taxpayer on such date was \$5,000,000. The property on such date was subject to a mortgage of \$3,000,000. Under the provisions of section 127 (b) (2) the taxpayer chose to treat the mortgage as discharged or satisfied out of the property. Assume that in 1946 the taxpayer recovered this property and that on the date of recovery it had a fair market value of \$5,000,000, and is still subject to the mortgage of \$3,000,000. If the taxpayer elects to have the provisions of section 127 (c) (3) apply, the amount of the recovery respecting this property for the purposes of subparagraph (B) is considered to be \$2,000,000. Since this amount is equal to the allowable deduction in 1941 under section 127 (b), all of such amount is excluded from gross income in 1946; however, there is to be added to the income tax for such year the total increase in the tax under chapter 1 and chapter 2 for all taxable years which would result from eliminating the allowable deduction of \$2,000,000 in 1941. For the purposes of paragraph (C) the amount of recovery is likewise considered to be \$2,000,000 so that there is no amount to be treated for 1946 as gain from the involuntary conversion of the property. However, this rule which reduces the amount of the recovery on account of liabilities and obligations is not applicable in applying the provisions of section 127 (d) (2). Under that section the amount of the recovery in respect of the property is \$5,000,000, and since there was no amount considered as gain upon involuntary conversion of the property in 1946, such amount is not reduced and the basis of the property is \$5,000,000.

Under the conference agreement, as under existing law and the Senate amendment, property considered as destroyed or seized under section 127 (a) of the code is considered as not being in existence from the date of the loss to the date of its recovery. Thus, depreciation on the recovered property is not allowable for the period between the date of the loss and the date of the recovery.

Section 127 (c) (5), relating to the election by the taxpayer to have the provisions of section 127 (c) (3) apply to war loss recoveries, has been revised under the conference agreement to provide that if the taxpayer elects to have the provisions of paragraph (3) applicable in any taxable year in which he recovers any money or property in respect of property considered under section 127 (a) as destroyed or seized, the provisions of paragraph (3) shall be applicable to all taxable years of the taxpayer beginning after December 31, 1941. Such election once made is irrevocable. The election by the taxpayer is to be made in such manner and at such time as the Secretary may by regulations prescribe. However, no election may be made after December 31, 1952, by the taxpayer unless he receives war loss recoveries during a taxable year ending after the date of enactment of the Revenue Act of 1951.

If under an election made by the taxpayer the provisions of section 127 (c) (3) are applicable to any taxable year, the period of limitations provided in sections 275 and 276 of the code for the assessment and collection of (1) the amount to be added to the tax for such taxable year under section 127 (c) (3), and (2) any deficiency for such taxable year or for any other taxable year to the extent attributable to the basis of the recovered property being determined under section 127 (d) (2), shall not expire prior to the expiration of 2 years following the date of the making of such election. Any amount and any deficiency specified in clauses (1) and (2) of the preceding sentence may be assessed at any time prior to the expiration of

such 2-year period, notwithstanding any law or rule of law which would otherwise prevent such assessment and collection.

Paragraph (5) further provides that if section 127 (c) (3) is applicable to any taxable year pursuant to the taxpayer's election, and credit or refund of any overpayment resulting from the application of section 127 (c) (3) to such taxable year is prevented on the date of the making of such election, or within 1 year from such date, by any law or rule of law (other sec. 3761 of the Internal Revenue Code, relating to compromises), credit or refund of such overpayment may nevertheless be made or allowed if claim therefor is filed within 1 year from such date.

Paragraph (5) further provides that in the case of any taxable year ending before the date of the making by the taxpayer of an election, no interest shall be paid upon any overpayment resulting from the application of the provisions of section 127 (c) (3) to such year, and no interest shall be assessed or collected with respect to any amount or any deficiency specified in clauses (1) and (2) above, for any period prior to the expiration of 6 months following the date of the making of such election by the taxpayer.

Amendment No. 93: This amendment adds a new subsection (ff) to section 23 of the code (relating to deductions from gross income), providing that expenditures paid or incurred during the taxable year for the purpose of ascertaining the existence, location, extent, or quality of any deposit of ore or other mineral, and paid or incurred prior to the beginning of the development stage of the mine or deposit, may be deducted in computing net income for the taxable year, except to the extent that such expenditures exceed \$75,000. The subsection further provides that the taxpayer may elect to treat as deferred expense any portion of such deductible amount, in which event such deferred portion shall be deductible on a ratable basis as the units of produced ores or minerals discovered or explored by reason of such expenditures are sold. No deduction may be taken under this new subsection if in any four preceding years (not necessarily consecutive years) the taxpayer, or any individual or corporation (who has transferred to the taxpayer any mineral or ore property under circumstances which make the provisions of pars. (7), (8), (11), (13), (15), (17), (20), or (22) of section 113 (a) of the code applicable to such transfer), has taken a deduction, or elected to treat exploration expenditures as deferred expense, under the new subsection. The House recedes with a clerical amendment.

Amendment No. 94: This amendment would have added a new subsection (n) to section 115 of the code to provide a special rule for the treatment of gain upon the complete liquidation of a corporation where the distribution in liquidation included stock in another corporation to which unimproved real estate had been transferred in anticipation of such liquidation. The Senate recedes.

Amendment No. 95: This amendment adds paragraph (20) to section 3797 of the code to provide in substance that a full-time life insurance salesman who is an employee under the definition contained in the Federal Insurance Contributions Act shall be considered to be an "employee" for the purpose of applying the provisions of chapter 1 (such as sections 22 (b) (2) (B), 23 (p) and 165) which determine the effect of contributions for the benefit of, and distribution to, "an employee" under a stock bonus, pension, profit-sharing, or annuity plan. The amendment is applicable to taxable years beginning after 1938. The House recedes.

Amendment No. 96: This amendment would allow in full, for purposes of computing the net operating loss (as defined by sec. 122 (a) of the code) of a taxpayer other than

a corporation, deductions allowable under section 23 (e) (2) (relating to losses incurred in a transaction entered into for profit) and section 23 (e) (3) (relating to losses of property not connected with a trade or business, if the losses arise from fire, storm, shipwreck, or other casualty or from theft). Under existing law, in computing the net operating loss in the case of such a taxpayer, section 122 (d) (5) limits the deductions otherwise allowable under section 23 of the code which are not attributable to a trade or business regularly carried on by the taxpayer to the extent of the gross income not derived from such trade or business. The House recedes with an amendment which removes from the present limitation in section 122 (d) (5) deductions for losses sustained after December 31, 1950, in respect of property, if the losses arise from fire, storm, shipwreck, or other casualty, or from theft. The amendment will enable a taxpayer who is an individual to take such losses into account in computing a net operating loss which may be carried back 1 year or carried forward 5 years. The amendment is made applicable in computing the net operating loss deduction for taxable years ending after December 31, 1948.

Amendment No. 97: This amendment relates to the abatement of tax of certain irrevocable trusts to the extent that the income is owned by any individual who dies on or after December 7, 1941, while in active service as a member of the military or naval forces of the United States or of any of the other United Nations and prior to January 1, 1948.

The House recedes with an amendment which provides, that, in the case of a trust which accumulated income for a beneficiary who died on or after December 7, 1941, and before January 1, 1948, while in active service as a member of the military or naval forces of the United States or of any of the other United Nations, there shall be allowed as a deduction in computing the net income of the trust for any taxable year the income of the trust for such taxable year, before diminution for income taxes with respect thereto, which was, or would have been but for such diminution, accumulated for such beneficiary.

This deduction shall be allowed, however, only if (1) the income accumulated was for a taxable year of the trust which ended with or within a taxable year (ending on or after December 7, 1941) of such beneficiary during any part of which he was a member of such military or naval forces, or, in the case of the taxable year of the trust during which such beneficiary died, the income accumulated was for the period in such taxable year prior to the death of such beneficiary, and (2) the amount of such accumulated income was, without regard to this amendment, taxable to the trust, and (3) the income for such taxable year accumulated for the beneficiary, if not distributed to him prior to his death, was payable by the trust at or after his death only to his estate, spouse, or lineal ancestors or descendants.

Amendment No. 98: This amendment (effective for taxable years ending after the date of enactment of this bill) would require a net worth statement to be filed with the return of any individual who during the taxable year received gross income in excess of \$10,000 from one or more unlawful trades or businesses. The Senate recedes.

Amendment No. 99: This amendment amends the life insurance company provisions of the code to provide that the life insurance department of a mutual savings bank is to be taxed as a life insurance company. This amendment is a corollary of amendment No. 45, relating to the taxation of mutual savings banks. The amendment is applicable only with respect to taxable years beginning after December 31, 1951.

The House recedes with an amendment which adds a new section 110 to the code to provide the method for computing the tax of a mutual savings bank authorized under State law to conduct a life insurance business and which conducts such a business in a separate department the accounts of which are maintained separately from the other departments of the bank. The tax is to consist of the sum of (1) a partial tax computed under sections 13 and 15 of the code upon the net income of the bank determined without regard to any items of income or deductions properly allocable to the life insurance department; and (2) a partial tax upon the net income of the life insurance department determined without regard to any items of income or deductions not properly allocable to such department at the rates and in the manner provided in supplement G with respect to life insurance companies. In determining the net income for purposes of such partial taxes no account shall be taken of any transactions between the insurance department and the bank or any other department thereof.

The amendment is applicable only with respect to taxable years beginning after December 31, 1951.

Amendment No. 100: This amendment adds at the end of section 422 (b) of the code (relating to definition of unrelated trade or business for the purpose of determining the unrelated business net income subject to the supplement U tax) a special rule with respect to publishing businesses carried on by colleges and universities. This amendment is applicable with respect to taxable years beginning after December 31, 1950 and prior to January 1, 1953. The purpose of this amendment is to afford an organization (exempt under sec. 101 (6) and subject to supplement U) which owns a publishing business limited opportunity to conform or relate such publishing business to its educational or other exempt purposes within the time specified in the amendment, and thus be relieved of supplement U tax thereon for taxable years preceding the taxable year in which the activity becomes related. The House recedes with a clarifying amendment.

Amendment No. 101: This amendment, for taxable years beginning prior to January 1, 1954, treats as related, for the purposes of the tax imposed by supplement U, an unrelated trade or business carried on by certain educational organizations. The House recedes with an amendment which adds at the end of section 442 (a) (relating to the definition of unrelated business net income for the purpose of the supplement U tax) a special rule with respect to unrelated trades or businesses carried on in partnership by certain educational organizations. The amendment is applicable with respect to taxable years beginning after December 31, 1950, and prior to January 1, 1954.

Amendment No. 102: This amendment adds a new subsection (e) to section 504 of the code relating to the computation of undistributed subchapter A net income for purposes of the imposition of the surtax on personal holding companies. Subsection (e) will provide for the deduction, for purposes of computing undistributed subchapter A net income, of an amount by which the undistributed subchapter A net income determined without regard to subsection (e) exceeds the amount which could be distributed on the last day of the taxable year as a dividend (1) without the violation of any action, regulation, rule, order, or proclamation made under the Trading With the Enemy Act of October 16, 1917, as amended, or the First War Powers Act of 1941, and (2) not subject to a lien in favor of the United States. The amendment is applicable to taxable years beginning after 1939.

The House recedes with a clerical amendment.

Amendment No. 103: This is a technical amendment to provide that the fifth sentence of section 1700 (a) (1) of the code, added by Public Law 124, Eighty-second Congress, shall be stricken from the code as surplusage upon elimination of the second sentence as provided in the House bill. The House recedes.

Amendment No. 104: This amendment retains the substantive provisions of the House bill, but differs therefrom in the following respects:

(a) Whereas the House bill would grant an exemption from the admissions tax in the case of shows or performances the proceeds of which inure exclusively to the benefit of certain organizations, such as religious, charitable, and educational groups, no such exemption would apply, under the Senate amendment, in the case of any motion-picture exhibition. Under the Senate amendment, to come within the exemption privilege, a religious institution must be a church or a convention or association of churches; an educational institution, to be entitled to the exemption, must have a regular curriculum and student body; and a charitable institution must be supported, in whole or part, by Federal or State funds or by contributions from the general public.

(b) The Senate amendment eliminates the pre-1941 exemption in the case of admissions all the proceeds of which inure exclusively to the benefit of societies for the prevention of cruelty to children or animals and the pre-1941 exemption in the case of societies or organizations conducted for the sole purpose of maintaining a cooperative or community center motion-picture theater.

(c) Whereas the House bill would exempt admissions to agricultural fairs and to any exhibit, entertainment, or other pay feature conducted by the fair association as part of the fair, the Senate amendment limits the exemption to the general admission charge to the fair only.

(d) The exemption granted under the House bill in the case of benefits conducted for or on behalf of police or fire departments, their members or heirs has been further limited to provide that the proceeds from such benefits must inure exclusively to the benefit of the police or fire department or to a retirement, pension or disability fund for the members or their heirs.

(e) The Senate amendment also makes it plain that an exemption from the admissions tax is to apply to operas as well as symphonies which receive their support from voluntary contributions.

The House recedes with an amendment which provides an exemption from tax on admissions, the proceeds of which inure exclusively to the benefit of an organization (organized prior to October 1, 1951) which is exempt under section 101 (6) of the code and which is operated for the purpose of conducting an annual chautauqua program of educational, cultural, and religious activities at a permanent location.

The bill restores the provisions of section 1701 (c) of the code without change, so that admissions to concerts conducted by a civic or community membership association (such as orchestras, choral societies, etc.) will be exempt from tax.

Amendment No. 105: This is a clerical amendment. The House recedes.

Amendment No. 106: This amendment grants an exemption from the admissions tax covering admissions (1) to a home or garden which is temporarily opened to the general public as part of a program carried on by a society or organization for such purpose and (2) to historic sites, houses, and shrines, and museums conducted in connection therewith, maintained and operated by a society or organization devoted to the preservation of such places. The House recedes.

Amendment No. 107: This amendment provides that the increase in the rate of tax with respect to cigarettes shall be reduced to the present rate of tax effective January 1, 1954. The House recedes with an amendment fixing the rate reduction date as April 1, 1954.

Amendments Nos. 108 and 109: These are clerical amendments. The House recedes.

Amendment No. 110: This amendment makes provision for a floor-stocks refund on tax-paid cigarettes which are held for sale on January 1, 1954, the rate reduction date specified in the bill as passed by the Senate. The House recedes with an amendment fixing April 1, 1954, as the inventory date to correspond with the change made in the rate reduction date and an amendment fixing July 1, 1954, as the date before which claims for refund must be filed.

Amendment No. 111: This amendment provides for a reduction in the rate of tax on snuff and chewing and smoking tobacco from 18 cents per pound to 10 cents per pound. The House recedes with a technical amendment.

Amendment No. 112: This amendment strikes out the provisions of section 431 of the House bill imposing a retailers' excise tax upon mechanical lighters for cigarettes, cigars, and pipes. Such articles will be taxed at the manufacturers' level at the rate of 15 percent (see amendment No. 189). The House recedes.

Amendments Nos. 113 and 114: These amendments are clerical. The House recedes.

Amendments Nos. 115 and 116: These amendments provide that the retailers' excise tax shall not apply with respect to the sale of miniature samples of cosmetics, toilet articles, lotions, powder, etc., taxable under section 2402 (a) of the code, made by a manufacturer or distributor to a house-to-house salesman for demonstration purposes only unless such samples are resold by the salesman. The House recedes.

Amendment No. 117: This amendment is clerical. The House recedes.

Amendment No. 118: This amendment strikes out all of the provisions of the House bill relating to the imposition of a tax of 2 cents per gallon upon any liquid sold or used as a fuel in a Diesel-powered highway vehicle. The House recedes with an amendment which restores the House provisions but provides that effective April 1, 1954, the rate of tax on such fuel will be reduced to 1½ cents per gallon.

Amendments Nos. 119 and 120: These amendments are clerical. The Senate recedes.

Amendments Nos. 121 and 122: These amendments provide that the increase in tax imposed with respect to distilled spirits generally and to imported perfumes containing distilled spirits shall be reduced to the present rate of tax effective January 1, 1954. The House recedes with an amendment fixing April 1, 1954, as the rate reduction date in lieu of January 1, 1954.

Amendments Nos. 123, 124, 125, and 126: These amendments are clerical. The Senate recedes.

Amendments Nos. 127, 128, and 129: These amendments provide that the increase in tax with respect to wines of the various classifications specified shall be reduced to the present rate of tax effective January 1, 1954. The House recedes with an amendment providing that the rate reduction date shall be April 1, 1954.

Amendment No. 130: This amendment is clerical. The Senate recedes.

Amendment No. 131: This amendment provides that the increase in tax imposed with respect to certain sparkling wines, liqueurs, and cordials shall be reduced to the present rate of tax effective January 1, 1954. The House recedes with an amendment establishing the rate reduction date as April 1, 1954.

Amendments Nos. 132, 133, 134, 135, and 136: These are clerical amendments. The Senate recedes.

Amendment No. 137: This amendment provides that the increase in the rate of tax imposed with respect to fermented malt liquors shall be reduced to the present rate of tax effective January 1, 1954. The House recedes with an amendment providing that the rate reduction date shall be April 1, 1954.

Amendments Nos. 138, 139, and 140: These amendments are clerical. The Senate recedes.

Amendment No. 141: This amendment provides for floor stocks refunds with respect to tax-paid distilled spirits, wine, and beer held for sale upon the termination of the tax rate increases proposed for these products in the bill. The House recedes with an amendment fixing the inventory date to be used in determining the amount of refunds as April 1, 1954, in lieu of January 1, 1954, and with a clerical amendment.

Amendment No. 142: This is a clerical amendment. The House recedes with a clerical amendment.

Amendment No. 143: This is a clerical amendment. The House recedes with a clerical amendment.

Amendments Nos. 144, 145, and 146: These amendments are clerical. The Senate recedes.

Amendments Nos. 147, 148, and 149: These amendments provide that the increase in the occupational tax for wholesale dealers in liquor, retail dealers in liquor, and wholesale dealers in malt liquor, respectively, shall be reduced to the present rate on and after January 1, 1954. Under the House bill, the increase in rates was permanent. The Senate recedes.

Amendment No. 150: This amendment is clerical. The Senate recedes.

Amendment No. 151: The House bill provided for an increase in the rate of draw-back on distilled spirits used in certain non-beverage products. The Senate amendment makes technical revisions in this provision so as to provide for reduction of the amount of draw-back after December 31, 1953, to correspond with the reduction in the rate of tax on distilled spirits on and after January 1, 1954. The House recedes with clerical amendments and with an amendment providing that the reference to draw-backs made after December 31, 1953, shall be changed to March 31, 1954, to take into account the change in the rate reduction date.

Amendment No. 152: This amendment is clerical. The Senate recedes.

Amendment No. 153: This amendment eliminates the increase in tax proposed under the House bill on bowling alleys and billiard and pool tables. The House recedes.

Amendment No. 154: This is a clerical amendment. The House recedes with a clerical amendment.

Amendment No. 155: This is a clerical amendment. The Senate recedes.

Amendment No. 156: This is a clerical amendment. The House recedes with a clerical amendment.

Amendments Nos. 157, 158, 159, 160, 161, and 162: These amendments are clerical. The Senate recedes.

Amendment No. 163: This amendment is technical and makes it clear that any person who is liable for tax under subchapter A of chapter 27A of the code, as added by the bill, or who is engaged in receiving wagers for or on behalf of any person so liable, and who commenced the activity which makes him subject to tax, or who was engaged in receiving such wagers, prior to the day on which such tax becomes effective shall be required to pay the special tax imposed by subchapter B of chapter 27A. The House recedes with clerical amendments.

Amendments Nos. 164 and 165: These are clerical amendments. The Senate recedes.

Amendment No. 166: This amendment provides that the increase in the rate of the manufacturers' excise tax with respect to trucks, busses, etc., shall revert to the present rate of tax effective January 1, 1954. The House recedes with an amendment providing that the rate reduction date shall be April 1, 1954.

Amendment No. 167: This amendment eliminates the present tax of 7 percent upon the sale of house trailers, including parts and accessories therefor. This amendment will become effective on the first day of the first month which begins more than 10 days after the date of enactment of the bill, thus, the tax would apply with respect to the sale of house trailers made prior to such effective date and notwithstanding that such purchases may be paid for on an installment plan after such date. A house trailer would be considered as sold prior to such effective date if the right of possession thereto passed to the purchaser prior to such effective date.

The amendment also provides that the increase in the rate of the manufacturers' excise tax with respect to automobile chassis and bodies, motorcycles, trailers, and semi-trailers (other than house trailers) suitable for use in connection with automobiles, shall revert to the present rate of tax with respect to sales made on and after January 1, 1954. The House recedes with an amendment providing that the rate reduction date shall be April 1, 1954.

Amendment No. 168: This amendment provides that the increase in the rate of the manufacturers' excise tax with respect to parts and accessories for automobiles shall revert to the present rate of tax with respect to sales made on and after January 1, 1954. The House recedes with an amendment providing that the rate reduction date shall be April 1, 1954.

Amendment No. 169: This is a technical amendment. The House recedes.

Amendment No. 170: This is a clerical amendment. The Senate recedes.

Amendment No. 171: This is a technical amendment. The House recedes.

Amendment No. 172: This is a clerical amendment. The House recedes with a clerical amendment.

Amendment No. 173: This amendment provides that a manufacturer of refrigerator components may sell such components tax free to a wholesaler or dealer if such components are purchased for resale to a manufacturer of refrigerator equipment and provided the regulations prescribed by the Secretary of the Treasury relating to such sales are complied with. The House recedes with clerical amendments.

Amendment No. 174: This amendment (a) revises the taxable list of sporting goods in the House bill to exclude baseballs and baseball equipment, (b) reinstates certain items taxable under present law but excluded under the House bill, (c) retains the present 10 percent rate of tax with respect to fishing equipment, and (d) increases the rate of tax, like the House bill, with respect to the remaining sporting equipment to 15 percent. The House recedes, with an amendment providing that snow toboggans and sleds 60 inches or less in length, and skates, shall not be subject to tax and that the increase in the rate of tax shall revert to the present rate of tax effective April 1, 1954.

Under the provisions of the Act of August 9, 1950 (the Dingell-Johnson Act), an amount equal to the revenue accruing from the tax on fishing rods and equipment is authorized to be appropriated for assistance to the States for fish restoration and management projects. The amendments made by this bill will not affect such authorization nor the permanency of such Act.

Amendment No. 175: This is a clerical amendment. The House recedes with a clerical amendment.

Amendment No. 176: This is a clerical amendment. The House recedes.

Amendment No. 177: This is a clerical amendment. The Senate recedes.

Amendment No. 178: This amendment strikes out electric direct motor-driven fans and air-circulators of the industrial type and electric air heaters of the blower type from the list of items subject to the manufacturers' excise tax under section 3406 (a) (3) of the code. Senate amendment No. 182 exempts from the tax all appliances listed in such sections which are of the industrial type.

The House recedes with an amendment which provides that the tax imposed by section 3406 (a) (3) of the code shall not apply to electric direct motor-driven fans and air circulators of the industrial type, and shall apply in the case of all other appliances listed in section 3406 (a) (3), including those added to such list by the bill, only to such appliances of the household type.

Amendment No. 179: This is a clerical amendment. The House recedes with a technical amendment to conform to the action of the conferees with respect to amendment No. 178.

Amendment No. 180: This amendment adds electric exhaust blowers to the list of items subject to the manufacturers' excise tax. The House recedes.

Amendment No. 181: This amendment strikes out the provision of the House bill which would have added electric shavers to the list of appliances subject to the manufacturers' excise tax under section 3406 (a) (3) of the code, and adds electric garbage-disposal units to such list. The House recedes.

Amendment No. 182: This amendment provides that the tax imposed by section 3406 (a) (3) will not apply to appliances of the industrial type. The substance of this amendment is covered by the action of the conferees with respect to amendment No. 178. The Senate recedes.

Amendment No. 183: This amendment makes the provisions of section 3441 (b) (relating to sale price of a taxable article) applicable to a situation where a manufacturer has a plan of negotiating the sale of an article to the ultimate user for and on behalf of the retailer of such article. The Senate recedes.

Amendment No. 184: The House removed certain items from the list of articles subject to the manufacturers' excise tax on photographic apparatus, imposed by section 3406 (a) (4) of the code, and subjected the items upon which the tax is retained to a uniform 20 percent rate.

The Senate amendment (a) retains the present list of photographic items subject to tax and subjects such items to a uniform tax rate of 15 percent with respect thereto and (b) provides that the tax on a sale of unexposed 35-millimeter color positive-print motion-picture film shall be computed, in lieu of on the price for which so sold, on the price for which an equivalent quantity of unexposed 35-millimeter black-and-white positive-print motion-picture film is sold. The House recedes with an amendment which restores the House provision with a clerical amendment.

Amendment No. 185: This is a clerical amendment. The House recedes with a clerical amendment.

Amendments Nos. 186 and 187: These are clerical amendments. The House recedes.

Amendments Nos. 188 and 189: The House bill imposed a manufacturers' excise tax, at a rate of 20 percent, on mechanical pencils, fountain pens, and ball point pens. Senate amendment No. 189 adds to this list mechanical lighters for cigarettes, cigars, and pipes (the House had imposed a tax on these items at the retail level; see amendment No. 112), and Senate amendment No.

188 provides a rate of tax of 10 percent on all these items. The House recedes on amendment No. 189, and recedes with an amendment on amendment No. 188 fixing the rate of tax on these items at 15 percent.

Amendment No. 190: This is a technical amendment. The House recedes.

Amendment No. 191: This is a clerical amendment. The House recedes with a clerical amendment.

Amendment No. 192: This is a clerical amendment. The House recedes.

Amendment No. 193: This is a clerical amendment. The House recedes with a clerical amendment.

Amendment No. 194: This amendment provides that the increase in the rate of tax on gasoline shall be reduced to the present rate of tax effective January 1, 1954. The House recedes with an amendment fixing the rate reduction date as April 1, 1954.

Amendments Nos. 195, 196, and 197: These are clerical amendments. The House recedes on amendments Nos. 195 and 196 and recedes with a clerical amendment on amendment No. 197.

Amendment No. 198: This is a technical amendment. The House recedes with a further technical amendment providing that the credit and refund provisions of section 3443 of the code shall be applicable to the floor stocks tax imposed on gasoline.

Amendment No. 199: This amendment provides for a floor stocks refund on certain gasoline held for sale on January 1, 1954, the date provided by Senate amendment No. 194 for termination of the increase in tax on gasoline. The House recedes with an amendment fixing April 1, 1954, as the inventory date to correspond with the change made in the rate reduction date.

Amendment No. 200: This is a clerical amendment. The House recedes with a clerical amendment.

Amendments Nos. 201, 202, and 203: These are clerical amendments. The Senate recedes.

Amendment No. 204: The House bill reduced the rate of tax on domestic telegraph, cable, or radio dispatches from 25 percent to 20 percent. The Senate amendment further reduces the rate of tax to 15 percent. The House recedes.

Amendments Nos. 205, 206, 207, 208, and 209: These are clerical amendments. The House recedes.

Amendment No. 210: This amendment provides that no tax shall be imposed under section 3465 (a) (1) (A) of the code on any payment received for any telephone or radio telephone message which originates within a combat zone, as defined in section 22 (b) (13), from a member of the Armed Forces of the United States performing service in such combat zone. The House recedes with a clerical amendment.

Amendment No. 211: This is a clerical amendment. The House recedes with a clerical amendment.

Amendment No. 212: This amendment strikes out the provisions of the House bill which would impose a tax on the transportation of crude petroleum and liquid products thereof by water from one point in the United States to another when such transportation is performed by the owner of the crude petroleum and liquid products thereof. The House recedes.

Amendment No. 213: This amendment provides that no tax shall be imposed with respect to the transportation of persons by water on a vessel which makes one or more intermediate stops at ports within the United States, Canada, or Mexico on a voyage which begins or ends in the United States and ends or begins outside the northern portion of the Western Hemisphere if the vessel in stopping at such intermediate ports is not authorized both to discharge

and to take on passengers. The House recedes with a clerical amendment.

Amendment No. 214: This amendment provides that section 3475 of the code, relating to the tax on the transportation of property, shall not apply to the transportation of earth, rock, or other material excavated within the boundaries of, and in the course of, a construction project and transported to any place within, or adjacent to, the boundaries of such project. The House recedes with an amendment providing that the determination as to the applicability of the tax imposed by section 3475 in the case of the transportation of any excavated material, other than transportation to which the amendment made by this subsection applies, shall be made as if this subsection had not been enacted and without inferences drawn from the fact that the amendment made by this subsection is not expressly applicable to the transportation of such other material.

Amendment No. 215: This is a clerical amendment. The House recedes with a clerical amendment.

Amendment No. 216: This amendment provides for a refund of tax on cigarettes, distilled spirits, wine, and beer equal to the difference between the tax paid on such items and the amount of tax made applicable on and after January 1, 1954, brought from a foreign trade zone into customs territory of the United States on and after January 1, 1954, the rate reduction date specified with respect to the taxable articles in question. The House recedes with a clerical amendment and with an amendment fixing the determinative date as April 1, 1954, in lieu of January 1, 1954.

Amendment No. 217: This amendment provides that the Secretary of the Treasury is authorized and directed to make refund, or allow credit, in the case of a distiller or rectifier, if he so elects, in the amount of the internal revenue tax and customs duties paid on spirits previously withdrawn, and lost or rendered unmarketable by reason of the 1951 floods, provided certain conditions are met. The House recedes with a clerical amendment.

Amendment No. 218: This amendment is clerical. The House recedes.

Amendment No. 219: This amendment, for which there is no corresponding provision in the bill as passed by the House, provides in a new subsection (e) (1) of section 430 for the computation of an alternative amount of excess profits tax for each of the first five taxable years of corporations which commenced business after July 1, 1945. The amount computed thereunder would be the maximum excess profits tax if less than the amount computed under section 430 (a) (2). Under the Senate amendment, the maximum tax would not exceed the following percentages of the first \$400,000 of the excess profits net income: 5 percent if the taxable year is the first or second taxable year (determined from the commencement of business), 8 percent for the third taxable year, 11 percent for the fourth taxable year, and 14 percent for the fifth taxable year. Under the Senate amendment, if, for any such year the excess profits net income exceeds \$400,000, the excess over \$400,000 is subject to the same maximum tax as in the case of other corporations.

The amendment also provides rules in subsection (e) (2) for determining, for the purpose of the subsection, when a taxpayer shall be considered to have commenced business and to have had taxable years determined by reference to the date of commencement of business of certain other corporations. It contemplates that the Secretary will, by regulations, provide for the determination of constructive taxable years by reference to the annual accounting period first established by the taxpayer.

The Senate amendment also provides, in effect, that the benefits of the special limitation provisions under section 430 (e) (1) shall be denied to any taxpayer which derives more than 50 percent of its income for the taxable year from contracts or subcontracts to which title I of the Renegotiation Act of 1951 or to which any prior renegotiation act is applicable.

The House recedes with an amendment. Paragraph (1) of subsection (e) is amended to make it clear that the provision is applicable only to taxpayers whose fifth taxable year ends after June 30, 1950. Clauses (ii) and (iii) of subparagraph (E) of subsection (e) (1) are amended to conform the percentage figures specified therein to those provided by the conference agreement on Senate amendment No. 6. A change is made in each of subparagraphs (A) to (D), inclusive, of subsection (e) (1), which makes the percentages therein specified applicable to only the first \$300,000 of excess profits net income instead of to the first \$400,000 of such income as provided in the Senate amendment, and a conforming amendment is made to subsection (e) (1) (E). Amendments are made to paragraph (2) of subsection (e) to make clear that in determining a constructive date of commencement of business and constructive taxable years from such date thereunder, a new determination shall be made each taxable year in the light of the facts for such year. An additional amendment is made to clause (i) of subparagraph (E) to make clear that such clause applies without regard to the provisions of section 445 (g) (1). An additional amendment is made to clause (ii) of such subparagraph to make clear that, for the purpose of such clause, a person shall not be considered a member of a group of persons who control the taxpayer and another corporation unless during the period specified in such clause he owns stock in the corporation at a time when the members of the group control such corporation and he owns stock in the taxpayer at a time when the members of the group control the taxpayer. A change is made in subparagraph (B) of paragraph (2) of subsection (e) to the effect that transactions described in clauses (i) and (iii) shall be disregarded in determining the date as of which the taxpayer shall be considered to have commenced business if the adjusted basis of the aggregate assets acquired by the taxpayer in such transactions before December 1, 1950 (or acquired in the ordinary course of business in replacement of such assets), constituted less than 20 percent of the adjusted basis of the taxpayer's total assets as of December 1, 1950. A change is also made in paragraph (3) of subsection (e) to provide that the gross income of the taxpayer for the taxable year from contracts and subcontracts subject to renegotiation shall, for the purpose of applying the limitation provided by such paragraph, be determined without regard to capital gains and dividends received. Such gross income is the gross income after renegotiation.

Amendment No. 220: This amendment, for which there is no corresponding provision in the House bill, provides for exclusion in the computation of excess profits net income, for both excess profits tax taxable years and base period years, of payments made to a domestic corporation by its related foreign corporation as remuneration for certain technical services rendered. The House recedes with clarifying amendments and an amendment which amends the definition of related foreign corporation to provide that, in order to be a related corporation, 10 percent or more of the stock of the foreign corporation must be owned by the domestic corporation at the time the specified services are rendered.

Amendment No. 221: This amendment adds section 503 to the bill, for which there is no corresponding section in the House bill. This section permits a taxpayer with a fiscal year beginning before January 1, 1950, and ending after March 31, 1950, in computing its average base period net income under the general average method provided by section 435 (d) of the code, to use the period of 48 consecutive months ending March 31, 1950, instead of its base period, if such computation produces a lesser excess profits tax for the taxable year.

The House recedes with an amendment which provides that the excess profits net income for the first 3 months of 1950 shall be subject to the percentage limitations provided in section 435 (e) (2) (E) if such months fall in a taxable year ending after June 30, 1950.

Amendment No. 222: This amendment extends to a new corporation which commenced business before the end of its base period the right to qualify under section 435 (e) of the code for the alternative average base period net income based on growth for the purpose of determining its excess profits credit based on income. The House recedes with technical amendments.

Amendment No. 223: This amendment extends the benefits of section 435 (e) (2) (G) (special alternative average base period net income for a corporation whose excess profits net income for 1949 is not more than 25 percent of its excess profits net income for 1948) to a taxpayer qualifying for growth treatment under section 435 (e) (1) (B) even though it also qualifies as a growth corporation under section 435 (e) (1) (A). The House recedes.

Amendment No. 224: This amendment, for which there is no corresponding section in the House bill, provides limitations in the case of a bank, as defined in section 104 of the code, on the amount of the inadmissible asset adjustment to the net capital addition or reduction for the taxable year, to the net new capital addition for the taxable year, and to the base period capital addition. This amendment also amends section 435 (f) (relating to capital additions in the base period) to make clear that the yearly base period capital of any taxpayer (whether or not a bank) shall not be reduced below zero by the inadmissible asset adjustment.

The House recedes with clarifying amendments and with an amendment dealing with the effective date of the provision applicable to the base period capital addition of banks, making such provision retroactive only at the election of the taxpayer.

Amendment No. 225: This amendment, for which there is no corresponding provision in the House bill, adds two new paragraphs (9) and (10) to section 435 (g) (relating to net capital addition or reduction) in order to provide, if certain conditions are met, that a decrease in inadmissible assets, to the extent in excess of the net capital reduction (if any) for the taxable year, shall be an addition to the excess profits credit computed under the income method. The principal condition to be met is that where there is a decrease in inadmissible assets there must also be a corresponding increase in operating assets before any increase in the credit is allowed.

The House recedes with clarifying amendments and with an amendment providing a special rule for the treatment of a decrease in inadmissible assets in the case of a bank.

Amendment No. 226: This amendment, for which there is no corresponding provision in the bill as passed by the House, permits a dealer in wholly tax-exempt Government securities to elect to increase its excess profits net income by the interest (with certain adjustments) on such obligations, and to treat such obligations as

admissible assets. The House recedes with a technical amendment and an amendment which extends the application of the section to Government obligations any part of the interest from which is allowable as a credit against net income.

Amendment No. 227: This amendment adds section 509 to the bill, for which there is no corresponding provision in the bill as passed by the House. Section 509 adds a new subsection (h) to section 442 (relating to abnormalities during the base period) which in general permits a taxpayer in certain cases, after selecting the 36 months in the base period which result in the highest excess profits net income or lowest deficit in excess profits net income, to eliminate from such 36 months the 12 months having the lowest excess profits net income, or highest deficit, and to use a substitute excess profits net income computed under section 442 (c) for such 12 months. As passed by the Senate, the provision was applicable only to a taxpayer which commenced business before the beginning of its base period and only if the aggregate of the excess profits net income for each of the 12 months for which a substitute excess profits net income is to be computed is less than 35 percent of one-half of the aggregate of the excess profits net income for each of the 24 months remaining after selecting the 12 months to be so adjusted.

The House recedes with technical amendments, and also adds other amendments which further limit the application of this new subsection. The first of these additional limitations requires that in order to be entitled to the benefits of subsection (h), the taxpayer's normal production, output, or operation must be interrupted or diminished because of the occurrence (in the 12 months prior to the period for which a substitute excess profits net income is computed) of events unusual or peculiar in the experience of the taxpayer. Under this limitation there is no requirement that a causal connection be shown between the event and a decline in excess profits net income in the period for which a substitute excess profits net income is to be used.

The second limitation added by the conference agreement appears as a new sentence added to paragraph (1) and prevents a taxpayer from using new subsection (h) in cases where the aggregate excess profits net income for the 24 months, which remain after selecting the 12 months for which a substitute excess profits net income is to be computed, is an amount less than zero.

Amendment No. 228: This amendment provides that in determining total assets under section 442 (f), to which factor the industry rates of return are applied in computing average base period net income under various excess profits tax relief formulas, the sum of the cash and other property included shall be reduced by the amount of the indebtedness (other than that included in the definition of borrowed capital) to a member of a controlled group which includes the taxpayer. The House recedes with an amendment changing the effective date from taxable years ending after the date of enactment of the bill to taxable years ending after June 30, 1950.

Amendment No. 229: This amendment changes section 443, which section provides for the case of a change in products or services occurring during the last 36 months of the base period, so as to include certain base period commitments. The House recedes.

Amendment No. 230: This amendment provides that in determining total assets under section 445 (c), which factor is used by a new corporation in computing its average base period net income for any of its first three years (if that year is an excess profits tax taxable year), the net capital addition or reduction shall be computed without regard to the 75 percent limitation as to borrowed

capital and loans to members of a controlled group. The House recedes.

Amendment No. 231: This amendment provides that a corporation engaged as a common carrier in the furnishing or sale of transportation of oil or other petroleum products (including shale oil) by pipeline shall be eligible to qualify under section 448 for the alternative excess profits credit provided for regulated public utilities if such corporation is subject to the jurisdiction of a public service or public utility commission or other similar body of the District of Columbia or of any State. The House recedes with an amendment requiring that the rates for such furnishing or sale be subject to the jurisdiction of the public service or public utilities commission.

Amendment No. 232: This amendment provides that for the purpose of filing a consolidated return with its railroad lessee corporation (using the alternative credit provided by section 448 for regulated public utilities), a railroad lessor corporation meeting certain requirements shall be considered a corporation subject to section 448. The House recedes.

Amendment No. 233: This amendment adds section 515 to the bill, for which there is no corresponding section in the bill as passed by the House. Section 515 allows to producers of potash, sulfur, and metallurgical grade and chemical grade limestone the alternative method for computing nontaxable income from exempt excess output provided in section 453 (b) (2) of the code where the properties were in operation during the normal period. Where these mineral properties were not in operation during the normal period, the net income from such properties is accorded the benefits of section 453 (b) (4) now available in the case of metal and coal mines, timber blocks, and natural-gas properties. The House recedes.

Amendment No. 234: This amendment, for which there is no corresponding provision in the House bill, adds section 459 (a) to the code to provide a special credit for certain corporations under specified circumstances relating to a transition from wartime to peacetime production and to an increase in peacetime capacity. The House recedes with clarifying amendments.

Amendment No. 235: This amendment adds section 517 to the bill. There is no corresponding section in the House bill. Section 517 amends section 459, as added to the code by section 516 of the Senate amendment No. 234, by adding a new subsection (b). This new subsection grants to a taxpayer which suffered a catastrophe during the last 36 months of its base period, if certain conditions are met, two alternative methods of computing its average base period net income. The taxpayer may use whichever results in the lesser excess-profits tax for the taxable year. The first alternative allows such a taxpayer to substitute for the excess profits net income for each month of the taxable year in which the catastrophe occurred, the average of the excess profits net income for the months in the base period preceding the taxable year in which the catastrophe occurred. If the taxpayer computes its average base period net income under the first alternative, it will not be denied the benefits of its base period capital addition. The second alternative allows the taxpayer to compute its average base period net income under the growth alternative of section 435 (e) (2) (G) (i) and (ii) of the code.

The House recedes with technical amendments which separate new subsection (b) into two paragraphs. The first paragraph sets forth eligibility requirements, and the second paragraph sets forth the computation of average base period net income under this subsection.

Amendment No. 236: This amendment, for which there is no corresponding provision in

the House bill, adds a new subsection (c) to section 459 of the code, and is applicable in the case of a taxpayer engaged primarily in the newspaper-publishing business which, after the first half of its base period and before July 1, 1950, consolidated its mechanical, circulation, advertising, and accounting operations with such operations of another newspaper-publishing corporation in the same area. In order to be eligible for the benefits of this subsection the taxpayer must meet certain specified requirements.

In the case of a taxpayer eligible for the benefits of this subsection, the average base period net income under the Senate amendment shall be an amount computed under section 435 (d) plus an amount equal to the excess of the average of the amounts paid or incurred as expenses in the conduct of the mechanical, circulation, etc., operations during the two taxable years of the taxpayer next preceding the taxable year in which such consolidation began over such amounts paid or incurred during the first taxable year of the taxpayer beginning after such consolidation. The expenses referred to are those which are taken into account in computing net income. This section is inapplicable to any taxable year of the taxpayer unless the consolidation was continued throughout such taxable year.

The House recedes with amendments, one of which provides that the eligibility requirements in paragraphs (3) and (4) section 459 (c) shall be in the alternative. Another amendment provides that in determining the excess amount of expenses proper adjustment shall be made for increases in the unit cost of labor and newsprint (due to wage and price increases) following such consolidation. It is contemplated that such adjustment shall be made in accordance with regulations prescribed by the Secretary. The House also adds an amendment to provide for appropriate adjustments for any case in which a taxable year referred to in this new subsection is a period of less than 12 months.

Amendment No. 237: This amendment, for which there is no corresponding provision in the House bill, provides a special credit for corporations beginning the television broadcasting business before January 1, 1951. It provides for a computation of an individual rate of return in the case of corporations engaged in the radio and television broadcasting business and for an application of such rate of return (or of the industry rate of return for the industry which includes radio broadcasting) to the assets of the taxpayer employed in the radio and television broadcasting business, or in the case of an acquisition of the television broadcasting business after the base period, to its assets employed only in the television business. In the case of a corporation engaged solely in radio and television broadcasting, this rate of return is applied to its total assets. In the case of a corporation engaged in another business or businesses, the credit includes an average base period net income computed with respect to such other business or businesses. The House recedes with an amendment providing in all cases that the industry rate of return or the individual rate of return, as the case may be, shall be applicable only to the assets of the corporation used in the television broadcasting business. The amendment also provides that the average base period net income computed in connection with the taxpayer's nontelevision business shall be only the average base period net income computed under section 435 (d) (relating to the general average of earnings during the base period); that the base period capital addition shall be allowable with regard to the taxpayer's nontelevision business; and that, in the case of corporations which first engaged in the television broadcasting business after the close of the base period and before January 1, 1951, the television assets against which the in-

dustry rate of return or the individual rate of return are to be applied shall be those held on the last day of the calendar month in which the corporation first engaged in the television broadcasting business.

The House amendment changes the provision in the Senate amendment for the elimination of duplication in the computation of a credit under this section by providing specifically the method to be used in eliminating such duplication. It is provided that if any portion of the television assets used in computing the television portion of the credit was acquired, directly or indirectly, by the use of assets attributable at any time during the base period to a business of the taxpayer other than television broadcasting, the excess profits net income with respect to such other business shall be properly adjusted by eliminating the portion thereof attributable to the assets used in the acquisition of the television properties for months prior to such acquisition. The excess profits net income attributable to such assets is determined by reference to the ratio of such assets to the total assets of the taxpayer other than properties used in television broadcasting.

Amendment No. 238: This amendment adds a base period commitment rule under section 444, which section provides for the computation of the average base period net income by applying a base period industry rate of return to the total assets of the taxpayer in case of an increase in capacity for production or operation occurring during the last 36 months of the base period. The House recedes with an amendment revising the Senate provision. As amended, the commitment rule provides that if, during the first taxable year ending after June 30, 1950, the taxpayer completed construction of a factory building or other manufacturing establishment (for example, an oil refinery), including the installation of the machinery or equipment for use in such factory building or such other establishment, such factory building or such other establishment and such machinery or equipment shall for the purpose of determining whether there is an increase in capacity under the provisions of section 444 (b), but not for the purpose of computing the average base period net income under section 444 (c), be considered to have been added to its total facilities on the last day of its base period. The provision is applicable only if (A) the taxpayer, prior to the end of its base period, had completed construction work representing more than 40 percent of the total cost of construction of such factory building or such other establishment, and (B) the completion of such factory building or such other establishment was in pursuance of a plan to which the taxpayer was committed prior to the end of its base period.

Amendment No. 239: This amendment, for which there is no corresponding provision in the House bill, provides for the addition of a new part IV to subchapter D of the Internal Revenue Code dealing with the excess profits credit based on income in connection with certain taxable acquisitions before December 1, 1950. Under this amendment a "purchasing corporation" as defined in the part, would, in certain cases, obtain the use of the income experience of a "selling corporation" for the purpose of computing its excess profits credit. The House recedes with an amendment making changes for purposes of clarification and in order further to define the scope of application of the part.

The Senate amendment includes in the definition of a purchasing corporation any corporation which acquired substantially all of the assets of another corporation or of a partnership in a transaction other than a part II transaction. The amendment made by the House includes in this definition a corporation which has acquired substantially all of the properties of a business

owned by a sole proprietorship. The definition in the Senate amendment also includes a corporation which acquired only part of the assets of another corporation in a transaction other than a part II transaction provided the properties acquired were substantially all the properties of a separate business of the other corporation and that such acquisition was in furtherance of a plan of complete liquidation by such other corporation. The purchase under the same circumstances of a separate business which constituted part of the assets of a partnership is added to the definition by the House amendment. The House amendment also deletes a provision which included in the definition of "purchasing corporation" a corporation which receives assets as paid-in surplus or as a contribution to capital from another corporation which had acquired those assets as a purchasing corporation.

This provision under the conference agreement will in general cover those cases in which assets constituting the whole of a separate business of "a selling corporation" were acquired from a corporation, sole proprietorship, or partnership. It does not cover an acquisition in a tax-free transaction, for example, a case in which a corporation is liquidated to its stockholders and they in turn place all or part of the assets in a new corporation in a tax-free transaction.

The House amendment makes clear that the part provides for the use by the purchasing corporation of an average base period net income computed only under section 435 (d) (the general average of earnings method), that, under the part, the deficits as well as the excess profits net income of the selling corporation for any month shall be reflected in the computation, and that the excess profits net income to which reference is made is that of the corporation in the case of an acquisition of substantially all of the assets of a selling corporation and is the portion thereof properly allocable to the business or businesses acquired in the case of an acquisition of only part of the assets, representing one or more separate businesses of a selling corporation.

The Senate amendment provides that, for part IV to apply, the selling corporation must, immediately after the transaction, discontinue all business activities and be completely liquidated in a transaction other than a part II transaction. The House amendment changes this requirement to provide that the selling corporation must not have engaged in any business activities after the part IV transaction other than those incident to its complete liquidation and must, within a reasonable time after such cessation of business activities, have been completely liquidated (whether before or after the part IV transaction) in a transaction other than a part II transaction. Such liquidation must terminate the selling corporation's existence.

The Senate amendment further provides that the properties acquired in the part IV transaction must be substantially all of the properties which were used by the selling corporation (or by a component corporation of such selling corporation) in the operation of the business whose assets were acquired by the purchasing corporation. The House amendment provides that such properties must be those used by the selling corporation in the production of the excess profits net income or deficit therein which is used in the computation of the credit provided by this part.

The Senate amendment further provides that the business acquired in the part IV transaction must have been operated by the purchasing corporation from the date of such transaction to the end of the taxable year. The House amendment provides that such business must be operated by the purchas-

ing corporation until the end of the taxable year unless transferred by it, during the taxable year, in a part II transaction to which the provisions of the new section 462 (b) (4) of the code are applicable.

The House amendment adds three special rules. The first provides that, for the purpose of the definition of a purchasing corporation, properties shall be deemed acquired from the selling corporation if they are purchased directly from the selling corporation or if they are purchased from its stockholders, provided such stockholders did not transfer them to the purchasing corporation in a part II transaction. This provision is applicable only in a case in which the selling corporation was first liquidated to its stockholders and the properties were forthwith sold by them to the purchasing corporation. The second special rule provides for the determination under regulations prescribed by the Secretary of all of the computations required by this part as if the business or businesses which were purchased from a partnership or sole proprietorship had been operated by a corporation. The third special rule is that in the case of the purchase of less than all of several businesses operated by a corporation or partnership, the amount of excess profits net income allocable to all or any number of the purchasing corporations or other persons receiving such properties upon the liquidation of the selling corporation shall not exceed 100 percent of the excess profits net income of the selling corporation. Thus, in a case in which a selling corporation has an excess profits net income for any month of \$100 existing by reason of one of its businesses having an income of \$300 and another having a loss of \$200, the amount of the excess profits net income available to either or both of the parties receiving the two businesses shall not exceed \$100 for such month.

The House amendment adds a new subsection (e) dealing with successive transactions and providing that if one part IV transaction succeeds another part IV transaction, the excess profits net income of the first selling corporation is not made available to the second purchasing corporation. The excess profits net income, however, of the first purchasing corporation is available to the second purchasing corporation but, for that purpose, it must be computed without regard to the excess profits net income of the first selling corporation. It also provides that the excess profits net income of a selling corporation under this part includes the amount previously available to it under part II with respect to a previous part II transaction. Thus, where corporation A had previously merged with corporation B in a transaction described in section 461 (a), the purchase by corporation C of the assets of corporation B under the circumstances outlined in this part will make available to corporation C the excess profits net income (or deficit) of both corporations A and B, as determined under part II for corporation B for the period prior to the merger, as well as the excess profits net income of corporation B for the period after the merger.

The Senate amendment provided for the promulgation of rules by the Secretary, consistent with the principles of part II, for the application of this part. For the purpose of clarification, the conference agreement specifically provides for the promulgation of such rules with respect to (1) base period capital addition, (2) net capital addition or reduction, (3) excess profits net income, (4) duplication, and (5) the excess profits credit of the purchasing corporation for the taxable year in which the transaction occurs if such taxable year is a year which ended after June 30, 1950. It is also provided that the Secretary shall not apply the principles of certain specified provisions of part II.

It is not intended by this specific enumeration of principles to be followed by the Sec-

retary that the general authority to prescribe rules for the application of this part shall be restricted except as specifically provided. Such regulations may include other principles appropriate to the determination of the computations provided by this part.

The Senate amendment contains technical amendments to the code, which technical amendments are revised by the House amendments. Included in these technical amendments as revised are provisions for the application of part II in cases where a corporation acquired in a part II transaction properties of a corporation which was a purchasing corporation in a previous part IV transaction. In general, the amendments provide that the income experience of the original selling corporation shall be used by the acquiring corporation in determining its average base period net income under section 435 (d) with reference to part II. For these provisions to be applicable, however, substantially all of the properties acquired in the part IV transaction (or replacements thereof in the ordinary course of business) must have been transferred in the part II transaction, or, if the part II transaction involved a component corporation which acquired the properties in a previous part II transaction, substantially all of the properties of such component corporation must have been acquired by the acquiring corporation. The business operated by the selling corporation must have been continuously operated by the acquiring corporation to the end of the taxable year, unless the business is transferred by the acquiring corporation during the taxable year in a part II transaction to which the provisions of section 462 (b) (4) are applicable. If the acquiring corporation obtained the properties in a part II transaction of the type described in section 461 (a) (1) (E) ("split-up"), the provisions of the following amendment to section 462 (1) (6) must be satisfied: Section 462 (1) (6) is amended to provide that if the component corporation in the part II transaction was a purchasing corporation in a previous part IV transaction, and if section 462 (b) (4) is applicable, the allocation of the excess profits net income of the component corporation to the acquiring corporation must be based upon the earnings experience of the assets transferred rather than upon the fair market value rule of allocation provided in section 462 (1), this provision being applicable whether or not the other parties to the part II transaction agree to such an allocation. The technical amendments, as revised, further provide that section 463 and section 464, relating to capital changes of the acquiring corporation, shall be applied under regulations promulgated by the Secretary with respect to cases in which the part II transaction follows a part IV transaction.

Amendment No. 240: This amendment adds section 522 to the bill, for which there is no corresponding section in the bill as passed by the House. Section 522 adds bauxite to the list of minerals deemed strategic under section 450 (b) (1) of the code for the purpose of exempting from the excess-profits tax the portion of the adjusted excess profits net income attributable to the mining of such mineral. The House recedes with a clerical amendment.

Amendment No. 241: This amendment provides that, except as otherwise provided in section 510 of the bill, the amendments made by title V of the bill, as passed by the Senate, shall be applicable with respect to taxable years ending after June 30, 1950. The House recedes with amendments conforming to the conference agreement with respect to amendments Nos. 224 and 228. Accordingly, the amendments made by title V are applicable with respect to taxable years ending after June 30, 1950, except as otherwise provided in section 506 (d) of the bill (relating to base period capital additions of banks).

Amendments Nos. 242, 243, and 244: These amendments are clerical. The House recedes.

Amendment No. 245: This amendment deals with possible tax liability for taxable years beginning prior to January 1, 1951, in the case of certain organizations carrying on trades or businesses the profits of which were dedicated exclusively to exempt purposes. Specifically, this amendment adds to the list of feeder organizations covered by the House bill, those organizations all of the profits of which inure to the benefit of a hospital or to an institution for the rehabilitation of physically handicapped persons which maintains or is building for proper maintenance such a hospital or institution staffed or to be staffed by qualified professional persons for the treatment of the sick and/or the rehabilitation of the physically handicapped, or to an eleemosynary corporation under State law exempt under section 101 (6) of the Internal Revenue Code.

The House recedes with an amendment striking out the reference to "an eleemosynary corporation under State law exempt under section 101 (6) of the Internal Revenue Code," and with a clarifying amendment providing that no implication is to be drawn from the amendment as to the tax status for taxable years prior to 1951 of so-called feeder organizations not dealt with in section 302 of the Revenue Act of 1950 as amended.

Amendment No. 246: The House bill provided that the percentage of the average base period net income to be taken into account in computing the excess-profits credit based on income shall be reduced from 85 percent of the average base period net income to 75 percent thereof. This reduction was effective, under the House bill, as of January 1, 1951. The Senate amendment struck this provision of the House bill. The House recedes with an amendment under which the percentage of the base period net income is reduced from 85 to 83 percent, effective July 1, 1951, and in the case of the calendar year 1951, to 84 percent. Provision is made under the conference agreement for the case of a fiscal year beginning before July 1, 1951, and ending after June 30, 1951, so that a proportionate part of the decrease in the excess profits credit will be reflected.

Amendment No. 247: This amendment, for which there is no corresponding provision in the House bill, amends sections 813 and 936 of the code to provide that, where property included for Federal estate tax purposes in the gross estate of a resident or citizen of the United States is situated in a foreign country and subjected to a death tax by such country, a credit shall be allowed against the estate tax for such foreign death tax. The amendment applies only with respect to estates of residents and citizens dying after the date of enactment of the bill.

The House recedes with clarifying amendments.

Amendment No. 248: This is a clerical amendment. The House recedes with a clerical amendment.

Amendment No. 249: This amendment, for which there is no corresponding provision in the House bill, amends section 863 (c) of the code to extend the estate tax exemption granted by that section with respect to works of art loaned by a nonresident alien to the National Gallery of Art, Washington, D. C., to works of art loaned to other public galleries or museums. The House recedes with a clerical amendment.

Amendment No. 250: This amendment, for which there is no corresponding provision in the House bill, makes certain changes in section 939 of the code, relating to the estate tax treatment of certain members of the Armed Forces.

The amendment provides that the tax imposed by section 935 (the additional estate tax) shall not apply to the transfer of the net estate of a citizen or resident of the

United States dying after June 24, 1950, and before January 1, 1954, while in active service as a member of the Armed Forces of the United States, if such decedent (1) was killed in action while serving in a combat zone, as determined under section 22 (b) (13), or (2) died at any place as a result of wounds, disease, or injury suffered, while serving in a combat zone (as determined under section 22 (b) (13)) and while in line of duty, by reason of a hazard to which he was subjected as an incident of such service.

The House recedes with a clerical amendment.

Amendment No. 251: This amendment, for which there is no corresponding provision in the House bill, adds a new section to the bill to provide that in the case of a decedent dying after March 18, 1937, and before February 11, 1939, the determination of whether property is included in the gross estate of the decedent as a transfer intended to take effect in possession or enjoyment at or after his death shall be made in conformity with the provisions of article 17 of Regulations 80, as amended by Treasury Decision 4729. The House recedes with a clerical amendment.

Amendment No. 252: This amendment, for which there is no corresponding provision in the House bill, amends section 7 (b) of Public Law 378, Eighty-first Congress (the Technical Changes Act of 1949). Section 7 (b) now provides that the provisions of section 811 (c) (1) (B) of the code, providing for inclusion in a decedent's estate of property transferred with reservation of rights in income, shall not be applicable to transfers made before March 4, 1931 (and, in some cases, before June 6, 1932), if the decedent died before January 1, 1950. Under the amendment, inapplicability of section 811 (c) (1) (B) is extended to estates of decedents dying before January 1, 1951. The House recedes with a clerical amendment.

Amendment No. 253: This amendment, for which there is no corresponding provision in the House bill, amends section 7 (b) of Public Law 378, Eighty-first Congress (the Technical Changes Act of 1949) to provide that the provisions of section 811 (c) (1) (C) of the code (relating to inclusion in gross estate of transfers intended to take effect in possession or enjoyment at or after death) shall not apply to transfers made before September 8, 1916. The effect of the last sentence of this section, which makes section 7 (c) of such public law inapplicable to overpayments resulting from the enactment of this section of the bill, is to limit refunds of such overpayments to those situations in which the refund is not prohibited by the statute of limitations or some other law or rule of law. The House recedes with a clerical amendment.

Amendment No. 254: This amendment, for which there is no corresponding provision in the House bill, permits the making of refund or credit of any overpayment resulting from the application of section 503 of the Revenue Act of 1950, if claim therefor is filed within 1 year from the date of enactment of the bill, even though the making of such refund or credit is otherwise prohibited by the statute of limitations or any other law or rule of law (other than sec. 3760 or 3761 of the code which relate, respectively, to closing agreements and compromises). The effect of section 503 of the Revenue Act of 1950 was to provide that proceeds of life insurance policies attributable to premiums paid on or before January 10, 1941, should not be included in the gross estate of the insured person for estate tax purposes by reason of the fact that the premiums were paid by him, unless on January 10, 1941, or thereafter he had substantial rights in the life insurance policy.

The House recedes with an amendment providing that claim for credit or refund must be made after October 25, 1949, and on or before October 25, 1950.

Amendment No. 255: This amendment, for which there is no corresponding provision in the House bill, provides that in the case of the award made on December 4, 1950, by the Interstate Commerce Commission as retroactive compensation for the transportation of mail, such compensation shall be deemed to be income which accrued in the taxable year in which the services to which such compensation relates were rendered. It is provided that no interest shall be assessed for deficiencies created by the inclusion of such income in prior years and that the period for assessment and collection of such deficiencies shall be extended to the date closing the period for assessment and collection for the taxable year of the taxpayer which includes December 4, 1950. The amendment also amends section 292 of the code to provide that in the case of retroactive mail payments, if such payments are required to be included in income in the year or years in which the mail was carried, no interest shall be due with respect to deficiencies resulting from such inclusion for any period prior to 30 days after the award of payment is granted. The House recedes with a clerical amendment.

Amendment No. 256: This amendment, for which there is no corresponding provision in the House bill, adds to the bill a new section 611 which provides with respect to certain taxable years a special rule to be followed whereby in the computation of corporation surtax net income certain amounts received as dividends on the preferred stock of a public utility will not be disregarded in computing the credit for dividends received.

Section 116 (a) of the Revenue Act of 1943 so amended section 26 (h) (1) of the Internal Revenue Code that, in the computation of the credit for dividends paid on the preferred stock of a public utility, amounts distributed in the current taxable year with respect to dividends unpaid and accumulated in any taxable year ending prior to October 1, 1942, were to be excluded from the amount of dividends paid on its preferred stock during the taxable year. The 1943 act did not contain a conforming amendment so that in the computation of corporation surtax net income the 85-percent credit for dividends received would always be allowed with respect to such amounts as were to be excluded in computing the credit for dividends paid on the preferred stock of a public utility.

Pursuant to new section 611, in the case of taxable years beginning before April 1, 1951, the 85-percent credit for dividends received will be allowed in the computation of corporation surtax net income with respect to those amounts which are to be excluded in computing the credit for dividends paid on the preferred stock of a public utility. In the case of the calendar year 1951 and taxable years beginning after March 31, 1951, see the amendments made to section 26 (b) of the code by section 122 of the bill (amendment No. 8). The House recedes with a clerical amendment.

Amendment No. 257: This amendment for which there is no corresponding provision in the House bill, provides that if an affiliated group making a consolidated return with respect to the first taxable year of the group ending after June 30, 1950, included a corporation described in section 454 (f) of the code, pursuant to the consent provided in section 141 (e) (7) of the code, such corporation may withdraw such consent at any time within 90 days after the enactment of the Revenue Act of 1951. If such consent is withdrawn under

ated group and its several members for the this provision, the tax liability of the affiliated group shall be determined, assessed, and collected as if such corporation had never joined in the making of the consolidated return. The House recedes with a clerical amendment.

Amendment No. 258: This amendment, for which there is no corresponding provision in the House bill, adds to the bill a new section 613 pursuant to which the due date for filing income tax returns of, or for paying the income tax by, China Trade Act corporations for any taxable year beginning after December 31, 1948, and ending before October 1, 1953, shall be not later than December 31, 1953. The due date thus prescribed shall apply, however, only with respect to any such corporation and any such taxable year as the Secretary of the Treasury, pursuant to such regulations as he may prescribe, may determine to be reasonable in view of circumstances in China. New section 613 recognizes that certain China Trade Act corporations, despite the situation existing in China, are fully able to comply with requirements of existing law as to the time for filing returns and paying the tax.

The due date of December 31, 1953, hereby prescribed is subject to the power of the Secretary to extend, as in other cases, the time for filing returns or paying the tax. The House recedes with a clerical amendment.

Amendment No. 259: This amendment, for which there is no corresponding provision in the House bill, adds a new section which provides that no amendment made by the bill shall apply in any case where its application would be contrary to any treaty obligation of the United States. The House recedes with a clerical amendment.

Amendment No. 260: This is a clerical amendment. The House recedes with a clerical amendment.

Amendment No. 261: This amendment, for which there is no corresponding provision in the House bill, extends for 4 months the date on or before which a claim for net renegotiation rebates arising under the World War II Renegotiation Act may be filed. Section 201 (c) of the Renegotiation Act of 1951, approved on March 23, 1951, sets the expiration date as June 30, 1951. This amendment extends such date to October 31, 1951. The House recedes with a clerical amendment.

Amendment No. 262: This amendment, for which there is no corresponding provision in the House bill, adds to the bill a new section relating to prohibition upon the denial of payments by the Federal Government to a State under title I, IV, X, or XIV of the Social Security Act. These titles relate to grants by the Federal Government to States for aid to needy aged individuals, needy dependent children, needy blind individuals, and needy permanently and totally disabled individuals, respectively. The Federal Government and the States share the cost of these assistance programs. A State is not entitled to payments from the Federal Government unless the State plan for assistance has been approved by the Federal Security Administrator. Under existing law a State assistance plan in order to be approved must, inter alia, provide safeguards which restrict the use or disclosure of information concerning applicants and recipients to purposes directly connected with the administration of the assistance program. The Senate amendment provides that no State or any agency or political subdivision thereof shall be deprived of any grant-in-aid or other payment to which it otherwise is or has become entitled pursuant to title I, IV, X, or XIV of the Social Security Act by reason of the enactment or enforcement by such State of any legislation prescribing any conditions under which public

access may be had to records of the disbursement of any such funds or payments within such State. The House recedes with an amendment which imposes a condition that the State legislation providing public access to the records of disbursement must prohibit the use of any list or names obtained through such access to such records for commercial or political purposes.

Under this amendment, as agreed to by the conferees, the State of Indiana, which has a law which permits public access to the records of disbursements of public welfare funds but which contains, inter alia, a prohibition upon the use of any lists or names so obtained for commercial or political purposes of any nature, will be entitled to receive its payments under the Social Security Act in the future and will also be entitled to receive any such payments which have been withheld because of the enactment and enforcement of the Indiana law.

Amendment No. 263: This amendment, for which there is no corresponding provision in the House bill, amends the provisions of existing law which provide the President, the Vice President, the Speaker of the House, and the Members of Congress an expense allowance which is tax-exempt and for which no accounting is made. Under this amendment, the President would receive \$150,000 a year for his services, instead of the \$100,000 plus the \$50,000 tax-exempt expense allowance he now receives. Under existing law, the President neither pays tax on nor accounts for this \$50,000. Under this amendment, \$50,000 would be added to his compensation and his \$50,000 tax-exempt expense allowance would be eliminated. Likewise, the salary of the Vice President, and that of the Speaker of the House, would be increased by \$10,000 and his \$10,000 tax-exempt expense allowance would be eliminated. And, similarly, the salary of each Member of Congress would be increased by \$2,500 and his \$2,500 tax-exempt expense allowance would be eliminated. This amendment would become effective, with respect to the President, on January 20, 1953, and with respect to the Vice President, the Speaker, and Members of Congress, on January 3, 1953.

The House recedes with an amendment which eliminates the provisions of the Senate amendment increasing the compensation of the President, the Vice President, the Speaker of the House, and the Members of Congress but which removes the tax-exempt status of the expense allowances of such officials. The expense allowance provided the President by section 102 of title 3 of the United States Code and that provided the Vice President by section 111 of title 3 of the United States Code shall be taxable on and after January 20, 1953; the expense allowance provided the Speaker of the House by subsection (e) of the first section of Public Law 2, Eighty-first Congress, approved January 19, 1949, and that provided each Member of Congress by section 601 (b) of the Legislative Reorganization Act of 1946 (Public Law 601, 79th Cong.) shall be taxable on and after January 3, 1953. The President, the Vice President, the Speaker of the House, and each Member of Congress will be required to account for such expense allowances insofar as is necessary for the purpose of deducting such expenses for income-tax purposes.

Amendment No. 264: This amendment struck out the table of contents to the bill and inserted a new table of contents conforming to the amendments to the bill made by the Senate. The House recedes with an amendment to conform the table of contents to the action of the conference committee.

R. L. DOUGHTON,
JERE COOPER,
JOHN D. DINGELL,
W. D. MILLS,
RICHARD M. SIMPSON,

Managers on the Part of the House.

The conference agreement does not contain any changes in the rates on fourth-class mail since these rates were changed by the Postmaster General with the concurrence of the ICC, effective October 1, 1951. The conference agreement also leaves in effect the authority of the Postmaster General to set the rates on parcel post and catalogs with the concurrence of the ICC.

Books which are also parcel post will remain at their present rates which were not increased on October 1, 1951.

The fees for most of the special services are increased under the conference agreement in accordance with the increases recommended by the Postmaster General except in the case of special-delivery mail, the increase for first-class special-delivery items weighing less than 2 pounds is increased to 20 cents rather than 23 cents as recommended by the Postmaster General.

The conference agreement also provides that the Postmaster General may in the future establish the rates so they will pay their own way on these special services.

The conference agreement includes a provision establishing a joint committee on the postal service to study and investigate matters relating to the problem of postal rates. One hundred thousand dollars is authorized for this activity and a report is to be submitted to the Congress not later than January 15, 1953.

The conference agreement contains an amendment providing for a graduated leave system for employees in the executive branch of the Government as follows: 13 days' leave for employees with less than 3 years' service, 20 days' leave for employees with 3 but less than 15 years' service and 26 days' leave for employees with 15 years or more service. Thirteen days' sick leave per year is granted all employees, regardless of length of service.

With regard to postal rates, the provisions of the agreement are substantially the same as contained in the bill as it passed the House. It includes, as I have indicated, two additional provisions, one for a joint committee on the postal service and the other is a graduated leave system for all Federal employees.

Mr. SMITH of Wisconsin. Mr. Speaker, will the gentleman yield?

Mr. MURRAY of Tennessee. I yield.

Mr. SMITH of Wisconsin. Are the leaves cumulative or must they be used within the year?

Mr. MURRAY of Tennessee. They are cumulative. There is no provision that they must be used within the year. Under this report there is no maximum amount of accumulation for sick leave, but there is a maximum accumulation of 60 days on the annual leave.

Mr. Speaker, I yield 5 minutes to the gentleman from Kansas [Mr. REES].

(Mr. REES of Kansas asked and was given permission to revise and extend his remarks.)

Mr. REES of Kansas. Mr. Speaker, the conference agreement on this bill has been explained by the chairman of

this committee. The House committee has spent a great deal of time, effort, and energy in trying to work out satisfactory legislation in dealing with this problem of increased postal rates. It is quite similar in some respects to the work of the Committee on Ways and Means, because when efforts are made to increase the postal rates and fees there is some resistance. I want to say again to the members of our committee that I appreciate the efforts which were put forth in dealing with this problem.

The bill which has been approved by the committee of the conference contains almost the same provisions as were contained in the House bill.

The rate on post cards is increased to 2 cents. First-class letter mail, which has been discussed so much, pays its way. However, even under the increased rate, post cards will not pay their way under cost ascertainment. The other body increased letter mail to 4 cents. To me, such action is out of line and unfair, especially in view of rates accorded other classes of mail. Second-class mail deals, of course, with newspapers and magazines. There is, according to cost ascertainment, a deficit of approximately \$200,000,000 in this item. Under this bill we will raise enough to reduce the second-class deficit approximately \$12,000,000 annually at the end of 3 years. The chairman explained that we still exempt from increase publications of nonprofit, religious, educational, scientific, philanthropic, agricultural, labor, veterans, and fraternal organizations. There was a considerable amount of discussion with respect to publications of temperance organizations. It was agreed by the conference committee, and generally understood, that those publications will be granted preferential rates because they come under what is known as education publications. The conference report confirms my statement. It reads in part as follows:

Since the word "temperance" does not appear in the language of the House amendment, the conference committee emphasizes that it is not necessary specifically to include in the second proviso of section 2 (a) of the conference substitute nonprofit temperance organizations or associations among the categories of nonprofit organizations and associations with respect to which the existing rates are to remain unchanged, for the reason that these nonprofit temperance organizations and associations may qualify as educational organizations and associations within the meaning of the language of the second proviso of section 2 (a) of the conference substitute.

Mr. SMITH of Wisconsin. Mr. Speaker, will the gentleman yield?

Mr. REES of Kansas. I yield to the distinguished gentleman from Wisconsin, who has always shown special interest in this legislation.

Mr. SMITH of Wisconsin. I am wondering about these classifications. For instance, some of our large fraternal organizations, and veteran organizations have national magazines from which a considerable amount of income is derived through advertising. Are they considered in the educational group or not?

Mr. REES of Kansas. Although some of us thought there might be abuses, the House approved by a substantial majority, this legislation which provides that such publications of nonprofit organizations may be included among those which receive no increases.

Mr. SMITH of Wisconsin. I know as a matter of fact that some of them have very huge profits at the end of the year.

Mr. REES of Kansas. The House agreed to an amendment submitted by the gentleman from Minnesota, which provided no increases for nonprofit religious, educational, and fraternal organizations.

Mr. SMITH of Wisconsin. In those instances, that I have in mind, I think there has been an abuse of this privilege.

Mr. REES of Kansas. I know the gentleman has given these matters a great deal of study and care, and I also know that his views with respect to this matter ought to have a great deal of consideration.

Mr. KERSTEN of Wisconsin. Mr. Speaker, will the gentleman yield?

Mr. REES of Kansas. I yield.

Mr. KERSTEN of Wisconsin. It is my understanding that the religious publications are given consideration here. That is true, is it not?

Mr. REES of Kansas. That is correct, as they have in the past.

Mr. KERSTEN of Wisconsin. Yes; as they have been in the past. There is not any more of a burden upon them; is that correct?

Mr. REES of Kansas. That is correct.

Mr. KERSTEN of Wisconsin. Is that also true so far as those publications that are designed for use in schools, even though there is a profit involved?

Mr. REES of Kansas. Those publications for use in classrooms?

Mr. KERSTEN of Wisconsin. Yes; for use in classrooms.

Mr. REES of Kansas. That is correct.

Mr. KERSTEN of Wisconsin. They are also protected to the same extent?

Mr. REES of Kansas. They are given preferred consideration by this legislation.

Mr. KERSTEN of Wisconsin. I am happy to know that.

Mr. REES of Kansas. They are given a preferred position as approved by the House 2 weeks ago.

Mr. KERSTEN of Wisconsin. I am glad to hear that because I think they deserve that consideration.

Mr. REES of Kansas. I appreciate the gentleman's views.

With respect to third-class mail there is a deficit of \$135,000,000, according to the best estimate obtainable. This legislation will raise revenue of \$17,500,000 next year and approximately \$35,000,000 in the years thereafter, if we have similar mailings and similar profits. Of course, if we have additional costs in handling this business, then the deficit will not be decreased as much as I have indicated.

The chairman of our committee has indicated what has occurred with reference to fourth-class mail. This House did not give consideration to in-

creasing fourth-class mail, because both the House and the other body agreed and directed the Postmaster General to request the Interstate Commerce Commission to fix rates in accordance with the present law. The other body saw fit to fix some of those rates after all. That provision of the Senate bill was stricken out. There was a difference there of \$40,000,000.

There is a provision in the conference substitute that was not in the House bill, and that is with respect to the appointment of a joint commission on postal service, composed of members of the House and Senate Post Office and Civil Service Committees, to study and investigate matters relating to the problem of postal rates. That is included in this present legislation. This legislation provides an authorization for \$100,000 to be spent for that purpose. My own opinion was that \$50,000 would be sufficient to start with, but I was overruled in that regard.

The SPEAKER. The time of the gentleman from Kansas has expired.

Mr. MURRAY of Tennessee. Mr. Speaker, I yield the gentleman five additional minutes.

Mr. FORD. Mr. Speaker, will the gentleman yield?

Mr. REES of Kansas. I yield to the gentleman from Michigan.

Mr. FORD. Was any estimate made of the annual savings that would accrue from the imposition of the graduated leave program?

Mr. REES of Kansas. I believe the answer is that there is not very much saving as compared with the annual leave program in effect at the present time. That is to say, there is a saving in the classified service, but it is offset, to a considerable degree, by reason of increasing leave for those in the postal service.

Mr. GROSS. Mr. Speaker, will the gentleman yield?

Mr. REES of Kansas. I yield to the gentleman from Iowa.

Mr. GROSS. Did the gentleman in his discussion with the conferees from the other body obtain any information as to how much saving was made with respect to the curtailment that was put into effect last year on deliveries and collections of mail?

Mr. REES of Kansas. That question was not considered by the conference committee at all. It was not included in this legislation. So, for that reason, there was no occasion to discuss it in this conference committee. I will say to the gentleman that the conference committee did spend a great deal of time in attempting to deal with this entire problem of how much money could be raised to partly offset the deficit in the postal service.

Mr. AUGUST H. ANDRESEN. Mr. Speaker, will the gentleman yield?

Mr. REES of Kansas. I yield to the gentleman from Minnesota.

Mr. AUGUST H. ANDRESEN. Was there anything done affecting the accumulated leave of persons who have, for instance, 60 or 90 days accumulated leave from past years of service?

Mr. REES of Kansas. No, because the amount of annual leave accumulated by

the employees will still remain to their credit after the passage of this bill. The limit on accumulation of annual leave is 60 days, the same as it is under present law.

However, with respect to sick leave there is no limit on the amount of accumulation.

Mr. AUGUST H. ANDRESEN. Are we to understand that the accumulated leave of 60 days is accumulated for the future after this bill becomes law, or a part of the old accumulated leave?

Mr. REES of Kansas. If an employee has already accumulated 60 days annual leave, he will not accumulate more under this bill.

Mr. SADLAK. Mr. Speaker, will the gentleman yield?

Mr. REES of Kansas. I yield to the gentleman from Connecticut, a member of our committee.

Mr. SADLAK. With the adoption of this conference report dealing with annual and sick leave, employees in all branches of the Government are treated equally, and the postal employees will have the same amount of leave as others; in other words, we have uniformity throughout the entire service.

Mr. REES of Kansas. As usual, the gentleman is eminently correct. We have had a great deal of discussion on the floor of the House and a lot more of it in the committee with respect to the fact that those in the postal service do not have as much leave as those in the classified service. We are certain this legislation will eliminate that criticism.

This legislation as it stands is expected to raise \$120,000,000 annually.

Mr. REES of Kansas. Mr. Speaker, I ask unanimous consent that all Members who so desire may have permission to extend their remarks at this point in the RECORD.

The SPEAKER. Is there objection to the request of the gentleman from Kansas?

There was no objection.

Mr. MURRAY of Tennessee. Mr. Speaker, I move the previous question.

The previous question was ordered.

The conference report was agreed to.

A motion to reconsider was laid on the table.

CORRECTION OF ROLL CALL

Mr. MADDEN. Mr. Speaker, on roll call No. 212 today I am recorded as not voting. I was present and voted "yea." I ask unanimous consent that the roll call be corrected accordingly.

The SPEAKER. Is there objection to the request of the gentleman from Indiana?

There was no objection.

GENERAL LEAVE TO EXTEND REMARKS ON THE TAX BILL

Mr. COOPER. Mr. Speaker, I ask unanimous consent that all Members desiring to do so may have permission to extend their remarks in the RECORD on the conference report on the tax bill, H. R. 4473, just prior to the ordering of the previous question.

The SPEAKER. Is there objection to the request of the gentleman from Tennessee?

There was no objection.

REVENUE ACT OF 1951

Mr. DOUGHTON. Mr. Speaker, I call up the conference report on the bill (H. R. 4473) to provide revenue, and for other purposes, and ask unanimous consent that the statement of the managers on the part of the House may be read in lieu of the report.

CALL OF THE HOUSE

Mr. HOFFMAN of Michigan. Mr. Speaker, I make the point of order that a quorum is not present.

The SPEAKER. Evidently a quorum is not present.

Mr. COOPER. Mr. Speaker, I move a call of the House.

A call of the House was ordered.

The Clerk called the roll, and the following Members failed to answer to their names:

[Roll No. 213]

Aandahl	Dondero	Murray, Wis.
Allen, Calif.	Engle	O'Neill
Allen, La.	Fine	O'Toole
Anderson, Calif.	Golden	Passman
Anfuso	Granger	Perkins
Angell	Hagen	Phillips
Armstrong	Hays, Ark.	Powell
Baring	Hébert	Prouty
Bates, Ky.	Herlong	Quinn
Blackney	Hess	Reams
Boggs, La.	Irving	Redden
Bosone	Jackson, Calif.	Reed, Ill.
Bramblett	Johnson	Regan
Brooks	Kearney	Ribicoff
Brown, Ohio	Kelley, Pa.	Rogers, Fla.
Busbey	Kennedy	Roosevelt
Celler	Keogh	Sabath
Cole, N. Y.	Kilburn	Shelley
Combs	King	Sheppard
Crawford	Latham	Short
Crosser	Lucas	Sieminski
Curtis, Mo.	Lyle	Sikes
Dague	McDonough	Thornberry
Davis, Wis.	Mack, Ill.	Vinson
Dawson	Martin, Iowa	Vursell
Deane	Mason	Watts
Delaney	Miller, Calif.	Werdel
Dempsey	Morrison	Wilson, Tex.
D'Ewart	Murphy	Zablocki

The SPEAKER. On this roll call, 338 Members have answered to their names, a quorum.

By unanimous consent, further proceedings under the call were dispensed with.

REVENUE ACT OF 1951

The SPEAKER. The gentleman from North Carolina [Mr. DOUGHTON] asks unanimous consent that the statement of the managers on the part of the House be read in lieu of the report. Is there objection?

There was no objection.

The Clerk read the statement.

(For conference report and statement, see proceedings of the House of October 18, 1951.)

Mr. DOUGHTON (interrupting the reading of the statement). Mr. Speaker, I ask unanimous consent that the further reading of the statement of the managers on the part of the House be dispensed with, and that the same be printed in the RECORD.

The SPEAKER. Is there objection to the request of the gentleman from North Carolina?

There was no objection.

Mr. DOUGHTON. Mr. Speaker, I yield 5 minutes to the gentleman from Tennessee [Mr. COOPER].

(Mr. COOPER asked and was given permission to revise and extend his remarks.)

Mr. COOPER. Mr. Speaker, in the very limited time I have available, I shall only be able to briefly mention some of the important differences between this conference report and the one considered by the House on last Tuesday.

I would have much preferred that there be a greater difference between these two conference reports. I feel confident that many of you would prefer a greater difference in the two conference reports, but such changes as have been made are in the right direction, and the pending conference report is an improvement over the conference report considered last Tuesday.

As one of the House conferees I was especially anxious to try to secure at least some difference on three important points. One was a reduction of the individual income tax in the lower-income bracket; some increase of the capital gains tax, and some increase of the excess-profits tax. Those three points are covered in this pending conference report, and to that extent I think make this conference report an improvement over the conference report considered last Tuesday.

The increase in tax in the first bracket of individual income-tax rates is reduced from 11½ percent to 11 percent. This change will reduce the yield of the bill by \$68,000,000 in a full year of operation, of which \$43,000,000 or 63 percent, will go to taxpayers with adjusted gross income of less than \$5,000.

The maximum rate on long-term capital gains for individuals and corporations is increased from the present 25 percent to 26 percent. This increase will raise approximately \$16,000,000 in the case of individuals and \$12,000,000 in the case of corporations, or a total of \$28,000,000 increase in revenue annually.

The effective date of the cut-back of the average earnings credit under the excess-profits tax, from 85 percent to 83 percent, is changed from January 1, 1952, to July 1, 1951. This will increase the liabilities on 1951 profits by \$60,000,000. This would have the effect of reducing the percentage to 84 percent for the calendar year 1951, and beginning January 1 next year it goes to 83 percent.

As I said a moment ago, it is estimated that this change in the effective date will increase the revenue for 1951 by \$60,000,000.

With respect to excise taxes, only a very slight change was made. The present manufacturers' excise tax on skates was removed, and a 10 percent manufacturers' excise tax on garbage disposal units was included.

Rural electrification cooperatives and telephone cooperatives and certain mutual insurance companies exempt under section 101 (10) or (11) of the Internal Revenue Code, and mutual insurance companies taxable under supplement G of the Internal Revenue Code, are exempted from the requirement of filing information returns with respect to patronage dividends or refunds made to their patrons.

The SPEAKER. The time of the gentleman from Tennessee has expired.

Mr. DOUGHTON. Mr. Speaker, I yield the gentleman one additional minute.

Mr. COOPER. Mr. Speaker, there is one other important point to which I would like to invite attention. An important provision is included in this conference report for losses for new corporations. The conferees agreed to an amendment to the conference report which would permit new corporations, that is, corporations organized on or after January 1, 1946, to carry over their 1947 losses for 3 years. It is estimated that this provision of this conference report will result in \$10,000,000 loss of revenue, but we had presented to us the case of many new corporations, many organized by veterans of World War II after their return from service, and it was felt they should have one additional year to carry forward their losses. That has been provided in this conference report.

Mr. DOUGHTON. Mr. Speaker, I yield 15 minutes to the gentleman from New York [Mr. REED].

Mr. REED of New York. Mr. Speaker, as has been so ably pointed out by the distinguished gentleman from Tennessee [Mr. COOPER], the conference report on the Revenue Act of 1951, now before the House, is, realistically speaking, identical with the conference report reported by the House 3 days ago. It is true, of course, that during the two hours that the conferees met a few minor changes in the method of collecting the \$5,800,000,000 in new taxes were made, but the net result revenue-wise is just the same. In essence, the only difference between this conference report and the conference report submitted 3 days ago is that \$68,000,000 of direct individual income taxes have been shifted over to an additional indirect tax on all the housewives and consumers of the country. This was done by making the first-bracket individual income-tax rate 22.2 percent instead of 22.3 percent—or a saving of one-tenth of 1 percent on the first \$2,000 of taxable income. Instead, however, of really making even this very small concession to our low-income groups, the new conference report provides that the same \$68,000,000 will be collected indirectly by the corporations from the people and sent along to the Treasury in that way. Six of one or half a dozen of the other—that is about the size of it.

Oh, yes; in addition to this, the new conference report levies a tax on garbage-disposal units which will bring in another \$2,000,000 from our housewives and young married couples making their start in life and makes a commendable adjustment in the excise taxes by removing skates from the list of sporting items subject to the 10-percent manufacturer's excise tax. This will save the youngsters and their families about \$2,000,000 a year.

This report also reduces the contemplated revenue of the first report by another \$10,000,000 by providing that new corporations—that is corporations organized after January 1, 1946, may carry over their 1947 losses for 3 years instead of for 2 years under existing law. This is also a good amendment.

I had hoped, of course, to be able to come back and report to you that the Republican conferees had been success-

ful in reducing the heavy tax burden on the people provided for in the first conference report. I know that this is what you wanted and what the people wanted and what you had a right to expect. We tried but we failed. We specifically proposed that the tax increase on individuals be reduced to 11 percent of the tax or 8 percent of the take-home pay as provided for in the Senate amendments. This would have been a real saving to the people.

I also proposed to improve the conference report by remedying the inequitable situation in the case of family partnerships; by eliminating the new tax on mutual savings banks, building and loan associations, and the small farmer cooperatives. I felt it was my responsibility—and the responsibility of the Republican conferees—to give the House a chance to vote on at least something better than the House rejected just 3 days ago.

But as it now stands this second conference report has all the defects of its individual provisions as did the first. And for those of us who believe that this is excessive taxation without justification the issues are exactly the same as they were 3 days ago. There is nothing new in this conference report which can change that position because it is one of principle and firm conviction. Either we believe in Government economy or we do not believe in Government economy.

I can think of no more disastrous blow to the American people than to tell them that in 3 days this Congress has bowed to the pressure of the Truman administration for more taxes.

I can think of no greater blow to the stability of the economy and the faith in the American people that we are doing our best to preserve our solvency and liberty at home than for this House to reverse its mandate to President Truman to make a real effort at Government economy.

This legislation is too important.

Its repercussions on the economy; its burden on the people; and its influence on our very national existence are too great to be influenced by a mere shifting of the direct individual tax burden on some of our taxpayers to an indirect tax on all of our consumers.

The whole country was cheered by the gallant stand this House made 3 days ago. My office, and I am sure this is true with you all, has been flooded with praise for the stand that we have taken against waste and extravagance; against the reckless and exorbitant rate of Federal spending for nonessential Government services during this emergency period.

In rejecting this same conference report 3 days ago this body struck a real blow for liberty, a real blow in favor of the free-enterprise system, and a real blow against creeping socialism.

Are we now to yield to the Truman spenders?

Are we now to go back to our people and tell them that we were not strong enough in our convictions to stand up against the pressure of the Truman administration for higher taxes and higher spending?

I am sure, Mr. Speaker, that this House will again stand firm, and that be-

fore levying any new taxes on the people we are prepared to make a realistic evaluation of the limit of our capacity to support ourselves and the free world.

We are prepared to demand—and get—a reduction in Federal spending.

We are prepared to demand that the people of this country shall not be called upon to pay for graft, corruption, and bribery.

No, Mr. Speaker, the times are too perilous and the issues are too grave for this great body to be so fickle, so unwise, and so lacking in conviction as to reverse the action taken just 3 days ago.

Today for the first time in many long years the American people have hope in their hearts that the end of the reckless spending by the Federal Government of their earnings and savings has arrived, that they will be permitted to work and build a decent home for themselves and their children, that there will be some incentive for them to work and produce, and that there is hope that we shall not lose the cold war at home.

The American people know that if President Truman were willing to cooperate with this Congress and with the American people a reduction of Federal spending could be made. They know that as a result of the action taken 3 days ago this Congress recognizes that fact.

It will be a shameful thing if we fail them now. I know we will not do so.

Mr. Speaker, we have heard some mention of a reduction in the income tax in the low-income groups between this conference report and the first conference report. I have a table here which shows that reduction and let me show you how those in favor of this second conference report intend to obtain the votes of the working men and women of this country.

With a taxable income of \$800 the tax saving in this conference report is 20 cents; on a \$1,000 taxable income the saving will be 40 cents. That may swing some more votes in the House, but it certainly will not persuade the honest men and women of my district.

And on a \$2,000 income the saving will be \$1.40. I wonder if that is supposed to be the big appeal to the lower-income groups.

And those who have a taxable income of \$3,000 and have a family to support are going to get a reduction of \$2 in their taxes on their whole year's salary.

So I suppose they know they have the votes corralled and they can go back and say that they saved you 20 cents on \$800, and on \$1,000 they saved you 40 cents. And oh, how the working men and women of the country will be grateful for this. This is so ridiculous that it is unworthy of comment and it is an insult to the honest people of the country.

But the majority conferees must have had a lot of fun figuring how the people would be fooled because, although they saved 20 cents or so on low-income groups, they knew they had already put an excise tax on liquor, beer, wine, cigarettes, gasoline, and autos.

And they must have reasoned that, although they had given this little pittance of relief in this second conference report, that they had more than taken away this reduction by these excise increases and that the people would never feel it.

Is that not a fine thing to tell our people? But, Mr. Speaker, I believe the people should know the facts, and if you read your telegrams and letters, you will find that the people want to know what we, their Representatives, are really doing.

And let me call your attention to something else, and that is the pledge that you Members made in your last campaign. You went out and beat your breasts and said in your platform, "We will not disturb the farm cooperatives; no, we will not tax them." But what will you do now when you talk to them? Are you going to say, "Yes, we did not keep our promise the last time, but if you trust us once more we will keep our pledges." Gentlemen, we cannot afford as a Congress, whether it is the Republican side or the Democratic side, to go back to the people at this time of suffering and tell them we have imposed excessive taxation.

The time has come for this Congress to represent character and firmness in its dealing with the affairs and the lives of the people of this country.

I have a suspicion that our distinguished Speaker is going to take the floor, a man for whom I have profound respect, a man who has prestige and power next to that of the President of the United States. His influence is great. He is a fine man, and I love him, and everybody here does. When he takes the floor here today to try and bring you back in favor of voting for this bill, I just wonder if it would not have been a great thing on his part if he had taken the floor and said to you gentlemen over there, "I am urging you to adopt the Hoover report and other measures for government economy," and then you would have saved more than is in this tax bill. Would that not have been admirable, instead of urging the passage of this third tax increase bill when you know there will be a surplus? I say to you the time has come for us to play this game square with the American people. They are making sacrifices enough. Every telegram with a star on it that comes from Korea means somebody in that family has been lost. The casualties are mounting over there, and yet here we are with still another tax increase bill, a discriminatory tax bill, an unjust tax bill. I say to you that the time has come now for us to be men and stand up for the people. They should have a Congress that they can depend upon to halt this unnecessary and mounting spending. We are carrying out the very plan of Stalin of spending ourselves into weakness and insolvency.

My colleagues, if you are fighters, as I believe you are, stand up for the rights of the people and vote against this conference report.

Mr. DOUGHTON. Mr. Speaker, I yield 6 minutes to the gentleman from Michigan [Mr. DINGELL].

Mr. DINGELL. Mr. Speaker, what my friend from New York said just now does not exactly square with his votes on matters of interest to labor, to whom he makes such a strong appeal at this moment. As I recall, too, I do not think he was quite as much interested at any time, and I do not think he is as much

interested now, in the boys in Korea as he is in trying to save a tax dollar.

I go on the theory that, if you save the tax dollar at this critical moment, you must sacrifice your own son or somebody else's son. I am willing to spend the money for buckshot so that the boys in Korea, whoever's sons they may be, will have it there in ample quantity to defend themselves and this Nation.

As for myself, I will take my chances with labor on the record and compare it with any of the men and women sitting on the minority side, and labor will repay me in kind.

Mr. Speaker, I shall make no pretense that the second conference report has made any substantial change in the tax bill we originally brought back from conference. Under the circumstances, however, it was a big undertaking even to try to modify the bill at all. Some slight concessions were made to low-income taxpayers, and taxpayers with capital gains would not be exempt completely from any additional tax load.

The curse originating in Indiana, known as the Jenner amendment, is still in the bill. This provision is obviously intended to intimidate and debase every old-age pensioner, dependent widow, and orphan as well as the blind and disabled, and to label and victimize them as objects of scorn by snoopers.

Right now I will say that this, too, originated with Republicans and was supported by the Republicans, and was insisted upon by the minority members of the conference group from the House. I was not for it, and never will be for it. If I had my way, Mr. Speaker, as a citizen of Indiana I would lead a march on Indianapolis, and I would scatter that legislature to the four winds; or I would get justice for the old-age pensioner, for the widow and her dependent children, for those who are blind, handicapped, and crippled. That is how far I would go on the Jenner amendment. But I could not get support from the minority side. So what is the use talking about your sentiments for the little fellow, when you do not act on them?

Mr. MARTIN of Massachusetts. Mr. Speaker, will the gentleman yield?

Mr. DINGELL. No, I cannot yield. I have just a few minutes.

Mr. MARTIN of Massachusetts. I was wondering how the gentleman was going to vote on it now.

Mr. DINGELL. I am going to vote for the bill despite the curse from Indiana, the Jenner amendment, because of the inflationary effect if we do not get some additional revenue.

This amendment is sponsored by those who have always opposed the social security system. Does anybody doubt that? Refer to the original report in 1935 and see how the minority members of the Committee on Ways and Means voted as they signed the minority report. They now seek by devious methods to undermine the structure. Unfortunately, I say, this scarlet label is still in the bill with the full approbation of its sponsors. This is a matter, however, that will have to be treated by the people separately, and justice

meted out in the States which might follow Indiana's shameful lead.

The amendment in the tax bill does not make mandatory the publication of names of recipients of public assistance, but only makes much publicity permissive. The mandatory prohibition against publicity by the States has, however, been uprooted and thrown aside and social-security recipients are now entirely at the mercy of their own State legislatures. Of course, those who have sponsored this outrageous rider can be expected to be held to account.

The most important consideration, in my opinion, is the limited total revenue which this bill provides. If I can be permitted to express my personal view, the failure to enact the bill would have immediate and dangerous effect toward greater inflation. Even the House bill with its \$7,200,000,000 additional revenue did not meet with my approval because I felt at least \$10,000,000,000 in additional taxes were required and possible, nor do I approve of the unequal distribution of the additional tax load.

Had I had my way, I should have made changes both in who pays the higher taxes and how much, with reversal in favor of small individual income taxpayers and small corporations. Further than that, I would have striven to reach the \$10,000,000,000 mark so that we might have had a better chance of retaining our pay-as-we-go fiscal policy. But my wishes, although shared by many of the majority members of the committee, did not prevail. Nevertheless, the \$5,750,000,000 provided by the pending bill will tend to lessen the inflationary gap.

Just one final word to those who voted against the last conference report. If you kill the bill this time, it will be your last chance. It will be entirely up to you to make excuses to your people when they are seared by the fire of inflation. It is well and good to receive and take into account letters of condemnation from sincere and patriotic sources, with which I, too, agree. But, in the final analysis, the responsibility is yours and mine, and we must choose the course that is best for the country. In this instance, that course is to approve the conference report, even though you do not fully agree with it, as I must confess, I do not.

(Mr. DINGELL asked and was given permission to revise and extend his remarks.)

Mr. DOUGHTON. Mr. Speaker, I yield 4 minutes to the gentleman from Ohio [Mr. JENKINS].

Mr. JENKINS. Mr. Speaker, this is a very serious matter. It is not a difficult matter to understand. Of course, any tax bill has ramifications that would lead one into the realm of indecision, and so forth, but let us consider what is before us from the standpoint of reason, what is the right and sensible thing to do. The House passed a bill about 6 weeks ago which provided for the collection of \$7,200,000,000 in taxes. We quite generally on our side voted against it; they quite generally on the Democratic side voted for it. The margin was not very wide. The other body took the bill that

the House passed and reduced it by \$2,000,000,000. What is the most important topic of conversation when you go home and meet your constituents? The people talk about two subjects: One is that the Government is spending too much money, and that the taxes are too high. And the other subject is Truman's war. When we, the House conferees, went into conference with the members of the conference from the other body they were \$2,000,000,000 lower than we were. We came out of that conference the first time with another bill halfway between the \$7,200,000,000 and the \$5,200,000,000—about \$6,000,000,000. The amount raised above the Senate figure was raised by the gentleman from the Democratic side of this House. They raised it up. We Republicans did not raise it up. We were then in favor of holding the total down. We would have much preferred to have taken the Senate's figures than the House figures or the conference figures. We are now in favor of holding it down, and your constituents are in favor of holding it down. Many of you voted that way when we had this bill before us 2 or 3 days ago. Why do I say that you can hold this tax bill down? We do not need to pass this tax bill today. Let me prove it to you. Ten months ago the President called us down to the White House and said, "I have to have \$10,000,000,000 right now"; that was the first bite. Then he said, "I have to have \$6,000,000,000 more soon." That is the second bite. He said, "I have to have it this year." He has not received that money yet, nor any part of it; nobody has given it to him, and he seems to be doing pretty well with his extravagant spending. We have four or five billion dollars down there in the Treasury that will carry us over until the first of the year. We do not have to pass this bill today. Again I say we do not have to pass this bill today. Nathan Cohen, the representative of the CIO, was wise when he sent that letter a few days ago to our good friend, the gentleman from Massachusetts [Mr. McCORMACK]. I saw a copy of that letter. Nathan Cohen put up a pretty good fight for the people whom he represents. Generally speaking, he represents the working people. He said, "You have the tax bill too top-heavy." Or it is too heavy at the bottom, if you want to put it that way. That was a pretty convincing argument to make. No doubt his influence will change some votes. But what have you done for him and his group?

I repeat, now, what are you giving Nathan Cohen for his people? Just a shameful pittance of about \$2 a year. Is that what you are going to give these deserving people? Why is it not more statesmanlike and more honorable to simply say to him and to the world, "Let us put this thing off. We have got all mixed up." We are not legislating dispassionately. We owe it to all the people of the country to be fair to them. Do you know one of the principal changes we made when we had the last meeting of the conference committee? We took out skates from under the excise tax and we put garbage cans under an excise tax. That is what we did. We

taxed garbage cans and we took out skates. Two million dollars on each one of them, and in doing so I think we just skated ourselves into the garbage can. That is about what we have done. I think we ought to realize our position and go back to our people and say, "We have voted against a tax bill that we did not need and a tax bill that is poorly drawn and is unfair in its application" for our last effort was clearly an effort to make some changes that would get more votes for the passage of this measure today.

Mr. Speaker, it has now been 9 months since the House Ways and Means Committee began its study of this tax bill. That committee worked on it about 5 months. The Senate gave about 2 months to it, and with all this work and oratory we are raising about \$6,000,000,000 in taxes. Just a short time ago this House voted to give \$7,000,000,000 to Europe after about 3 hours of debate. We are struggling hard to raise \$6,000,000,000, yet we gave away—not to Americans but to Europeans and Asiatics—more than \$7,000,000,000 in 3 hours; we had better be careful.

The SPEAKER. The time of the gentleman from Ohio has expired.

Mr. DOUGHTON. Mr. Speaker, I yield 4 minutes to the gentleman from Wisconsin [Mr. BYRNES].

(Mr. BYRNES of Wisconsin asked and was given permission to revise and extend his remarks.)

Mr. BYRNES of Wisconsin. Mr. Speaker, permit me to repeat what I said at the time the tax bill was before the House last June, namely, that you cannot save money by action on a tax bill. You do not economize on a tax bill. You economize and save money and cut out waste at the time the authorization bills are before the Congress. You save and you cut out waste at the time the appropriation bills are before the Congress. But once you have authorized it and once you have appropriated the money, you have created an obligation. To all intents and purposes you have spent the money. So that whether we turn down this conference report today or not, it is not going to mean any economy, any saving, or any elimination of waste. Why? The Government still has the opportunity to obligate itself and obligate future generations by selling bonds and by going further into debt. You are not near your statutory debt limitation as yet. So the administration has the opportunity to acquire money in other ways than by taxing. You are not going to save money or eliminate waste, in my judgment, by refusing to adopt this conference report.

There is but one real question before the House. That is, Is the House of Representatives going to face up to its responsibilities? In my judgment, it is just that simple. Under any standards of morals or integrity, if a family incurs a financial obligation it has a responsibility to meet it. Both a moral responsibility and a legal responsibility. You have got a responsibility to pay your bills. It does not make any difference whether some of those bills were incurred by your wife or yourself by ex-

travagance, there is still that obligation, and you have to pay them. I think that is true here. A government is no different than an ordinary family, your family and mine, as far as its obligations are concerned. The Government incurs obligations, and this Congress has been authorizing them. In just the last hour we authorized \$673,000,000 of additional expenditures in this fiscal year. Are we going to cut that out by passing this bill? No. What was the vote on one of those bills? On the bill authorizing \$255,000,000 there were seven votes against it. On the bill authorizing \$418,000,000 there were 26 negative votes. Is this Congress which passed those bills by such overwhelming votes, 339 to 7 and 315 to 26, going to reverse itself now and say, "Oh, yes, that is fine. We are spending the money but we are not going to tax in order to collect the money to pay those bills?"

If we have any integrity at all, Mr. Speaker, if we have any conscience, I think we will face up to our responsibility, the responsibility that is ours today, and do our best. I will concede that I do not believe we can do the complete job of paying all of the bills that are being incurred; we are spending beyond our ability to tax. Even with this tax bill you are going to have a deficit in fiscal 1952, but I think we should at least do our best to meet those obligations out of today's taxes. I think that this generation should pay the bills incurred by it. This conference report should be adopted.

Mr. DOUGHTON. Mr. Speaker, I yield 4 minutes to the gentleman from Pennsylvania [Mr. SIMPSON].

(Mr. SIMPSON of Pennsylvania asked and was given permission to revise and extend his remarks.)

Mr. SIMPSON of Pennsylvania. Mr. Speaker, there is not a Member of this body but feels responsibility to his Nation. He knows that so far as possible bills should be paid as they are incurred. Each of us knows that from his or her own experience in the home; but we know over and above that, that if the head of the household has complete and untrammelled authority and ability to go out and spend and spend, and borrow and borrow, that individual, if he does so, will lead his family, or in our case our country, to the day when they no longer can borrow, when they no longer can pay their taxes or raise more dollars.

My objection to this bill is that we have reached what, in the mature judgment of two committees of the Congress, is the ceiling. As I told you the other day, one of the most distinguished Members of the other body has said there will be no more tax bills increasing individual taxes unless we are actually engaged in war. In effect he said, and I agree with him, that we have reached that point in our taxation where increased taxes will lessen the take; we have reached the saturation point. We should not reach that point where we must curtail when we need increased production, curtail the incentive to produce more and more of the things we need to carry on a war.

We did nothing whatever in the conference which should induce anyone who opposed it several days ago to change his or her mind and vote for this bill now. There was nothing we could do to bring together the difference of opinions expressed by the conferees of the two bodies. I think a great service has been done to the country by the earlier vote on the conference report. I think the country is beginning to realize now that we have reached a point in taxation beyond which we cannot go. We Representatives here, of both political parties, those representing labor and those representing any other group that may have Representatives in this body, realize that we have reached the climax in taxing the people of the country, and we are afraid of that with which we may be confronted, another war. Where would we get more money with which to conduct another war? Would we take it off the people who are being taxed today? We are objecting because we know that any additional tax burden would lessen the incentive, would result in decreased production. Are we going to jeopardize the savings of the people? For they must save money in times of war as well as in times of peace. In short, Mr. Speaker, we are at a critical hour. Upon our action today will depend what the people will think of this Congress next year and in the future. Let us stand up and say to the public at home: "We, your Representatives, have recognized the maximum of taxation that can be imposed upon you." Let us do that by opposing the conference report.

Mr. DOUGHTON. Mr. Speaker, I yield 2 minutes to the gentleman from Pennsylvania [Mr. EBERHARTER].

Mr. EBERHARTER. Mr. Speaker, I would like to explain my position.

I shall support the conference report today, not because I believe that it is substantially better than the one presented to the House in the original conference report last Tuesday, but because the best interest of the country seems to require it.

I have no apology for the fight that I made the other day in helping to defeat the original report. I said then that the people were entitled to know just what they were swallowing, and that the millions of lower income taxpayers are not getting a square deal.

We cannot, however, postpone tax legislation until a later date, when the tax-writing machinery may have been wrested from the ultra-conservative—indeed reactionary—Members of the other body, and restored to the House of Representatives which, under the Constitution, being the body closest to the people, is the one which should have the predominate role on this subject.

I believe the fight that has been made may awaken the American people to the necessity for maintaining a more careful scrutiny of the manner in which our tax laws are written.

I also trust that this experience may strengthen the hand of the Members of the House of Representatives when in the future they confer with representa-

tives of the other body in working out any differences between the two Houses on a tax bill.

Mr. Speaker, I believe that there is no other responsible course than to support the conference report; but I do so with great reluctance.

Mr. DOUGHTON. Mr. Speaker, I yield 4 minutes to the gentleman from Illinois [Mr. MASON].

(Mr. MASON asked and was given permission to revise and extend his remarks.)

Mr. MASON. Mr. Speaker, when this tax bill was before the House the first time I called it an economic monstrosity and said I did not see how any Member of Congress could vote for it. Since that time the Senate has rewritten the bill entirely; it has been revised in conference; it has been rejected by this House, then microscopic changes made in conference, and now it is again before us for action. I still say it is an economic monstrosity, and that I cannot see how any Member can vote for it. In fact, I cannot see how any Member can vote for a tax increase of any kind at this time. I have asked for this time to tell you why you should not vote for this tax bill.

First. Twelve years ago Uncle Sam was collecting a maximum of \$5,000,000,000 in Federal taxes, today he is collecting about \$60,000,000,000—12 times as much. That means our Federal taxes have increased 1,200 percent in the last 12 years—an average increase of 100 percent each year for 12 years. Should we increase Federal taxes still more?

Second. Congress passed two tax bills last year upping Federal taxes something over \$10,000,000,000 in 1 year—the increase in taxes alone last year amounting to twice what our total Federal tax bill was in 1940. Should we again soak the already overburdened American taxpayer?

Third. Today the national debt of all European countries put together—leaving out only Russia—is \$115,000,000,000. Our total national debt is \$257,000,000,000, more than twice as much as all of Europe put together. And this does not take into account the \$40,000,000,000 to \$50,000,000,000 of outstanding obligations that Uncle Sam owes, obligations incurred by the Export-Import Bank, the RFC, the Commodity Credit Corporation, the International Bank, the International fund, and several other Federal loaning agencies. This means that we owe three times as much as all of Europe, and since the population of Europe is twice the population of the United States, we have a per capita debt upon every man, woman and child in America six times as heavy as the per capita debt upon every individual European.

Mr. Speaker, in the face of these facts our Foreign Affairs Committee tells us we must aid the Europeans to the tune of \$7,500,000,000; our Foreign Affairs Committee tells us we must arm the Europeans to the tune of \$4,000,000,000; because they cannot afford to arm themselves.

We subsidize the Socialist-Labor government of England at the expense of the American taxpayer. We ship coal and

steel to England today and go without ourselves. Before the war, England used to export both steel and coal to the Continent. Today she imports both steel and coal. That is what her socialist-labor government has done for her economy—and we have to keep on supporting her. Isn't it nearly time to stop giving away our resources? Isn't it time to call a halt on this taxing spree?

Mr. Speaker, whether you realize it or not there is a tax rebellion going on in this country. It is reflected in our mail. It is spreading like a prairie fire, and within a very few years it will result in a tax ceiling being placed upon the power of Congress to levy taxes. I shall welcome that day, because in my opinion it is the only way we can stop this vicious cycle that has our Nation in its toils, the spend and spend, tax and tax, elect and elect cycle, that F. D. R. initiated. Let us place a small road block in the path of this cycle by again turning thumbs down on this tax bill.

Mr. DOUGHTON. Mr. Speaker, I yield 4 minutes to the gentleman from Arkansas [Mr. MILLS].

Mr. MILLS. Mr. Speaker, the House conferees have endeavored to do in part what the membership of the House requested us to do last Tuesday. We have gone back into conference with the managers on the part of the other body in an effort to improve the bill. It has been said that little improvement has been made. On Tuesday I thought very little improvement could be obtained. Some changes, however, have been made.

Here is the question before us today?

Are those who voted on Tuesday against the report in a position today to vote for it? I think so. I want to explain why. The other day, on Tuesday, it was possible, if the report was defeated, as it was, for the House to obtain a second conference with the Senate. Those of you who voted against the report evidently wanted that second conference, and you wanted us to do what we could in a second conference, which we did.

Now the Senate has acted. So far as this particular bill, H. R. 4473, is concerned, there is no further opportunity for another conference. If the House refuses to accept this conference report today, this bill is dead. There is no chance to go back again, under the rules. You have done your best to get what you wanted. We have done our best to get what you wanted, but it has been impossible to do it completely. Are the needs of the people of the United States such that we are justified in killing this bill? Do you save the American people anything if you kill it? Let me ask if there is anyone in the sound of my voice who thinks the American people are going to be saved anything if you defeat this tax bill? You know better than that. The American people are going to pay for Government spending either through taxes or through inflation, one or the other. You know that is true. Mr. Allan Kline, of the American Farm Bureau, has pointed it out to all of us. He is as sound as can be on that point. No, we do not save the American people anything by rejecting the tax increase.

Actually in the long run, if we do not follow a policy of pay-as-we-go in Government expenditures to the maximum extent that we can we will be costing this generation and future generations a lot more than the mere payment of taxes in this generation. We know that.

Now, there are many things in the bill as now agreed to in conference that are highly desirable. Let us not, I beg of you, destroy legislation that has been in the making for some 7 or 8 months. If we kill it today, you know and I know that we will have it right back on our doorsteps after the first of January if not sooner.

We in the Congress have always measured up to our responsibilities as Members of the Congress and the legislative trustees of the welfare of the American people. If we do not do it now, we shall have to do so later. We do not accomplish anything, therefore, by killing this report. By adopting it today we shall do the maximum we can to further protect and safeguard the fiscal structure of our Government.

Mr. DOUGHTON. Mr. Speaker, I yield 5 minutes to the gentleman from Massachusetts [Mr. McCORMACK].

(Mr. McCORMACK asked and was given permission to revise and extend his remarks.)

Mr. McCORMACK. Mr. Speaker, I thoroughly agree with the pertinent observation and telling remark made by the gentleman from Arkansas [Mr. MILLS] that if this conference report is rejected today tax legislation for this session is dead. There is no question about that in my mind.

I thoroughly agree with the pertinent and effective observation made by the gentleman from Wisconsin [Mr. BYRNES] that the question before the House is whether or not the House is going to shape up to its responsibility. Both observations have a direct relationship to one another.

There is no question in my mind that many Members of the House, particularly some on my own side, voted against the conference report the other day because they wanted to serve notice that in future conferences between the House and the Senate on tax measures the views of House should be upheld. I think in that respect they have accomplished their purpose. Today those same Members can vote to accept this bill.

There are parts of this bill that I do not like, but I never knew a tax bill with all of whose provisions I was in agreement. By voting to accept this conference report I am not voting to approve the parts of the bill I do not like, but I am voting because of the over-all necessity, the fact that \$5,800,000,000 in additional revenue is involved, and that this is vital for the national interest of our country.

In my opinion, the Eighty-second Congress, the first session of which we are about to close, will go down in history as playing a most important part in shaping the destinies and kindling the hopes of the people everywhere. The first session has made a courageous and magnificent record in this respect. This Congress has thrown the might of our

great Nation in defense of freedom in the global struggle against the slavery and viciousness of international communism and imperialism. On the basis of appropriations already passed by the House, failure to adopt the conference report will mean a deficit of between \$8,000,000,000 and \$9,000,000,000 for the current fiscal year. Such a deficit will affect our ability to maintain the credit of our country, which above is vitally important because without a sound fiscal policy we cannot long maintain our own national security. Such a deficit will also fan the fires of inflation, which hurts everyone, but in particular it hurts the people with small income.

The appropriation bills have already been passed. Our responsibility and the duty of the Congress is to meet the obligation which we, ourselves, have incurred. The conferees have done the best they can under the circumstances. It is vitally important that this additional revenue in the national interest of our country be raised. That is the paramount question involved, coupled with the responsibility of individual Members of this body to courageously meet the responsibility which confronts us. I urge as strongly as I can, the adoption of the conference report.

Mr. Speaker, I yield back the balance of my time.

Mr. DOUGHTON. Mr. Speaker, I yield myself 5 minutes.

Mr. Speaker, I wish to bring up for consideration the conference report on H. R. 4473. The House rejected the conference report on this bill last Tuesday, and the House appointed new conferees who again conferred with the Senate conferees on the bill. I might say to the House that we made every effort to again get the Senate conferees to agree to the original provisions of the House bill, particularly those relating to the rates of the individual income tax, the effective date of the corporation normal and surtax, and a reduction of the average earnings credit for excess profits tax purposes from 85 percent to 75 percent. The Senate conferees refused to agree to the provisions of the House bill, and we were forced to give ground on these points, as we did in the conference report submitted last Tuesday. However, we were able to secure certain concessions from the Senate conferees which brings the conference report for consideration today closer to the House bill than the conference report which was submitted last Tuesday. Among the concessions which we were able to secure from the House conferees are the following:

First. A reduction is made in the first bracket rate so that the increase in that bracket on individuals is an 11-percent increase instead of 11½ percent. This change alone will reduce the yield from individual income tax under the former conference report, which was presented to you, by \$68,000,000. Of this additional reduction \$43,000,000, or 63 percent, will go to taxpayers with adjusted gross incomes of less than \$5,000 and it will provide more of the increase in tax on those with incomes over \$5,000. The following table will show that about 40 percent

of the total increases on individuals under the bill will be borne by those under \$5,000 and about 60 percent of the increase will be borne by those with incomes above \$5,000:

Revenue effects of conference agreement on individuals

[Money amounts in millions of dollars]

Adjusted gross income class	Liability under present law ¹	Increase over present law from conference agreement	
		Amount	Percent
Under \$5,000.....	\$8,684	\$951	39.2
Over \$5,000.....	14,771	1,478	60.8
Total.....	23,455	2,429	100.0

¹ Normal tax, surtax, and alternative tax on net long-term capital gains.

NOTE.—Estimates include rate changes and head of household provisions.

There are some who say that we are taxing the higher incomes too little and the smaller incomes too much. But this statement is not borne out by the facts. The following table will show the actual tax burden paid by those in the low brackets as well as the high brackets. It will be seen that in the top bracket the Government collects from a single person 88 cents on every dollar earned while in the first bracket only about 5.6 cents of every dollar is taken in taxes:

Comparison of individual income-tax liabilities under present law and the conference agreement on H. R. 4473

SINGLE PERSON, NO DEPENDENTS

Net income before exemptions	Amounts of tax		Effective rates (percent)	
	Present law	Conference agreement	Present law	Conference agreement
\$800.....	\$40	\$44.40	5.0	5.6
\$1,000.....	89	88.80	8.0	8.9
\$2,000.....	280	310.80	14.0	15.5
\$3,000.....	488	542.40	16.3	18.1
\$4,000.....	708	788.40	17.7	19.7
\$5,000.....	944	1,052.00	18.9	21.0
\$8,000.....	1,780	1,992.00	22.3	24.9
\$10,000.....	2,436	2,728.00	24.4	27.3
\$15,000.....	4,448	4,968.00	29.7	33.1
\$20,000.....	6,942	7,762.00	34.7	38.8
\$25,000.....	9,796	10,940.00	39.2	43.8
\$50,000.....	26,388	28,466.00	52.8	56.9
\$100,000.....	66,798	69,688.00	66.8	69.7
\$300,000.....	247,274	252,164.00	82.4	84.1
\$500,000.....	429,274	436,164.00	85.9	87.2
\$1,000,000.....	870,000	880,000.00	87.0	88.0

MARRIED COUPLE, NO DEPENDENTS

Net income before exemptions	Amounts of tax		Effective rates (percent)	
	Present law	Conference agreement	Present law	Conference agreement
\$1,500.....	\$60	\$66.60	4.0	4.4
\$2,000.....	160	176.60	8.0	8.9
\$3,000.....	360	399.60	12.0	13.3
\$4,000.....	560	621.60	14.0	15.5
\$5,000.....	760	843.60	15.2	16.9
\$8,000.....	1,416	1,576.80	17.7	19.7
\$10,000.....	1,888	2,104.00	18.9	21.0
\$15,000.....	3,260	3,644.00	21.7	24.3
\$20,000.....	4,872	5,456.00	24.4	27.3
\$25,000.....	6,724	7,508.00	26.9	30.0
\$50,000.....	19,592	21,880.00	39.2	43.8
\$100,000.....	52,776	56,932.00	52.8	56.9
\$300,000.....	222,572	229,352.00	74.2	76.5
\$500,000.....	403,548	412,328.00	80.7	82.5
\$1,000,000.....	858,548	872,328.00	85.9	87.2

Comparison of individual income-tax liabilities under present law and the conference agreement on H. R. 4473—Continued

MARRIED COUPLE, 2 DEPENDENTS

Net income before exemptions	Amounts of tax		Effective rates (percent)	
	Present law	Conference agreement	Present law	Conference agreement
\$3,000.....	\$120	\$133.20	4.0	4.4
\$4,000.....	320	355.20	8.0	8.9
\$5,000.....	520	577.20	10.4	11.5
\$8,000.....	1,152	1,231.60	14.4	16.0
\$10,000.....	1,592	1,773.60	15.9	17.7
\$15,000.....	2,900	3,236.00	19.3	21.6
\$20,000.....	4,464	5,000.00	22.3	25.0
\$25,000.....	6,268	7,004.00	25.1	28.0
\$50,000.....	18,884	21,088.00	37.8	42.2
\$100,000.....	51,912	56,032.00	51.9	56.0
\$300,000.....	221,504	228,272.00	73.8	76.1
\$500,000.....	402,456	411,224.00	80.5	82.2
\$1,000,000.....	857,456	871,224.00	85.7	87.1

¹ Taking into account the following maximum effective rate limitations: present law 87 percent; conference agreement, 88 percent.

Capital gains subject to the 25-percent alternative rate did not bear any increase under the conference agreement submitted to the House last Tuesday. Under this conference agreement the alternative rate is increased from 25 percent to 26 percent for both individuals and corporations. This will bring in an additional \$28,000,000 in revenue.

With respect to corporations the Senate conferees took the House increase of five percentage points in the normal tax. The only difference between the corporate normal and surtax under the House bill and the conference agreement is that under the House bill the increase in the corporate rate was made effective January 1, 1951, as compared with April 1, 1951, under the conference agreement. The Senate conferees refused to recede on this point, and the House conferees were obliged to agree to an effective date of April 1, 1951. The effect of this conference action is to impose a top normal and surtax rate on corporations for the calendar year 1951 of 50¾ percent and a top rate for the calendar years 1952 and 1953 of 52 percent.

In regard to the excess-profits tax we were able to secure another concession from the Senate conferees which was not in the conference agreement submitted last Tuesday. It will be recalled that under the conference agreement then submitted the average-earnings credit of 85 percent was reduced to 83 percent and made effective January 1, 1952. Under the conference agreement now before you the decrease in the credit from 85 percent to 83 percent is made effective as of July 1, 1951, instead of January 1, 1952. This change alone will increase the liabilities on 1951 profits by \$60,000,000.

In connection with our corporation tax rates, I would like to submit the following table which shows the amount by which we have increased corporation taxes since the Korean war:

Estimated increase in corporation tax liability resulting from Revenue Act of 1950, Excess Profits Tax Act, and conference bill

Estimated liability under pre-1950 law..... ¹\$17,040,000,000

Gross increase ² liabilities due to—

(a) Revenue Act of 1950.....	2,480,000,000
(b) Excess Profits Tax Act.....	4,160,000,000
(c) 1951 conference bill.....	2,545,000,000

Total increase in liability..... 9,185,000,000

Total gross liability..... 26,225,000,000

Percentage increase in liability over pre-1950 percent..... 53.9

¹ Includes alternative tax on capital gains amounting to \$300,000,000.

² Estimates of increases do not include structural changes.

NOTE.—Estimates based on corporate profits before tax of \$48,000,000,000.

It will be noted that the total increase on corporations under the Revenue Act of 1950, the Excess Profits Tax Act of 1950, and the pending bill totals \$9,185,000,000. Furthermore, the rates that we are now imposing on corporations are much higher than the rates levied on corporations in Canada, Great Britain, and France. A rate of 52 percent on the ordinary income of corporations makes the government more than an equal partner in the corporate enterprise.

Another provision adopted by the conferees is one eliminating information returns as to rural electrification cooperatives and mutual insurance companies with respect to patronage dividends or refunds made to their patrons. Rural electrification cooperatives are not included in the provisions of the bill levying a tax on the unallocated reserves of cooperatives formerly exempt under section 101 (12) of the Internal Revenue Code. It is, therefore, not deemed advisable to require rural electrification cooperatives to file information returns as to such payments.

In regard to excise taxes, we agreed to a Senate amendment taxing garbage-disposal units resulting in an increase in revenue of \$2,000,000. The Senate conferees agreed to a House provision exempting skates from the 10 percent sporting goods tax, which resulted in a loss in revenue of \$2,000,000.

The conferees also agreed to an amendment which would permit corporations organized in the base period to carry over operating losses for 1947 for a period of 3 years. Under the bill, all corporations are permitted to carry over their operating losses for 1948 and 1949 for a period of 3 years.

Summing up the efforts of our conferees to get together with the Senate conferees, the following is the effect on the revenue:

Full year changes

1. Reducing the burden on the individual income taxpayers.....	-\$69,000,000
2. Increasing the capital gains tax.....	+28,000,000
3. Excise—no change.....	0

Total effect for full year..... -41,000,000

Nonrecurring changes

1. Changing the effective date of the excess profits tax....	+\$60,000,000
2. Carry-over of 1947 losses....	-10,000,000

Net gain from non-recurring items.... +50,000,000

The conferees also agreed to certain other technical changes which plugged certain loopholes. These are:

(a) Holding period for timber: The present method for computing the holding period in the case of timber subject to the provisions of section 117 (k) (2) would be retained. Under the present law the holding period runs only to the date of the contract for disposal of the timber, instead of the date of the cutting of the timber as under the bill.

(b) Coal royalties: The provision giving capital gain treatment to coal royalties would be made inapplicable in computing the income subject to the surtax on improper accumulations under section 102 and the surtax on personal holding companies under section 500.

(c) Termination payments to employees: The provision in the bill giving capital gain treatment to lump sum payments received at retirement upon the release of rights to future profits of the employer would be restricted to cases where the employee was entitled to such profits either for the duration of his life or for at least 5 years after retirement.

I wish to insert two tables at this point in the RECORD. Table I shows the full year effect of the conference agreement and also the effect upon the fiscal year 1952 receipts. Table II compares the individual income tax burden in 1944-45, the highest wartime years, with that in 1948-49, present law and the conference agreement.

TABLE I.—Estimated effect of the conference bill on tax liabilities in a full year of operation and on collections in the fiscal year 1952

[In millions of dollars]

	Full year effect	Fiscal year 1952 effect
Individual income tax.....	2,280	1,190
Corporate income and excess profits taxes.....	12,207	1,787
Excise taxes.....	1,204	1,787
Total.....	5,691	2,764

¹ Net increase after allowing for reduction in individual income taxes due to lower dividends.

² Assumes excise tax changes are effective November 1, 1951.

TABLE II.—Comparison between the individual income tax burden in the years 1944-45, 1948-49 and under present law, with that under H. R. 4473 as agreed to by the conferees for the years 1952 and 1953

A. SINGLE PERSON—NO DEPENDENTS

Net income (after deductions but before exemptions)	Amount of tax			Increase in tax liability due to 1950 act		Amount of tax under H. R. 4473	Increase in tax liability of H. R. 4473 over present law		Cumulated increase in liability due to the 1950 act and H. R. 4473	
	1944-45	1948-49	Present law	Amount	Percent		Amount	Percent	Amount	Percent
\$600.....	\$23.									
\$800.....	69	\$33	\$40	\$7	20.5	\$44	\$4	11.0	\$11	33.7
\$1,000.....	115	66	80	14	20.5	89	9	11.0	22	33.7
\$1,500.....	230	149	180	31	20.5	200	20	11.0	50	33.7
\$2,000.....	345	232	280	48	20.5	311	31	11.0	78	33.7
\$3,000.....	585	409	488	79	19.2	542	54	11.1	133	32.5
\$5,000.....	1,105	811	944	133	16.4	1,052	108	11.4	241	29.7
\$8,000.....	2,035	1,546	1,780	234	15.1	1,992	212	11.9	446	28.8
\$10,000.....	2,755	2,124	2,436	312	14.7	2,728	292	12.0	604	28.4
\$15,000.....	4,930	3,894	4,448	554	14.2	4,968	520	11.7	1,074	27.6
\$20,000.....	7,580	6,089	6,942	853	14.0	7,762	820	11.8	1,673	27.5
\$25,000.....	10,590	8,600	9,796	1,196	13.9	10,940	1,144	11.7	2,340	27.2
\$50,000.....	27,945	23,201	26,388	3,187	13.7	28,466	2,078	7.9	5,265	22.7
\$100,000.....	69,870	58,762	66,798	8,036	13.7	69,688	2,690	4.3	10,926	18.6
\$500,000.....	444,350	385,000	429,274	44,274	11.5	436,164	6,890	1.6	51,164	13.3
\$1,000,000.....	2,900,000	1,770,000	2,870,000	100,000	13.0	2,880,000	10,000	1.1	110,000	14.3

B. MARRIED COUPLE⁵—2 DEPENDENTS

\$2,000.....	\$45									
\$3,000.....	275	\$100	\$120	\$20	20.5	\$133	\$13	11.0	\$34	33.7
\$5,000.....	755	432	520	88	20.5	577	57	11.0	146	33.7
\$8,000.....	1,585	974	1,152	178	18.3	1,282	130	11.3	308	31.6
\$10,000.....	2,245	1,361	1,592	231	17.0	1,774	182	11.4	413	30.3
\$15,000.....	4,265	2,512	2,900	388	15.4	3,236	336	11.6	724	28.8
\$20,000.....	6,785	3,888	4,464	576	14.8	5,000	536	12.0	1,112	28.6
\$25,000.....	9,705	5,476	6,268	792	14.5	7,004	736	11.7	1,528	28.0
\$50,000.....	26,865	16,578	18,884	2,306	13.9	21,088	2,204	11.7	4,510	27.2
\$100,000.....	68,565	45,643	51,912	6,269	13.7	56,032	4,120	7.9	10,389	22.8
\$500,000.....	442,955	358,677	402,456	43,779	12.2	411,224	8,768	2.2	52,547	14.7
\$1,000,000.....	2,900,000	769,314	857,456	88,142	11.5	871,224	13,768	1.6	101,910	13.2

¹ Maximum effective rate limitation of 77 percent.

² Maximum effective rate limitation of 90 percent.

³ Maximum effective rate limitation of 87 percent.

⁴ Maximum effective rate limitation of 88 percent.

⁵ Income earned by 1 spouse.

Mr. Speaker, the gravity of the situation, and the importance of the vote soon to be cast, in my opinion, cannot be exaggerated. It is reflected in the following letter which I have just received from the Secretary of the Treasury:

THE SECRETARY OF THE TREASURY,
Washington, October 19, 1951,

HON. ROBERT L. DOUGHTON,
Chairman, Committee on Ways and Means, New House Office Building,
Washington, D. C.

MY DEAR MR. CHAIRMAN: I am greatly concerned about the situation which would face our Government if the tax bill, H. R. 4473, which is before the House today, should fail to pass. I know that you and your colleagues have worked for a long time to enact legislation for the purpose of strengthening our fiscal position. My purpose in writing this letter is to point out the serious consequences which would follow from the defeat of this measure.

Without the enactment of this legislation, the receipts of the Federal Government are expected to fall short of anticipated expenditures in the current fiscal year 1952 by about \$10,000,000,000. While expenditures in fiscal year 1953 cannot be estimated accurately at this time, it is clear that the deficit may well be in excess of \$15,000,000,000.

Failure to pass this tax bill would make it impossible for us to follow the pay-as-we-go policy which has the full endorsement of the entire country. We are all aware of the inherent dangers of the large deficits which will result from an inadequate tax program. The cost of running the Government will be increased on two scores: the cost of procuring the materials necessary for adequate defense would rise, and the cost of managing the public debt would grow. Furthermore, with such large deficits facing us, there is grave danger that the inflationary pressures resulting from the defense program will become unmanageable.

I know that you are as disturbed as I am about the present situation and the urgent need for the revenues which would be produced by this bill. However, even though some of the provisions of this bill may be unwarranted, I feel that the need for revenue is so great that I can not help but convey to you again my deep concern lest this bill be not enacted.

Sincerely yours,

JOHN W. SNYDER,
Secretary of the Treasury.

The rejection of the first conference report by the House created a very difficult situation for the managers on the part of the House. We did the best we could, especially those of us who wanted a tax bill. The majority of the conferees wanted a tax bill. The minority of the conferees, judging by their action and by their expressions on the floor of the House, do not want any tax bill at all. I think that is a fair statement.

Those who did want a tax bill made every effort in the first conference to get a tax bill as nearly as possible to the bill as it was passed by the House. We all know that at a conference, differences of view on many difficult questions must be resolved, and a common understanding must be reached. The majority members did all we could. On the other hand, the minority members on almost every vote where there would be a loss of revenue through the adoption of an amendment proposed by the other body, as compared to the House bill, voted from

the very beginning for practically every such Senate amendment, and did not vote to carry out the wishes of the House, as I understand is the duty of conferees, so far as they are able. Instead, from the beginning, they voted for practically every Senate amendment that would lose money, and against every Senate amendment which would increase the revenue, thereby demonstrating definitely that they were against any tax bill.

When the conference report was before the House before, some Members on the majority side voted against it because they thought it was not an adequate and satisfactory tax bill. They wanted more revenue, with less burden on those with low incomes, while those on the minority side wanted no tax bill at all, and if there was to be any tax bill, they wanted the tax burden on a different class of people. Those on my left who voted against the bill, and those on my right who voted against it, were as far apart as they could possibly be in their reasons.

Now, we went back to conference and struggled the best we could. We obtained important concessions which have been explained by the other majority members who have already spoken. The conference report now before the House on which we will soon vote was signed by 10 of the 12 conferees. It was signed by all conferees of the other body, both Democrats and Republicans, and by five of the seven conferees of the House. So the question before us today was decided by the conferees by a vote of 10 for and 2 against approval of the conference report.

The question is whether or not this House will stand up and vote for a revenue bill that will support its previous action in making appropriations. That is the question we must answer—shall we stand up and keep the faith.

I have been criticized by some of my colleagues for voting to reduce some appropriations and voting against others, because I knew that pay day was coming. But I do not hold up my own judgment against a majority of this House or a majority of the other body, and repudiate what this Congress has done. The sovereignty of this Government and the honor and integrity of the Congress is at stake today.

We labored for 8 months as earnestly as we could to bring out the very best bill we could. Then in conference we did the very best we possibly could. If you want a better tax bill than you have now, I say to you in all sincerity you must get a better Committee on Ways and Means, because we have done all that we could and the best we could. There is no use to refer the problem back to us, in the hope that we can do a better job, because we have done our everlasting best to bring out a tax bill that is equitable and fair.

I hope this conference report will be overwhelmingly adopted, and the financial integrity of the Government maintained by our action here today.

The SPEAKER pro tempore (Mr. HART). The time of the gentleman from North Carolina has expired.

Mr. DOUGHTON. Mr. Speaker, I yield the balance of the time to the

gentleman from Texas [Mr. RAYBURN].

Mr. RAYBURN. Mr. Speaker, I was deeply impressed with the remarks of the gentleman from Wisconsin [Mr. BYRNES] when he said, "Are we going to measure up to our responsibilities?" Do we believe in integrity in the fiscal affairs of this Government? If this conference report is defeated today, not only the bonds of business institutions but the bonds of the Government of the United States will go down tomorrow or late this afternoon.

Somebody referred to the boys in Korea. That is a favorite thing to say in certain spirit, but I think the boys who are fighting in Korea, offering up their all for this country, would appreciate it if we here, more prosperous than we have ever been before in our history, with the national income last year \$236,000,000,000, would stand up to our duties and obligations. I would think that they in their sacrifices would want us in our prosperity to pay our way at home instead of leaving it to them to pay when they come back here.

These are some of the things that pass through my mind as I go along. Why should we not? Let me repeat, when we are more prosperous than we ever were, when we are the most powerful nation economically that exists in the world today or ever did exist in the world, why should we not out of our plenty not fasten upon the backs of future generations any more burden of debt than is absolutely necessary?

Let us measure up to our responsibility today; and that responsibility lies on both sides of the aisle, on one side just as much as on the other. Let us measure up to that responsibility. Let us maintain the integrity of the finances of this Government as far as we can and not add to the great and crushing debt that we now have.

I have the faith to believe, and I always have faith in this House, the faith to believe that in a few moments you will measure up to your responsibility.

Mr. COUDERT. Mr. Speaker, neither the chairman of this committee nor the majority leader has reported any assurance from the President or any responsible spokesman for the administration that if this tax increase is voted, the administration will hold down actual cash expenditures for 1952 to an amount not in excess of the cash income of the Government from this and previous tax bills.

Nor has the chairman of this committee, nor anyone authorized to speak for the majority, given any assurance from the President or any administration spokesman that if this bill is voted, the administration will not ask for appropriations in the next session of this Congress in an amount exceeding the estimated cash income of the Government from this bill and previous tax bills.

Nor has the chairman of the committee, nor anyone on behalf of the majority party in the House, given assurance to the House that if this tax bill is voted, the majority party will firmly oppose the enactment of appropriations in the next session of this Congress in an amount exceeding the estimated cash income of

the Government from this and previous tax bills.

Convincing assurance of administration recognition that there is a limit beyond which the national tax burden must not go and that enactment of this bill would in fact result in a balanced budget, would, I know, have a decisive effect upon the action of some Members of the House today.

I, for one, do not intend to go on voting tax increases that simply mean more money for a reckless administration to pour into a bottomless pit, and do not mean balanced budgets and some limitation upon inflation.

Mr. MACHROWICZ. Mr. Speaker, I voted against the first conference report in the tax bill as presented here 2 days ago. I do not regret that action. Even those supporting the conference report conceded and admit that it was a vicious bill, and that it cast too great a burden on the small taxpayer and was a sad departure from the bill as adopted by this House. Too great a share of the reductions caused by the concessions to the Senate went to those in the higher brackets. The infamous Jenner amendment itself was sufficient reason for me to vote against that conference report.

The new report makes some, though much too few, concessions to the small individual taxpayer. The burden, however, still remains too great in favor of the large taxpayer. The Jenner amendment still remains in the bill.

I am informed by our leadership and by the conferees that there is absolutely no possibility of getting any further concessions. Further delay may also cause the loss of many millions of dollars in excise taxes. I am against deficit spending and I recognize that some kind of tax bill must be passed by Congress.

It is therefore with great reluctance but recognizing the reality of facts that I have come to the conclusion of necessity of voting for this conference report. In doing so, however, I intend to continue with new vigor to fight for such adjustments in the future as would more evenly spread the burden of taxation.

Mr. AYRES. Mr. Speaker, again I find it necessary to remind the Members of the House that I do not profess to be an experienced legislator. As I have told the Members before, I am a small-business man. I ran for Congress because I felt a few basic business principles should be applied to the Federal Government—the biggest business in the world.

Likening the tax bill to a business problem I would like to cite an example that arises each year in my own small business. I attempt to anticipate the gross volume in sales for the year, then I appropriate 4 percent of the anticipated gross figure for advertising. This past year I planned to spend \$15,000 in an advertising program. At the end of the first 6 months' operation, I saw that it was going to be impossible to do the gross business I had anticipated doing and therefore found it necessary to cut the advertising budget.

Applying that reasoning to the problem we face today in Congress, I think it would be more advisable to cut the

appropriations as outlined in the bill printed below.

There is no doubt that the Congress of the United States has appropriated more money than the American taxpayer can afford to pay. Let us admit our mistakes and reduce the appropriations in the same amount as is being asked for in the tax bill.

A bill to provide for reductions in appropriations made during the present Congress

Be it enacted, etc., That every amount appropriated during the present Congress is hereby reduced by a uniform percentage which will result in a reduction of \$5,691,000,000 in the aggregate amount of all appropriations made during the present Congress.

Mr. MUMMA. Mr. Speaker, whether or not this session of the Congress adjourns today is more or less immaterial to me, since I am interested primarily in working out a property tax bill. A tax bill we must have—nothing being certain in this world except death and taxes—and I want one that will not bear down on our people any more than is absolutely necessary.

As we all know, this tax legislation has been the subject of months of careful study, first by the House Ways and Means Committee and then by the Senate Finance Committee. As time went on their efforts were constantly thwarted by the tremendous demands of the administration for money, much of which is desired for its economic-aid program, whereby our substance is spread over the face of the earth—and I mean this literally and not figuratively. This is done under the guise of preventing the spread of communism. Personally, I feel that the old adage that you cannot buy friends still holds true.

Even this week a committee of Congress refused to authorize the sale of some ships to—now read carefully—the Republic of Korea until Korea shows more interest in our cause, which is to make the battle scrap available to our own steel industry and to have Korea greatly increase its output and sale to us of tungsten—our most critical material.

The one visible result of this country's give-away program in the Far East has been the ease with which the Japanese Treaty was signed—and this was only accomplished after the kinds and amounts of our aid to the various countries involved were laid on the line.

But to get back to the tax bill. On Tuesday, along with other Members of the House who have been endeavoring to get the administration to cut Government expenditures so that taxes may be reduced, I voted to return the tax bill to the conferees for further study. This action was largely a protest against the administration's consistent refusal to cooperate in cutting expenditures, since the House Committee on Ways and Means and the Senate Finance Committee had already succeeded in reducing the President's original tax demands by almost one-half.

I do not say that the further consideration of the conference committee has reduced the amount of the tax bill to its irreducible minimum, but its approach is so near this minimum that I am going to vote for acceptance of the conference report now before us, which is signed by

some of the ablest men in the House and Senate.

I will leave it to the American people to decide in 1952 which course they want to follow—the administration's tax-and-spend policy or the policy of those of us who believe in cutting Government expenditures to the absolute essentials and that it is not possible to save the world without destroying our own economy, which of course is just what Joe Stalin is hoping we will do.

Mr. HELLER. Mr. Speaker, on Tuesday, I was among those who voted against the tax bill. For that action I have no apologies. Now we are considering a revised bill and, it is with a great deal of reluctance and hesitancy, that I shall cast my vote for this tax bill. I am doing so against my better judgment. I am doing so, not because my sense of loyalty to the people of my district—who are preponderantly in the lower-income brackets—is less, but because my sense of loyalty to the country as a whole is greater.

We might as well state it frankly and openly: the tax bill which we have under consideration here today is unfair and inequitable; it is too lenient to those of higher income and it is too harsh on those in the lower-income brackets.

I had hoped all along that we would end up with a bill which would provide the necessary funds to meet our expanded national needs in these crucial days of international tension and uncertainty. We cannot close our eyes to the fact that the international situation has not improved one iota. Our men are still fighting in Korea and are facing a second winter there. All efforts to negotiate a peace or a cease-fire in Korea have thus far failed. On the contrary, the situation has worsened in other parts of the world, most recently in several countries in the Middle East, which will require even greater alertness and preparation on our part.

When I voted "no" on Tuesday, I was very much impressed with the figures quoted that day by our distinguished colleague the gentleman from Pennsylvania [Mr. EBERHARTER], who pointed out that in the tax reductions made in the original House bill relating to personal income, the conference committee cut such income by \$254,000,000, but only 23 percent went to people having an income of less than \$5,000, while 77 percent would benefit people in the higher-income brackets. That was one of the reasons which prompted me to vote against the bill.

Today we have a compromise tax bill with some very minor—almost insignificant—revisions. This, too, is far from satisfactory. Let me cite only one example, one in which many millions of people in this country are vitally interested. The formula for increasing individual income taxes has been revised to provide a rise of 11 percent on the first \$2,000 of income after personal exemptions and other deductions. Not only is this still too high for the low-income people, but I should like to see this formula extended to include all those of the so-called middle-income class; namely, those earning up to about \$5,000 or even \$6,000. In so doing, we would give these

people and their families an opportunity to maintain a more decent standard of living under present inflationary conditions.

Mr. Speaker, there are those who would seek to dismiss last Tuesday's action by this House in rejecting the tax bill as a "monetary manifestation of temper" by one or more groups in this Chamber. It goes much deeper than that. The fact that this is the first time in recent American history that a tax bill has been defeated after it was brought from conference should serve as an indication that greater consideration must be given to the needs of the lower-income groups when considering tax bills in the future.

Because our country needs these funds so urgently at this time, I will reluctantly cast my vote in favor of the tax bill, though I am very much displeased with it.

Mr. RABAUT. Mr. Speaker, consideration of the conference reports on tax legislation is one of the two opportunities which Members of the House have to place on the record their views about these measures.

I have long been opposed to the closed-rule method of legislating. It fosters a take-it-or-leave-it philosophy among Members of the House which is hardly beneficial to the sound workings of the legislative process.

Because of the overriding importance of avoiding deficit financing as nearly as we can and fighting inflation with every means at our command, I am going to take this legislation. I will vote for the conference report as I did when it was first before the House. The House well knows of my opposition to several provisions of this bill, but I desire that it be apprised of my views especially as to increased excise taxes on automobiles.

One of our greatest sources of revenue in the past has been through the money derived from excises levied on items deemed luxuries. The first of these taxes was imposed as far back at 1791—what it was levied on is unimportant. It so happened that it was whisky—whether that is a luxury or not, is in itself a debatable question not to be entered on at the moment. What is also a debatable question, is the definition of the word "luxury." Webster defines a luxury as "something expensive and difficult to obtain." If we are to accept that definition, then many of the items subject to excise levies today are incorrectly classified.

We have listed under taxable luxury items such commodities of every-day usage as tobacco, electricity, automobiles, movies, toilet preparations, and too many other adjuncts to our daily living for me to take time to enumerate them.

It seems to me that when a commodity reaches the state of almost universal consumption by a vast majority of the population, even the low-income group, in its day-to-day living habits, then that commodity can no longer be classified as a luxury. Rather, it is a necessity.

It is in this classification that I place the automobile. When 59,000,000 adults ride in an automobile every day, and when 56 percent of all daily passenger-

car use is directly connected with the business of making a living, then the ownership of an automobile can hardly be called a luxury.

Is it a luxury for the minister to use a car in carrying out his duties of the church? A group of clergymen was queried recently on the necessity of the automobile to their calling; the survey disclosed that the average clergyman covers approximately 13,400 car-miles per year on church business. In rural areas and small towns where there is no public transportation, this figure rises to approximately 22,000 miles. Should the underpaid clergyman be further burdened by higher automotive taxes, because he finds it necessary to use an automobile in the discharge of his clerical duties?

Is the housewife who uses the family car to drive her children to school when no school bus or other transportation is available, is she indulging in luxury driving?

It may be hard for those of us who come from large or even smaller cities where a transportation system is taken for granted, to realize that there are many, many communities where the individual passenger car is the only means of getting from one place to another. Within the past 10 years or so there has been an almost unprecedented mushrooming of suburban communities and developments. Many of these communities are established beyond the city line of transportation, and are not large enough to support a system of their own. If the thousands of suburbanites who live in such areas are to follow the normal pattern of living, the use of the automobile is absolutely essential. The facts are the number of persons in both suburban and rural areas who are not served by any kind of public transit at all totals 13,000,000. There is no luxury here in the use of a car.

The dependence of a population on the family car was brought home to all of us here in Washington earlier this year. The recent transit strike was an inconvenience to a great many people—but thanks to the many private cars pressed into daily service, neither business nor the individual suffered too greatly.

My own city of Detroit, which was strike-bound for 59 days, offers a telling example of our twentieth century dependence upon the automobile. When Detroit's transit system went dead last spring, the suddenness of the strike caused considerable inconvenience and dislocation in its first few days. But by the end of the first week, passenger cars had practically filled the gap. The volume of traffic on Detroit's streets increased approximately 15 to 20 percent above the pre-strike level. Car-pools and share-the-ride clubs were formed, and from all reports, business went on much as usual. Factories reported absenteeism only 1 to 6 percent above normal, and retail trade was off only about 5 percent as compared with the same period last year. Facts and figures like these definitely place the automobile in the category of an essential—and essentials are not subject to the 3 percent excise increase.

In the early days of country, no one thought it odd if the housewife took the family buckboard into town to do her shopping, nor was the youngster who rode a horse to school looked upon as a plutocrat. Why, then should their modern counterparts who drive not one horse, but the power of many horses for exactly the same purpose, be taxed on the basis of luxury?

I say that the automobile is no more a luxury today, than is the plowhorse. And this is no far-fetched analogy, either. About 70 percent of all farms have at least one passenger car today. To the farmer, these cars are far from a luxury—the farm-owned passenger car is called into every possible kind of service. Surveys have shown that of all the trips the average farmer makes by car, 78 percent are in the nature of a necessity, directly connected with the business of farming. Of every 100 miles traveled by the average farm car, 67 are directly connected with making a living. To the farmer, the passenger car is one of his most essential tools.

But the passenger car is not the only automotive vehicle essential to the farmer. The motor truck, another farm necessity that could not, by the longest stretch of the imagination be termed a luxury, is also subject to an increased tax. Actually, the light farm truck is the real work-horse of the up-to-date farm. These trucks not only help the farmer in stepping up production, but make possible a much wider and faster distribution of all farm products, and appreciably reducing spoilage.

In the cattle industry, the farm truck has practically revolutionized the character of the entire industry. Cattle which were formerly driven to range by long and tedious trail-driving, today are trucked to range or market, saving days of tiring, tedious work, and benefiting both animals and men. I do not think anyone could call this use of the automobile a luxury. Nor is the truck that rushes our fire-fighters to the scene of a conflagration; nor the one that clear our roads of snow block; or the one that hauls our refuse. Yet all of these service trucks are technically automobiles, and therefore subject to an increased tax.

For the past year our national industrial effort has again taken on the stepped-up production necessitated by a state of national emergency. This means that thousands of workers are being recruited by plants and factories engaged in producing the implements of war. The ownership of a private automobile has in many instances determined the ability of a worker to accept employment in a defense plant. During World War II a survey of 749 plants made by the Michigan Highway Department disclosed that 75 percent of 434,648 employees quizzed, came to work in their own cars. Reports from 94 plants in different parts of the country employing a total of 140,000 war workers, showed that 73 percent rode to work either in their own cars, or by car pool. To these workers on whom the Nation is still so highly dependent, the ownership of a car is not a luxury. It is bread and butter.

The automobile industry itself is a large-scale employer. Both directly and indirectly it is the support of one out of every seven jobs in the whole country. Just think, there are over 9,000,000 people in these 48 States who are dependent on the manufacture, sale, and general use of the automobile. The man at the filling station, the garage mechanic who tunes up your car, the fellow who makes or sells you a needed part or accessory and the one we seldom see who works in the oil refinery—he is just one of these nine millions dependent on the continued sale and manufacture of the automobile. What would happen to him and his counterpart millions should there come a time when Mr. Public who now chalks up 7 percent or \$95 of the total purchase price of his car to taxes, decide that an additional 3 percent or approximately \$135 of the new-car purchase price is pushing him just too hard? I know what would happen, and so do you. We would be faced with a buyer's strike that would have disastrously telling effects on both the Government coffers, kindred industries, and employment. In fact there is not a phase of our economy—not to mention our defense effort—which would not be most seriously affected.

Such a possibility should not be laughed off on the assumption that what the people want, the people will always buy, even at great sacrifice. There can come a time when a commodity, however necessary, can be taxed right off the market. Should this happen to the automobile because of excessive taxation, the result would be a tragic and disastrous breakdown of national economy. Furthermore, the whole purpose of the taxation would have defeated itself. It has never been the intent of taxation—except in national emergencies—to reduce the consumption of a taxed product. Rather, such levies always have been imposed with the full knowledge, even hope, that the tax will be a producer of revenue. Up till now, the reasoning of our tax writers has proved them canny psychologists of human nature. But if my mail is a fair indicator of the temper of the auto-buying public, then I would say that the saturation point in new-car buying has been reached. I am, therefore, opposed to the increased automobile excise tax provisions of this bill. I will not oppose the bill but it is high time that the importance of the automobile, in its relation to our way of life, should be appraised, not as a luxury, but as a necessity.

Mr. MORRIS. Mr. Speaker, in my judgment the conferees should have eliminated the so-called Jenner amendment. This matter ought to be determined only after careful hearings and full debate.

In regard to making the rolls of those receiving assistance for dependent children and old-age assistance open for public inspection, I have serious doubts that such policy would be the answer to charges that there are chiselers and frauds on such rolls, now.

No good citizen is going to condone fraud and cheating, regardless of where it may be found; but will the opening of

the rolls, to the public, prevent such evil or materially assist in bringing about proper punishment for those guilty?

The very fact that so much has been said about this matter, of late, and so many specific instances have been cited, pretty well proves that by proper diligence the cheats and frauds, on these rolls, may be discovered under the present law; and I think every one knows that any specific charge may be thoroughly investigated, and any guilty parties prosecuted by grand juries and prosecuting attorneys, now. The opening of the rolls to the public could easily have some very bad effects. It could easily result in holding thousands of legitimate recipients up to public obloquy and act as a serious deterrent to worthy people who would be reluctant, and in many instances would refuse, to apply for aid when in justice and fairness they should apply. As a matter of fact, it could greatly impair, if not defeat, the real purpose of the law. Then again, it could cause harassment and great annoyance to those, on the rolls, by subjecting them to a steady barrage by commercial and political interests, looking only for their money and vote. So my suggestion is that we not be rushed into a change in the law but should give the request for its repeal careful and full consideration.

Now, as to the old-age-assistance feature of the matter, I offer a solution. If the old-age pension bill, H. R. 2681, which I introduced, or some good bill along this line becomes law, it will completely solve this question.

The bill provides, in substance, for a direct universal Federal old-age pension to all citizens 60 years of age, or over, who are not earning sufficient income to be required to file a Federal income tax return. This is, in my judgment, a reasonable, workable, and feasible pension bill. It is offered as an amendment to the present social security law, as to the old-age-assistance feature, and would not create any new bureau, or bureaus, as the existing Bureau of Internal Revenue could furnish the Social Security Board needed information as to income tax returns.

There now exists in this country, according to reliable information—see page A6333 of the CONGRESSIONAL RECORD of October 2, 1951—approximately 15,000 separate old-age pension systems including Government assisted and private systems. All of them could not and would not be brought under one Federal system, all at once, it is true, but eventually they would in my judgment, voluntarily elect to do so.

Of course, the consuming public now pays and always will pay for all of the systems, whether private or public; and would not one single plan be preferable and more economic and less confusing that 15,000 separate plans, all having the same objectives? Just think of the tremendous cost and bookkeeping in administering 15,000 plans.

I have heard it said many times, in defense of existing public old-age pensions, or retirement plans—while we have provided only old-age assistance

for those needing the help most—that those now coming under them, such as Members of the Supreme Court and Federal judiciary, generally, Members of Congress and Federal employees, generally, that their groups pay their own money into the systems. Technically this is true, but in reality, it is not true. Historically, and in every instance that I can recall, when a Federal old-age pension—retirement—plan has been set up, the salaries of those who would participate have been raised so they could pay into the system. Consequently, taxes were raised and the public has paid and continues to pay the bill. This same principle is true in regard to retirement programs in private industry. When retirement systems are set up, wages of the workmen are raised so they can pay into the fund, or the company itself pays into the fund. In either event, prices of consumer goods are raised to meet this added expense of the company, and the consuming public pays the bill.

I do not object to these retirement programs; as a matter of fact, I am strongly in favor of them, but what I do object to is that millions of those who need pensions, or retirement, most, do not get them at all but they get only old-age assistance, which means that they are treated as second-rate citizens. A case worker decides how much they shall get, which is always far below the pension group. They are subject to checks and quizzes and are, in fact, regimented citizens. They cannot do many things without losing their small monthly checks. For instance, they can only own a very small amount of property, can only have a very small income, and must report and explain to the case worker visits they have made to relatives when they go for an extended visit to loved ones in adjoining States. Who ever heard of a retired Federal employee having to make such reports? What a howl of protest would go up if they were required. No; what they draw is theirs, but only partly is this true of those drawing old-age assistance. Through their lives they have paid taxes and have worked and added to the economy of our society, the same as others. Why should not they be treated the same?

INCREASED PERCENTAGE DEPLETION ALLOWANCE FOR COAL

Mr. FLOOD. Mr. Speaker, the action of the Senate Committee on Finance in agreeing to raise the percentage depletion allowance for coal to 10 percent is recognition by that body of a long-standing discrimination against the vital coal industry. It is recognition of an inequity which the staff of the Joint Committee on Internal Revenue Taxation admitted more than two decades ago. It is an acceptance of the action taken in 1950 and again in mid-1951 by the House Ways and Means Committee and the House of Representatives itself.

Those of us who have been close to the coal industry for many years cannot but feel that the coal industry has been discriminated against in an unjust and unfortunate way. Even worse, the whole Nation itself has suffered and will continue to suffer by reason of the fail-

ure earlier to give equitable treatment to the producers of coal. While we need a strong and sound coal industry, taxation has heretofore joined with other instrumentalities for gradually weakening it.

Depletion allowances in the tax law are statutory deductions from gross income designed to permit the mine owner to secure a tax-free return of his capital. Coal is a wasting asset. When it is taken out of the ground and sold, the mine owner has lost part of his assets. The proceeds from the sale are in part a reimbursement for the expense of producing the coal, and part a reimbursement for the capital which he has lost. Obviously, no industry can long endure under the present extremely high tax rates if that industry is not allowed to recover tax-free its expenses of operation. Neither can a coal mine continue to operate if it is not permitted to recover tax-free the capital it has lost by reason of the removal of part of its assets.

For many years the coal industry operated at a loss. For example, the bituminous-coal industry as a whole lost money in each of the 15 years preceding 1940. In the years following 1940 most coal companies did make a profit but it has been small in relation to investment. The record is such that investment is not attracted to the industry. It is unfortunately true that the principal, if not the sole, source of capital to provide for the future producing capacity of coal, is from the retained earnings and the nonexpended income deductions for depreciation, depletion, and amortization. It can thus be seen why an increase in the depletion allowance to 10 percent would be so hopeful to the coal industry.

Coal is vital to our economic strength in peace and in war. It is indispensable in peace. It is even more important in war. Without it steel cannot be produced. Adequate transportation cannot be maintained. Sufficient steam and electric power cannot be generated. General manufacturing would be paralyzed. The health and safety of the Nation would be endangered. The entire economy of the Nation would collapse.

In peace time coal is our most important source of energy because it supplies about half of our total demands. In a national emergency the needs for coal expand rapidly. The importance of coal is seen from the fact that it takes 6 pounds of coal to make 1 pound of smokeless powder, 2 tons of coal to make a 1-ton bomb, and 220 tons of coal to make a modern tank. Huge tonnages of coal will be needed for the expansion of our electric-power industry and the manufacture of artificial gas. Similarly, steel expansion will put pressure on the supplies of high-grade coking coal. Even beyond these, so well known by everybody, will be the demands for the increased production of chemicals and the expansion of general manufacturing. Railroads and ships will need more coal to haul their greater loads and there will be export demands under the Mu-

tual Defense Assistance Act. Our entire rearmament program could be seriously handicapped by a shortage of coal.

For many years the oil and gas industries in computing their taxable income have been permitted to deduct 27.5 percent of their gross income as a depletion allowance. Coal on the other hand—which has been losing its market to oil and gas—has been allowed to deduct only 5 percent while certain other metals and nonmetals have been allowed either 15 or 23 percent. It has finally become recognized that the 5-percent allowance to coal is of little practical value to the coal industry. The coal industry is peculiarly in need of more favorable tax treatment—instead of discriminatory tax treatment—because of the inroads which alternative sources of energy, particularly oil and gas, have made in the potential markets of coal. Unfortunate though the discrimination has been in the past, the increased rates of tax proposed in the new bill would make that discrimination even more unbearable.

One thing I wish to make clear is that the loss of revenue is much less than a superficial examination might suggest. There is a good possibility that the result may actually mean an increase in revenue. If the result of increased depletion allowances is new capital investment and greater national security—and I argue that that will be one result of increasing the coal depletion allowance—then the Government may well gain rather than lose any revenue by reason of this action. The additional funds available to coal companies will lead to new investment, new research, the opening of more efficient mines, better machinery, etc. But even beyond that, our national security cannot be measured in terms of revenue losses resulting from an increased depletion allowance for coal. Coal is absolutely essential to national security. Impediments to a continued guaranteed source of coal should be removed.

Many who look about them have seen coal gradually replaced as a fuel for cooking, for heating, for power. They see the giant Diesels pulling long trains of railroad cars and conclude that coal has become of minor significance in the economic life of the Nation today. It is true that the industry has been hampered by the tax discrimination. Competing fuels have had other advantages as well. But what I wish to make clear is that the great strides forward made by oil and gas have not yet eliminated coal as a fuel. And what is more, this Nation will rue the day that through tax discrimination it forces the closing of coal mines throughout the country while overlooking the fact that oil and gas cannot do the whole job. The coal industry has no quarrel with the oil and gas industry. It simply feels that it should not be discriminated against and rendered so economically unprofitable that it must close down.

Coal can never be entirely replaced by oil and gas. Yet coal has recently been priced out of some markets by oil and gas because of its high production costs. Coal mining today pays higher average hourly earnings than other types

of mining and almost any manufacturing industry. In only a few industries demanding highly skilled workers is the wage per hour greater than in coal mining. Because the cost of coal is high, the population is turning more and more to oil and gas, items with definitely limited supply. We are all acquainted with the recent declarations of the inability of the natural gas industry to meet the demands that will be made upon it this year. We should not through preferential tax treatment encourage this diversion from the use of a well-nigh inexhaustible supply of power to an exhaustible one. A recent survey concluded that the estimated fuel reserves of the United States are as follows: Coal, 95.4 percent; oil shale, 3.6 percent; natural gas, 0.5 percent; petroleum, 0.5 percent. We must keep our coal mines at work and make it possible to provide further mechanization and research that will enable them to meet the competition of the tax favored oil and gas industry. An increased depletion allowance is one thing that will help to do just that.

That the coal industry has some life in it still is evidenced by the fact that production in 1950 was about 10 percent greater than in 1949 and production this year will perhaps see another 10-percent rise. However, most of these increases are the direct result of the outbreak of hostilities in Korea. We must continue to think of coal also as a peacetime necessity as well as a faithful servant in time of war. The coal industry must be kept alive in time of peace or it will not be available in time of war. It must be understood that no longer are there coal seams capable of being speedily developed. Outcrop underground and open pit mines are very nearly exhausted, and the seams lying in the most favorable older coal-producing areas are believed to be already largely depleted. No longer can we hope to open thousands of small mines to meet a war emergency. We will have to depend on more completely mechanized mines of large capacity. The coal industry needs money to do research toward greater mechanization and to make coal more acceptable to the average consumer. Instruments must be devised to make coal more simple to use, efficient and clean in the home. Greater improvements must be invented to make all operations automatic. More research must be done for cheaper mining of coal and cheaper transportation. More work must be done on coal-burning gas turbines for railway locomotives.

In conclusion, the coal industry has had a very tough road in recent years. All it asks is removal of discrimination. The favored oil and gas industry has replaced it in many particulars as a source of heat and power. We have given great emphasis to the development and rapid exhaustion of a definitely limited supply of oil and gas. The greater expansion of these two sources will result in their more rapid depletion while making less use of a supply of coal still good for hundreds of years. A sounder national policy would be to conserve our more quickly exhaustible oil and gas and make greater use of coal. To accomplish that, coal must be made more attractive both

as to price and efficiency. A 10-percent depletion allowance will be one item which will be helpful in making it possible for the coal industry to work toward those goals.

Mr. DOUGHTON. Mr. Speaker, I move the previous question.

The previous question was ordered.

The SPEAKER. The question is on the conference report.

Mr. REED of New York. Mr. Speaker, on that I ask for the yeas and nays.

The yeas and nays were ordered.

The question was taken; and there were—yeas 185, nays 160, answering "present" 7, not voting 76, as follows:

[Roll No. 214]

YEAS—185

Abbutt	Felghan	McCormack
Abernethy	Fernandez	McGrath
Adair	Fisher	McKinnon
Addonizio	Flood	McMullen
Albert	Fogarty	Machrowicz
Andersen,	Forand	Mahon
H. Carl	Ford	Marrow
Andrews	Forrester	Mills
Anfuso	Frazier	Morris
Aspinall	Fugate	Morton
Bailey	Gary	Multer
Bakewell	Gathings	Mumma
Barden	Gordon	Murdock
Battle	Gore	Murray, Tenn.
Beamer	Grant	Norblad
Beckworth	Greenwood	Norrell
Bennett, Fla.	Gregory	O'Brien, Ill.
Bennett, Mich.	Hale	O'Neill
Bentsen	Halleck	O'Toole
Bolling	Harden	Patman
Bonner	Hardy	Patten
Boykin	Harris	Pickett
Bray	Harrison, Va.	Poage
Brown, Ga.	Hart	Polk
Brownson	Harvey	Preston
Bryson	Havener	Price
Buchanan	Hedrick	Priest
Buckley	Heffernan	Rabaut
Burleson	Heller	Rains
Burnside	Hillings	Ramsay
Burton	Holfield	Reams
Byrne, N. Y.	Holmes	Richards
Byrnes, Wis.	Hope	Riley
Camp	Howell	Rivers
Carlyle	Hunter	Roberts
Case	Ikard	Robeson
Celler	Jarman	Rodino
Chatham	Javits	Rooney
Chelf	Jones, Ala.	Scott,
Cole, Kans.	Jones, Mo.	Hugh D., Jr.
Colmer	Jones,	Seely-Brown
Cooley	Hamilton C.	Smith, Miss.
Cooper	Jones,	Smith, Va.
Corbett	Woodrow W.	Spence
Cotton	Judd	Staggers
Cox	Karsten, Mo.	Stanley
Crosser	Kean	Steed
Crumpacker	Kee	Stigler
Davis, Ga.	Kelly, N. Y.	Stockman
Davis, Tenn.	Kerr	Tackett
Deane	Kilburn	Teague
DeGraffenried	Kilday	Thomas
Denton	King	Thompson, Tex.
Dingell	Kirwan	Tollefson
Dollinger	Klein	Trimble
Dorn	Kluczynski	Vorys
Doughton	Lanham	Walter
Doyle	Lantaff	Whitaker
Durham	Larcade	Whitten
Eberhart	LeCompte	Wickersham
Elliott	Lesinski	Willis
Ellsworth	Lind	Yates
Evins	McCarthy	Yorty

NAYS—160

Allen, Ill.	Boggs, Del.	Clevenger
Andresen,	Bolton	Coudert
August H.	Bow	Cunningham
Arends	Brehm	Curtis, Mo.
Auchincloss	Budge	Curtis, Nebr.
Ayres	Buffett	Denny
Baker	Burdick	Devereux
Barrett	Bush	Donohue
Bates, Mass.	Butler	Donovan
Beall	Canfield	Eaton
Belcher	Cannon	Elston
Bender	Carnahan	Fallon
Berry	Chenoweth	Fenton
Betts	Chiperfield	Fulton
Bishop	Chudoff	Furcolo
Blatnik	Church	Gamble

Garmatz	McMillan	Scrivner
Gavin	McVey	Scudder
George	Mack, Wash.	Secrest
Goodwin	Madden	Shafer
Graham	Magee	Sheehan
Granahan	Marshall	Short
Green	Martin, Mass.	Simpson, Ill.
Gross	Meador	Simpson, Pa.
Gwinn	Miller, Md.	Sittler
Hall	Miller, Nebr.	Smith, Kans.
Edwin Arthur	Miller, N. Y.	Smith, Wis.
Hall	Morano	Springer
Leonard W.	Morgan	Taber
Hand	Moulder	Talle
Harrison, Wyo.	Nelson	Taylor
Hays, Ohio	Nicholson	Thompson,
Herter	O'Brien, Mich.	Mich.
Heseltan	O'Hara	Vail
Hill	O'Konski	Van Pelt
Hoeven	Ostertag	Van Zandt
Hoffman, Ill.	Patterson	Velde
Hoffman, Mich.	Philbin	Vursell
Horan	Potter	Weichel
Hull	Poulson	Welch
Jackson, Wash.	Radwan	Wharton
James	Rankin	Wheeler
Jenison	Reece, Tenn.	Widnall
Jenkins	Reed, Ill.	Wier
Jensen	Reed, N. Y.	Wigglesworth
Jonas	Rees, Kans.	Williams, Miss.
Kearns	Rhodes	Williams, N. Y.
Keating	Rogers, Colo.	Wilson, Ind.
Kersten, Wis.	Rogers, Mass.	Winstead
Lane	Rogers, Tex.	Withrow
Lovre	Sadiak	Wolcott
McConnell	St. George	Wolverton
McCulloch	Saylor	Wood, Idaho
McGregor	Schwabe	Woodruff
McGuire	Scott, Hardie	

ANSWERED "PRESENT"—7

Clemente	Mason	Sutton
Dolliver	Mitchell	
Hinshaw	Riehlman	

NOT VOTING—76

Aandahl	Fine	Passman
Allen, Calif.	Golden	Perkins
Allen, La.	Granger	Phillips
Anderson, Calif.	Hagen	Powell
Angell	Hays, Ark.	Prouty
Armstrong	Hébert	Quinn
Baring	Herlong	Redden
Bates, Ky.	Hess	Regan
Blackney	Irving	Ribicoff
Boggs, La.	Jackson, Calif.	Rogers, Fla.
Bosone	Johnson	Roosevelt
Bramblett	Kearney	Sabath
Brooks	Kelley, Pa.	Sasser
Brown, Ohio	Kennedy	Shelley
Busbey	Keogh	Sheppard
Cole, N. Y.	Latham	Sieminski
Combs	Lucas	Sikes
Crawford	Lyle	Thornberry
Dague	McDonough	Vinson
Davis, Wis.	Mack, Ill.	Watts
Dawson	Mansfield	Werdel
Delaney	Martin, Iowa	Wilson, Tex.
Dempsey	Miller, Calif.	Wood, Ga.
D'Ewart	Morrison	Zablocki
Dondero	Murphy	
Engle	Murray, Wis.	

So the conference report was agreed to.

The Clerk announced the following pairs:

On this vote:

Mr. Granger for, with Mr. Mansfield against.
 Mr. Vinson for, with Mr. Brown of Ohio against.
 Mr. Lyle for, with Mr. Hinshaw against.
 Mr. Fine for, with Mr. Riehlman against.
 Mr. Prouty for, with Mr. Anderson of California against.
 Mr. Allen of California for, with Mr. Hagen against.
 Mr. Davis of Wisconsin for, with Mr. Dondero against.
 Mr. Hays of Arkansas for, with Mr. Hess against.
 Mr. Engle for, with Mr. Werdel against.
 Mr. Rogers of Florida for, with Mr. Clemente against.
 Mr. Morrison for, with Mr. Phillips against.
 Mr. Hébert for, with Mr. McDonough against.
 Mr. Sheppard for, with Mr. Busbey against.
 Mr. Zablocki for, with Mr. Martin of Iowa against.
 Mr. Keogh for, with Mr. Dempsey against.

Mr. Sikes for, with Mr. Quinn against.
 Mr. Sieminski for, with Mr. Delaney against.
 Mr. Boggs of Louisiana for, with Mr. Angell against.

Mr. Miller of California for, with Mr. Kearney against.

Mr. Herlong for, with Mr. Mitchell against.
 Mr. Sabath for, with Mr. Sutton against.
 Mr. Combs for, with Mr. Mason against.
 Mr. Thornberry for, with Mr. Dolliver against.

Mr. Bates of Kentucky for, with Mr. Regan against.

Until further notice:

Mr. Perkins with Mr. Blackney.
 Mr. Passman with Mr. Jackson of California.

Mr. Murphy with Mr. Armstrong.
 Mr. Roosevelt with Mr. Johnson.
 Mrs. Bosone with Mr. Murray of Wisconsin.
 Mr. Baring with Mr. Bramblett.
 Mr. Mack of Illinois with Mr. Cole of New York.

Mr. Watts with Mr. Crawford.
 Mr. Redden with Mr. D'Ewart.
 Mr. Kelley of Pennsylvania with Mr. Dague.
 Mr. Brooks with Mr. Golden.
 Mr. Dawson with Mr. Aandahl.

Mr. CLEMENT. Mr. Speaker, I have a live pair with the gentleman from Florida, Mr. ROGERS. If present the gentleman would have voted "yea." I voted "nay." I therefore withdraw my vote and answer "present."

Mr. MITCHELL. Mr. Speaker, I voted "nay." I have a live pair with the gentleman from Florida, Mr. HERLONG. If present he would have voted "yea." I therefore withdraw my vote and answer "present."

Mr. SUTTON. Mr. Speaker, I have a live pair with the gentleman from Illinois, Mr. SABATH. I voted "nay." If the gentleman from Illinois, Mr. SABATH, were present he would have voted "yea." I therefore withdraw my vote and answer "present."

Mr. MASON. Mr. Speaker, in this roll call I voted a resounding "nay." I have a live pair with the gentleman from Texas, Mr. COMBS. If he were present he would have voted "yea." I therefore recall my vote and answer "present."

Mr. HINSHAW. Mr. Speaker, I have a live pair with the gentleman from Texas, Mr. LYLE. If present he would have voted "yea." I voted "nay." I therefore withdraw my vote and answer "present."

Mr. RIEHLMAN. Mr. Speaker, on this roll call I voted "nay." I have a live pair with the gentleman from New York, Mr. FINE. If present he would have voted "yea." I therefore withdraw my vote and answer "present."

Mr. DOLLIVER. Mr. Speaker, I have a live pair with my colleague from Texas, Mr. THORNBERRY who is absent because of illness in his family. I voted "nay" on this roll call. Mr. THORNBERRY, if present, would have voted "yea." I therefore withdraw my vote and answer "present."

Mr. EATON changed his vote from "yea" to "nay."

The result of the vote was announced as above recorded.

A motion to reconsider was laid on the table.

MUTUAL SECURITY APPROPRIATION BILL, 1952

Mr. GARY. Mr. Speaker, I ask unanimous consent to take from the Speaker's

table the bill (H. R. 5684) making appropriations for mutual security for the fiscal year ending June 30, 1952, and for other purposes, with Senate amendments, disagree to the amendments of the Senate and agree to the conference asked by the Senate.

The Clerk read the title of the bill.

The SPEAKER. Is there objection to the request of the gentleman from Virginia? [After a pause.] The Chair hears none and appoints the following conferees: Mr. GARY, Mr. ROONEY, Mr. McGRATH, Mr. CANNON, Mr. WIGGLESWORTH, Mr. COUDERT, and Mr. TABER.

RAILROAD RETIREMENT AMENDMENTS—CONFERENCE REPORT

Mr. CROSSER. Mr. Speaker, I call up the conference report on the bill (H. R. 3669) to amend the Railroad Retirement Act and the Railroad Retirement Tax Act, and for other purposes, and ask unanimous consent that the statement be read in lieu of the report.

The SPEAKER. Is there objection to the request of the gentleman from Ohio? There was an objection.

The Clerk read the statement.

(For conference report and statement, see proceedings of the House of October 18, 1951.)

[Mr. CROSSER addressed the House. His remarks will appear hereafter in the Appendix.]

Mr. CROSSER. Mr. Speaker, I yield 10 minutes to the gentleman from New Jersey [Mr. WOLVERTON].

Mr. WOLVERTON. Mr. Speaker, it is with considerable pleasure and extreme satisfaction that I come before the House this afternoon as one of the conferees on the bill to amend the Railroad Retirement Act and report that an agreement has been reached. I am sure it is also gratifying to the membership of this House to know that we are presenting to you a conference report that meets with the general approval of all interested parties.

I wish to compliment all who have worked so sincerely, so honestly, and so ably in an effort to present to this House legislation that will prove helpful to the beneficiaries under the Railroad Retirement Act.

While there have been differences of opinion at times between some of the railroad brotherhoods as to the approach in this matter, while there have been differences of opinion in the Committee on Interstate and Foreign Commerce, and while there have been differences of opinion in the House, yet, as a result of our endeavors, we bring before you today this conference report which represents general approval of the different brotherhoods as well as the unanimous approval of your conferees of both Senate and House. Therefore we present to you a conference report that meets with such general approval of all interested parties that it can be supported, in my opinion, by the membership of this House regardless of what may have previously been individual views with respect to any of the questions that were in controversy.

It is my intention to ask for a roll-call vote on the adoption of the report in order that the membership of this House

may have the opportunity of demonstrating to those who are interested in this matter that the House is unanimously in favor of granting relief to the pensioners, to the annuitants, and to the survivors of retired railroad workers.

Mr. DOLLIVER. Mr. Speaker, will the gentleman yield?

Mr. WOLVERTON. I yield to the gentleman from Iowa.

Mr. DOLLIVER. I would like to take this opportunity to pay a sincere compliment to the gentleman from New Jersey. He and I have not always seen eye to eye in all matters concerning railroad affairs, but I wish to state publicly that the gentleman from New Jersey [Mr. WOLVERTON] has always tried to do the very best for the railroad men that he could. I consider he has accomplished a magnificent effort in this recent legislation, and I wish to compliment him for the fine results that have come from the conference committee for which he in large part is responsible.

Mr. WOLVERTON. I thank the gentleman.

Mr. WALTER. Mr. Speaker, will the gentleman yield?

Mr. WOLVERTON. I yield to the gentleman from Pennsylvania.

Mr. WALTER. Is this report a unanimous report?

Mr. WOLVERTON. It is a unanimous report. May I say in reply to the gentleman from Iowa [Mr. DOLLIVER] that I want to pay a compliment to all members of the Committee on Interstate and Foreign Commerce. Never have they worked harder, more sincerely and with more conviction and with a greater desire to accomplish results that would be worthwhile and beneficial to our retired railroad workers and their survivors than they have with respect to this legislation. It has been a pleasure to be associated with a group that has worked so zealously and with such great ability and sincerity of purpose as has characterized the members of the committee, and, to which the gentleman from Iowa [Mr. DOLLIVER] has contributed so much in attaining the present results.

Mr. FULTON. Mr. Speaker, will the gentleman yield?

Mr. WOLVERTON. I yield to the gentleman from Pennsylvania.

Mr. FULTON. Has this conference report been agreed to and is it acceptable to the operating as well as the non-operating brotherhoods?

Mr. WOLVERTON. There has been no voice raised against it, to my knowledge. On the other hand, every voice I have heard has been raised in favor of it.

Mr. FULTON. Have there been any voices of the nonoperating brotherhoods raised specifically agreeing to it?

Mr. WOLVERTON. Yes. Now, let me inform the membership as to what is contained in this conference report.

The bill as reported by the conference committee retains practically all the provisions of the bill passed by the House and adds thereto certain provisions contained in the bill passed by the Senate. Its only omissions are from the bill passed by the Senate. The following are the principal features of the bill passed by the House, all of which have been re-

tained in the bill reported by the conferees:

First. It provides for uniform increases of 15 percent in retirement annuities and pensions, 33 $\frac{1}{3}$ percent in survivor annuities, and 25 percent in lump-sum death payments.

Second. It fixes the benefits payable under the Social Security Act as the minimum for corresponding benefits under the Railroad Retirement Act.

Third. It provides for credit for railroad service after age 65 in the computation of benefits.

Fourth. It provides for supplementing the annuity of a retired employee by an annuity to his wife when both are 65 or more years of age, the supplemental annuity to the wife being equal to one-half the annuity of the retired employee subject to a maximum of \$40 per month.

Fifth. It provides for the payment of survivor annuities to widowers in the same amounts as are payable to widows.

In addition to the foregoing provisions which were retained from the bill as passed by the House, the bill as reported by the conferees retains the provisions of the bill as passed by the Senate establishing an arrangement between the railroad retirement system and the Social Security System in the nature of a reinsurance of the risks of the former by the latter. Under this arrangement, there will be transferred to the social-security trust fund such part of the taxes collected for the support of the railroad retirement system as equals the taxes that would have been paid under social security if railroad employment had been covered thereby. In return for the amount thus transferred to it, social security will assume all responsibility for the payment of benefits to railroad employees who at time of retirement or at time of death have less than 10 years of railroad service, and in addition will reimburse the railroad retirement fund for such portion of all benefits paid under the railroad retirement system as equals the benefits which would have been payable under the Social Security Act if railroad employment had been covered thereby. The actuaries of the Railroad Retirement Board estimate that this arrangement will result in a net saving to the railroad retirement system of about \$35,000,000 a year.

The bill as reported by the conferees omits the provision contained in the bill passed by the Senate increasing taxes on both the railroads and railroad employees for the support of the railroad retirement system by raising the taxable compensation from \$300 per month to \$350.

The bill as reported by the conferees also retains a provision contained in the bills as passed both by the House and Senate which makes a technical amendment to the Railroad Unemployment Insurance Act to remove a restriction on the payment of unemployment and sickness benefits applicable only to certain classes of employees and which the operating employees regard without this amendment as highly discriminatory against them. The amendment eliminates this inequity.

It will also be noted that the bill does not contain the proposed \$50 per month

limitation work clause, that would have denied to retired workers the right to earn more than \$50 per month while receiving an annuity. This provision was not acceptable to either House or Senate. Consequently, a retired worker can continue to earn as much as he can after retirement from railroad service without forfeiting his retirement annuity.

Now, let me explain in a few minutes just what was in conference. The bill that was passed here 2 days ago, known as the Harris compromise bill, was offered as a compromise between the Senate bill and the so-called Hall bill. It adopted many of the Senate provisions. This was done in an effort to compromise with the Senate. It was done because we realized the remaining days of the session were short, and we must come as nearly as possible to an agreement if we were to get any legislation whatsoever for these people who are in such great need. Therefore when we went into conference there were really only two questions to be considered. One was whether to adopt the integration language in the Senate bill or that which was provided in the House bill and, second, whether there should be any increase in the tax base. After consideration of these matters your conferees agreed to accept the language of the Senate bill with respect to integration of the Railroad Retirement Act with social security in a manner that would not prove a detriment to either the railroad worker or the railroad retirement fund. And the Senate conferees agreed to accept the House version that there should be no increase above the present \$300 base for tax purposes. This brought us together. It resulted in a unanimous conference report.

In conclusion I want to mention this further fact, that one of the most important things we have done in our effort to improve the status of the retired railroad worker and his survivors is to pass the resolution that provides for a joint study of this whole subject by a joint committee from the Senate and House to be made within the next few months in order that there will be a report, we hope, not later than the early days of the next session. That study will show what if any additional benefits can be given to the pensioners, annuitants, and survivors, and what means can be taken to retain the stability of the retirement fund without increasing the tax base or the rate of taxes to be paid by the workers.

Mr. Speaker, the need for increasing the amount of monthly benefits paid to retired railroad employees and to survivors of deceased employees is urgent. The necessary relief must be given at the earliest possible day.

For several years now the scale of the benefits to retired railway workers and their families has lagged far behind the steadily rising cost of living. This has produced a situation that cannot and should not be ignored any longer. The condition of some of these retired workers and their families, whom we seek to aid by increased benefits, is desperate. They need help and they need it now without further delay. This bill does

Public Law 183 - 82d Congress
Chapter 521 - 1st Session
H. R. 4473

AN ACT

To provide revenue, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) SHORT TITLE.—This Act, divided into titles and sections according to the following table of contents, may be cited as the "Revenue Act of 1951":

TABLE OF CONTENTS

TITLE I—INCREASE IN INCOME TAX RATES

PART I—INDIVIDUAL INCOME TAXES

- Sec. 101. Increase in surtax for 1951, 1952, and 1953.
 - (a) Rates of surtax.
 - (b) Limitation on tax.
- Sec. 102. Individuals with adjusted gross income of less than \$5,000.
- Sec. 103. Inapplicability of certain penalties and additions to tax.
 - (a) Penalties for failure to file return.
 - (b) Additions to tax.
- Sec. 104. Computation of tax in case of certain joint returns.
- Sec. 105. Effective date of Part I.

PART II—CORPORATION INCOME TAXES

- Sec. 121. Increase in rate of corporation normal tax.
 - (a) Amendment of section 13.
 - (b) Maximum tax.
 - (c) Mutual insurance companies other than life or marine.
 - (d) Regulated investment companies.
 - (e) Business income of certain section 101 organizations.
 - (f) Amendment of section 15.
 - (g) Technical amendment.
- Sec. 122. Credits of corporations.
 - (a) Dividends received credit.
 - (b) Credit for dividends paid on certain preferred stock.
 - (c) Western hemisphere trade corporations.
- Sec. 123. Computation of alternative capital gains tax.
- Sec. 124. Filing of corporation returns for taxable years ending after March 13, 1951, and before October 1, 1951.
- Sec. 125. Effective date.

PART III—FISCAL YEAR TAXPAYERS

- Sec. 131. Fiscal year taxpayers.
 - (a) Amendment of section 108.
 - (b) Computation of excess profits tax.
 - (c) Technical amendments.

TITLE II—WITHHOLDING OF TAX AT SOURCE

- Sec. 201. Percentage method of withholding.
- Sec. 202. Wage bracket withholding.
- Sec. 203. Additional withholding of tax on wages upon agreement by employer and employee.
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TITLE III—MISCELLANEOUS INCOME TAX AMENDMENTS

- Sec. 301. Tax treatment in case of head of household.
 - (a) Surtax in case of head of household.
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- Sec. 302. Payments to beneficiaries of deceased employees.
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 - (a) Amendment of section 22 (b) (2).
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 - (c) Effective dates.
- Sec. 304. Income from discharge of indebtedness.
 - (a) Amendment of section 22 (b) (9).
 - (b) Amendment of section 22 (b) (10).
- Sec. 305. Compensation of certain members of the armed forces.
 - (a) Amendment of section 22 (b) (13).
 - (b) Definition of service in combat zone.
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 - (d) Effective dates.
- Sec. 306. Involuntary liquidation and replacement of inventory.
 - (a) Amendment of section 22 (d) (6) (F) (iii).
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- Sec. 307. Medical expenses.
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- Sec. 308. Standard deduction.
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 - (a) Deduction of expenditures.
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- Sec. 310. Gross income of dependent of taxpayer.
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- Sec. 311. Credit for dividends received.
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 - (a) Mutual savings banks.
 - (b) Building and loan associations and cooperative banks.
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 - (d) Federal savings and loan associations.
 - (e) Bad debt reserves.
 - (f) Dividends paid to depositors.
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 - (h) Definition of bank.
 - (i) Definition of domestic building and loan association.
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- Sec. 314. Income tax treatment of exempt cooperatives.
 - (a) Amendment of section 101 (12).
 - (b) Technical amendments.
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 - (a) Distributions not in liquidation.
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- Sec. 322. Capital gains and losses.
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 - (d) Effective date.
- Sec. 323. Sale of land with unharvested crop.
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- Sec. 324. Sales of livestock.
- Sec. 325. Tax treatment of coal royalties.
 - (a) Definition of property used in the trade or business.
 - (b) Gain or loss upon certain disposals of timber or coal.
 - (c) Clerical amendment.
 - (d) Technical amendment.
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- Sec. 326. Collapsible corporations.
 - (a) Definitions with respect to collapsible corporations.
 - (b) Limitations on application of section 117 (m).
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- Sec. 328. Treatment of gain on sales of certain property between spouses and between an individual and a controlled corporation.
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 - (a) Amendment of section 421 (b).
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 - (a) Tax upon war loss recovery.
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 - (a) Deduction of mine exploration expenditures.
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(b) ACT AMENDATORY OF INTERNAL REVENUE CODE.—Except as otherwise expressly provided, wherever in this Act an amendment or repeal is expressed in terms of an amendment to or repeal of a chapter, subchapter, title, supplement, section, subsection, subdivision, paragraph, subparagraph, or clause, the reference shall be considered to be made to a provision of the Internal Revenue Code.

(c) MEANING OF TERMS USED.—Except as otherwise expressly provided, terms used in this Act shall have the same meaning as when used in the Internal Revenue Code.

TITLE I—INCREASE IN INCOME TAX RATES

PART I—INDIVIDUAL INCOME TAXES

SEC. 101. INCREASE IN SURTAX FOR 1951, 1952, AND 1953.

(a) Rates of Surtax.—Section 12 (b) (relating to rates of surtax) is hereby amended to read as follows:

“(b) RATES OF SURTAX.—

“(1) CALENDAR YEAR 1951.—In the case of a taxable year beginning on January 1, 1951, and ending on December 31, 1951, there shall be levied, collected, and paid for such taxable year upon the surtax net income of every individual the surtax shown in the following table:

“If the surtax net income is:

Not over \$2,000-----
Over \$2,000 but not over \$4,000-----
Over \$4,000 but not over \$6,000-----
Over \$6,000 but not over \$8,000-----
Over \$8,000 but not over \$10,000-----
Over \$10,000 but not over \$12,000-----
Over \$12,000 but not over \$14,000----
Over \$14,000 but not over \$16,000-----
Over \$16,000 but not over \$18,000-----
Over \$18,000 but not over \$20,000-----
Over \$20,000 but not over \$22,000-----
Over \$22,000 but not over \$26,000-----
Over \$26,000 but not over \$32,000-----
Over \$32,000 but not over \$38,000-----
Over \$38,000 but not over \$44,000-----
Over \$44,000 but not over \$50,000-----
Over \$50,000 but not over \$60,000-----
Over \$60,000 but not over \$70,000-----
Over \$70,000 but not over \$80,000-----
Over \$80,000 but not over \$90,000-----
Over \$90,000 but not over \$100,000--
Over \$100,000 but not over \$150,000--
Over \$150,000 but not over \$200,000--
Over \$200,000-----

The surtax shall be:

17.4% of the surtax net income.
\$348, plus 19.4% of excess over \$2,000.
\$736, plus 24% of excess over \$4,000.
\$1,216, plus 27% of excess over \$6,000.
\$1,756, plus 32% of excess over \$8,000.
\$2,396, plus 36% of excess over \$10,000.
\$3,116, plus 40% of excess over \$12,000.
\$3,916, plus 45% of excess over \$14,000.
\$4,816, plus 48% of excess over \$16,000.
\$5,776, plus 51% of excess over \$18,000.
\$6,796, plus 54% of excess over \$20,000.
\$7,876, plus 57% of excess over \$22,000.
\$10,156, plus 60% of excess over \$26,000.
\$13,756, plus 63% of excess over \$32,000.
\$17,536, plus 66% of excess over \$38,000.
\$21,496, plus 70% of excess over \$44,000.
\$25,696, plus 72% of excess over \$50,000.
\$32,896, plus 75% of excess over \$60,000.
\$40,396, plus 79% of excess over \$70,000.
\$48,296, plus 81% of excess over \$80,000.
\$56,396, plus 84% of excess over \$90,000.
\$64,796, plus 86% of excess over \$100,000.
\$107,796, plus 87% of excess over \$150,000.
\$151,296, plus 88% of excess over \$200,000.

"(2) TAXABLE YEARS BEGINNING AFTER OCTOBER 31, 1951, AND BEFORE JANUARY 1, 1954.—In the case of taxable years beginning after October 31, 1951, and before January 1, 1954, there shall be levied, collected, and paid for each taxable year upon the surtax net income of every individual (other than a head of a household to whom subsection (c) applies) the surtax shown in the following table:

"If the surtax net income is:

Not over \$2,000-----
Over \$2,000 but not over \$4,000-----
Over \$4,000 but not over \$6,000-----
Over \$6,000 but not over \$8,000-----
Over \$8,000 but not over \$10,000-----
Over \$10,000 but not over \$12,000----
Over \$12,000 but not over \$14,000----
Over \$14,000 but not over \$16,000----
Over \$16,000 but not over \$18,000----
Over \$18,000 but not over \$20,000----
Over \$20,000 but not over \$22,000----
Over \$22,000 but not over \$26,000----
Over \$26,000 but not over \$32,000----
Over \$32,000 but not over \$38,000----
Over \$38,000 but not over \$44,000----
Over \$44,000 but not over \$50,000----
Over \$50,000 but not over \$60,000----
Over \$60,000 but not over \$70,000----
Over \$70,000 but not over \$80,000----
Over \$80,000 but not over \$90,000----
Over \$90,000 but not over \$100,000----
Over \$100,000 but not over \$150,000--
Over \$150,000 but not over \$200,000--
Over \$200,000-----

The surtax shall be:

19.2% of the surtax net income.
\$384, plus 21.6% of excess over \$2,000.
\$816, plus 26% of excess over \$4,000.
\$1,336, plus 31% of excess over \$6,000.
\$1,956, plus 35% of excess over \$8,000.
\$2,656, plus 39% of excess over \$10,000.
\$3,436, plus 45% of excess over \$12,000.
\$4,336, plus 50% of excess over \$14,000.
\$5,336, plus 53% of excess over \$16,000.
\$6,396, plus 56% of excess over \$18,000.
\$7,516, plus 59% of excess over \$20,000.
\$8,696, plus 63% of excess over \$22,000.
\$11,216, plus 64% of excess over \$26,000.
\$15,056, plus 65% of excess over \$32,000.
\$18,956, plus 69% of excess over \$38,000.
\$23,096, plus 72% of excess over \$44,000.
\$27,416, plus 74% of excess over \$50,000.
\$34,816, plus 77% of excess over \$60,000.
\$42,516, plus 80% of excess over \$70,000.
\$50,516, plus 82% of excess over \$80,000.
\$58,716, plus 85% of excess over \$90,000.
\$67,216, plus 87% of excess over \$100,000.
\$110,716, plus 88% of excess over \$150,000.
\$154,716, plus 89% of excess over \$200,000.

"(3) TAXABLE YEARS BEGINNING AFTER DECEMBER 31, 1953.—In the case of taxable years beginning after December 31, 1953, there shall be levied, collected, and paid for each taxable year upon the surtax net income of every individual (other than a head of a household to whom subsection (c) applies) the surtax shown in the following table:

"If the surtax net income is:

Not over \$2,000-----
Over \$2,000 but not over \$4,000-----
Over \$4,000 but not over \$6,000-----
Over \$6,000 but not over \$8,000-----
Over \$8,000 but not over \$10,000-----
Over \$10,000 but not over \$12,000----
Over \$12,000 but not over \$14,000----

The surtax shall be:

17% of the surtax net income.
\$340, plus 19% of excess over \$2,000.
\$720, plus 23% of excess over \$4,000.
\$1,180, plus 27% of excess over \$6,000.
\$1,720, plus 31% of excess over \$8,000.
\$2,340, plus 35% of excess over \$10,000.
\$3,040, plus 40% of excess over \$12,000.

"If the surtax net income is:	The surtax shall be:
Over \$14,000 but not over \$16,000---	\$3,840, plus 44% of excess over \$14,000.
Over \$16,000 but not over \$18,000---	\$4,720, plus 47% of excess over \$16,000.
Over \$18,000 but not over \$20,000---	\$5,660, plus 50% of excess over \$18,000.
Over \$20,000 but not over \$22,000---	\$6,660, plus 53% of excess over \$20,000.
Over \$22,000 but not over \$26,000---	\$7,720, plus 56% of excess over \$22,000.
Over \$26,000 but not over \$32,000---	\$9,960, plus 59% of excess over \$26,000.
Over \$32,000 but not over \$38,000---	\$13,500, plus 62% of excess over \$32,000.
Over \$38,000 but not over \$44,000---	\$17,220, plus 66% of excess over \$38,000.
Over \$44,000 but not over \$50,000---	\$21,180, plus 69% of excess over \$44,000.
Over \$50,000 but not over \$60,000---	\$25,320, plus 72% of excess over \$50,000.
Over \$60,000 but not over \$70,000---	\$32,520, plus 75% of excess over \$60,000.
Over \$70,000 but not over \$80,000---	\$40,020, plus 78% of excess over \$70,000.
Over \$80,000 but not over \$90,000---	\$47,820, plus 81% of excess over \$80,000.
Over \$90,000 but not over \$100,000--	\$55,920, plus 84% of excess over \$90,000.
Over \$100,000 but not over \$150,000--	\$64,320, plus 86% of excess over \$100,000.
Over \$150,000 but not over \$200,000--	\$107,320, plus 87% of excess over \$150,000.
Over \$200,000-----	\$150,820, plus 88% of excess over \$200,000."

(b) Limitation On Tax.—Section 12 (f) (relating to limitation on tax) is hereby amended to read as follows:

"(f) LIMITATION ON TAX.—

"(1) CALENDAR YEAR 1951.—In the case of a taxable year beginning on January 1, 1951, and ending December 31, 1951, the combined normal tax and surtax shall in no event exceed 87.2 per centum of the net income for the taxable year.

"(2) TAXABLE YEARS BEGINNING AFTER OCTOBER 31, 1951, AND BEFORE JANUARY 1, 1954.—In the case of taxable years beginning after October 31, 1951, and before January 1, 1954, the combined normal tax and surtax shall in no event exceed 88 per centum of the net income of the taxable year.

"(3) TAXABLE YEARS BEGINNING AFTER DECEMBER 31, 1953.—In the case of taxable years beginning after December 31, 1953, the combined normal tax and surtax shall in no event exceed 87 per centum of the net income for the taxable year."

SEC. 102. INDIVIDUALS WITH ADJUSTED GROSS INCOME OF LESS THAN \$5,000.

Section 400 (relating to optional tax on individuals with adjusted gross incomes of less than \$5,000) is hereby amended by striking out the tables contained therein and inserting in lieu thereof the following:

"Table I

"Taxable year beginning January 1, 1951, and ending December 31, 1951"

If adjusted gross income is—		And the number of exemptions is—				If adjusted gross income is—		And the number of exemptions is—									
At least	But less than	1	2	3	4 or more	At least	But less than	1	2		3		4	5	6	7	8 or more
		The tax shall be—						The tax shall be—									
\$0	\$675	\$0	\$0	\$0	\$0	\$2,325	\$2,350	\$307	\$184	\$184	\$62	\$62	\$0	\$0	\$0	\$0	\$0
675	700	4	0	0	0	2,350	2,375	311	189	199	67	67	0	0	0	0	0
700	725	8	0	0	0	2,375	2,400	316	194	194	71	71	0	0	0	0	0
725	750	13	0	0	0	2,400	2,425	321	193	193	76	76	0	0	0	0	0
750	775	18	0	0	0	2,425	2,450	325	203	203	80	80	0	0	0	0	0
775	800	22	0	0	0	2,450	2,475	330	207	207	85	85	0	0	0	0	0
800	825	27	0	0	0	2,475	2,500	334	212	212	90	90	0	0	0	0	0
825	850	31	0	0	0	2,500	2,525	339	216	216	94	94	0	0	0	0	0
850	875	36	0	0	0	2,525	2,550	343	221	221	99	99	0	0	0	0	0
875	900	41	0	0	0	2,550	2,575	348	226	226	103	103	0	0	0	0	0
900	925	45	0	0	0	2,575	2,600	353	230	230	103	103	0	0	0	0	0
925	950	50	0	0	0	2,600	2,625	357	235	235	112	112	0	0	0	0	0
950	975	54	0	0	0	2,625	2,650	362	239	239	117	117	0	0	0	0	0
975	1,000	59	0	0	0	2,650	2,675	366	244	244	122	122	0	0	0	0	0
1,000	1,025	63	0	0	0	2,675	2,700	371	249	249	126	126	4	0	0	0	0
1,025	1,050	68	0	0	0	2,700	2,725	376	253	253	131	131	8	0	0	0	0
1,050	1,075	73	0	0	0	2,725	2,750	380	258	258	135	135	13	0	0	0	0
1,075	1,100	77	0	0	0	2,750	2,775	385	262	262	140	140	18	0	0	0	0
1,100	1,125	82	0	0	0	2,775	2,800	389	267	267	145	145	22	0	0	0	0
1,125	1,150	86	0	0	0	2,800	2,825	394	272	272	149	149	27	0	0	0	0
1,150	1,175	91	0	0	0	2,825	2,850	399	276	276	154	154	31	0	0	0	0
1,175	1,200	96	0	0	0	2,850	2,875	403	281	281	158	158	36	0	0	0	0
1,200	1,225	100	0	0	0	2,875	2,900	408	285	285	163	163	41	0	0	0	0
1,225	1,250	105	0	0	0	2,900	2,925	413	290	290	168	168	45	0	0	0	0
1,250	1,275	109	0	0	0	2,925	2,950	418	295	295	172	172	50	0	0	0	0
1,275	1,300	114	0	0	0	2,950	2,975	423	299	299	177	177	54	0	0	0	0
1,300	1,325	119	0	0	0	2,975	3,000	428	304	304	181	181	59	0	0	0	0
1,325	1,350	123	1	0	0	3,000	3,050	433	311	311	188	188	66	0	0	0	0
1,350	1,375	128	5	0	0	3,050	3,100	446	320	320	197	197	75	0	0	0	0
1,375	1,400	132	10	0	0	3,100	3,150	456	329	329	207	207	84	0	0	0	0
1,400	1,425	137	15	0	0	3,150	3,200	466	338	338	216	216	93	0	0	0	0
1,425	1,450	142	19	0	0	3,200	3,250	476	347	347	225	225	103	0	0	0	0
1,450	1,475	146	24	0	0	3,250	3,300	486	356	356	234	234	112	0	0	0	0
1,475	1,500	151	28	0	0	3,300	3,350	496	366	366	243	243	121	0	0	0	0
1,500	1,525	155	33	0	0	3,350	3,400	506	375	375	252	252	130	8	0	0	0
1,525	1,550	160	37	0	0	3,400	3,450	516	384	384	262	262	139	17	0	0	0
1,550	1,575	164	42	0	0	3,450	3,500	526	393	393	271	271	148	26	0	0	0
1,575	1,600	169	47	0	0	3,500	3,550	536	402	402	280	280	158	35	0	0	0
1,600	1,625	174	51	0	0	3,550	3,600	546	412	412	289	289	167	44	0	0	0
1,625	1,650	178	56	0	0	3,600	3,650	556	422	421	298	298	176	54	0	0	0
1,650	1,675	183	60	0	0	3,650	3,700	566	432	430	308	308	185	63	0	0	0
1,675	1,700	187	65	0	0	3,700	3,750	577	442	439	317	317	194	72	0	0	0
1,700	1,725	192	70	0	0	3,750	3,800	587	452	448	326	326	203	81	0	0	0
1,725	1,750	197	74	0	0	3,800	3,850	597	462	457	335	335	213	90	0	0	0
1,750	1,775	201	79	0	0	3,850	3,900	607	472	467	344	344	222	99	0	0	0
1,775	1,800	206	83	0	0	3,900	3,950	617	482	476	353	353	231	109	0	0	0
1,800	1,825	210	88	0	0	3,950	4,000	627	493	485	363	363	240	118	0	0	0
1,825	1,850	215	93	0	0	4,000	4,050	637	503	494	372	372	249	127	5	0	0
1,850	1,875	220	97	0	0	4,050	4,100	647	513	503	381	381	259	136	14	0	0
1,875	1,900	224	102	0	0	4,100	4,150	657	523	513	390	390	268	145	23	0	0
1,900	1,925	229	106	0	0	4,150	4,200	667	533	522	399	399	277	155	32	0	0
1,925	1,950	233	111	0	0	4,200	4,250	677	543	531	409	409	286	164	41	0	0
1,950	1,975	238	116	0	0	4,250	4,300	687	553	540	419	419	295	173	50	0	0
1,975	2,000	243	120	0	0	4,300	4,350	698	563	549	429	429	304	182	60	0	0
2,000	2,025	247	125	2	0	4,350	4,400	708	573	558	439	439	313	191	69	0	0
2,025	2,050	252	129	7	0	4,400	4,450	718	583	568	449	449	323	200	78	0	0
2,050	2,075	256	134	11	0	4,450	4,500	728	593	577	459	459	332	210	87	0	0
2,075	2,100	261	138	16	0	4,500	4,550	738	603	586	469	469	341	219	96	0	0
2,100	2,125	265	143	21	0	4,550	4,600	748	614	595	479	479	350	228	106	0	0
2,125	2,150	270	148	25	0	4,600	4,650	758	624	604	489	489	360	237	115	0	0
2,150	2,175	275	152	30	0	4,650	4,700	768	634	614	499	499	369	246	124	2	0
2,175	2,200	279	157	34	0	4,700	4,750	778	644	623	509	509	378	256	133	11	0
2,200	2,225	284	161	39	0	4,750	4,800	788	654	632	519	509	387	265	142	20	0
2,225	2,250	288	166	44	0	4,800	4,850	798	664	641	530	519	396	274	151	29	0
2,250	2,275	293	171	48	0	4,850	4,900	808	674	650	540	528	405	283	161	38	0
2,275	2,300	298	175	53	0	4,900	4,950	818	684	659	550	537	415	292	170	47	0
2,300	2,325	302	180	57	0	4,950	5,000	829	694	669	560	546	424	301	179	57	0

“Table II

“Taxable years beginning after October 31, 1951, and before January 1, 1954

If adjusted gross income is—		And the number of exemptions is—				If adjusted gross income is—		And the number of exemptions is—											
At least	But less than	1	2	3	4 or more	At least	But less than	1		2		3			4	5	6	7	8 or more
								And tax-payer is single or married filing separately	And tax-payer is head of household	And tax-payer is single or married filing separately	And tax-payer is head of household	And a joint return is filed	And tax-payer is single or married filing separately	And tax-payer is head of household					
The tax shall be—						The tax shall be—						The tax shall be—							
\$0	\$675	\$0	\$0	\$0	\$0	\$2,325	\$2,350	\$334	\$334	\$201	\$201	\$201	\$67	\$67	\$67	\$0	\$0	\$0	\$0
675	700	4	0	0	0	2,350	2,375	339	339	206	206	206	72	72	72	0	0	0	0
700	725	9	0	0	0	2,375	2,400	344	344	211	211	211	77	77	77	0	0	0	0
725	750	14	0	0	0	2,400	2,425	349	349	216	216	216	82	82	82	0	0	0	0
750	775	19	0	0	0	2,425	2,450	354	354	221	221	221	87	87	87	0	0	0	0
775	800	24	0	0	0	2,450	2,475	359	359	226	226	226	92	92	92	0	0	0	0
800	825	29	0	0	0	2,475	2,500	364	364	231	231	231	97	97	97	0	0	0	0
825	850	34	0	0	0	2,500	2,525	369	369	236	236	236	102	102	102	0	0	0	0
850	875	39	0	0	0	2,525	2,550	374	374	241	241	241	107	107	107	0	0	0	0
875	900	44	0	0	0	2,550	2,575	379	379	246	246	246	112	112	112	0	0	0	0
900	925	49	0	0	0	2,575	2,600	384	384	251	251	251	117	117	117	0	0	0	0
925	950	54	0	0	0	2,600	2,625	389	389	256	256	256	122	122	122	0	0	0	0
950	975	59	0	0	0	2,625	2,650	394	394	261	261	261	127	127	127	0	0	0	0
975	1,000	64	0	0	0	2,650	2,675	399	399	266	266	266	132	132	132	0	0	0	0
1,000	1,025	69	0	0	0	2,675	2,700	404	404	271	271	271	137	137	137	4	0	0	0
1,025	1,050	74	0	0	0	2,700	2,725	409	409	276	276	276	142	142	142	9	0	0	0
1,050	1,075	79	0	0	0	2,725	2,750	414	414	281	281	281	147	147	147	14	0	0	0
1,075	1,100	84	0	0	0	2,750	2,775	419	419	286	286	286	152	152	152	19	0	0	0
1,100	1,125	89	0	0	0	2,775	2,800	424	424	291	291	291	157	157	157	24	0	0	0
1,125	1,150	94	0	0	0	2,800	2,825	429	429	296	296	296	162	162	162	29	0	0	0
1,150	1,175	99	0	0	0	2,825	2,850	434	434	301	301	301	167	167	167	34	0	0	0
1,175	1,200	104	0	0	0	2,850	2,875	439	439	306	306	306	172	172	172	39	0	0	0
1,200	1,225	109	0	0	0	2,875	2,900	444	444	311	311	311	177	177	177	44	0	0	0
1,225	1,250	114	0	0	0	2,900	2,925	449	449	316	316	316	182	182	182	49	0	0	0
1,250	1,275	119	0	0	0	2,925	2,950	455	454	321	321	321	187	187	187	54	0	0	0
1,275	1,300	124	0	0	0	2,950	2,975	460	459	326	326	326	192	192	192	59	0	0	0
1,300	1,325	129	0	0	0	2,975	3,000	466	465	331	331	331	197	197	197	64	0	0	0
1,325	1,350	134	1	0	0	3,000	3,050	474	473	338	338	338	205	205	205	72	0	0	0
1,350	1,375	139	6	0	0	3,050	3,100	485	483	343	343	343	215	215	215	82	0	0	0
1,375	1,400	144	11	0	0	3,100	3,150	496	494	353	353	353	225	225	225	92	0	0	0
1,400	1,425	149	16	0	0	3,150	3,200	507	504	363	363	363	235	235	235	102	0	0	0
1,425	1,450	154	21	0	0	3,200	3,250	518	515	373	373	373	245	245	245	112	0	0	0
1,450	1,475	159	26	0	0	3,250	3,300	529	525	383	383	383	255	255	255	122	0	0	0
1,475	1,500	164	31	0	0	3,300	3,350	541	536	393	393	393	265	265	265	132	0	0	0
1,500	1,525	169	36	0	0	3,350	3,400	552	546	403	403	403	275	275	275	142	8	0	0
1,525	1,550	174	41	0	0	3,400	3,450	563	557	413	413	413	285	285	285	152	18	0	0
1,550	1,575	179	46	0	0	3,450	3,500	574	567	423	423	423	295	295	295	162	23	0	0
1,575	1,600	184	51	0	0	3,500	3,550	585	578	433	433	433	305	305	305	171	38	0	0
1,600	1,625	189	56	0	0	3,550	3,600	596	588	443	443	443	315	315	315	181	43	0	0
1,625	1,650	194	61	0	0	3,600	3,650	607	599	453	453	453	325	325	325	191	58	0	0
1,650	1,675	199	66	0	0	3,650	3,700	618	610	463	463	463	335	335	335	201	68	0	0
1,675	1,700	204	71	0	0	3,700	3,750	629	620	473	473	473	345	345	345	211	78	0	0
1,700	1,725	209	76	0	0	3,750	3,800	640	631	483	483	483	355	355	355	221	88	0	0
1,725	1,750	214	81	0	0	3,800	3,850	651	641	493	493	493	365	365	365	231	98	0	0
1,750	1,775	219	86	0	0	3,850	3,900	662	652	503	501	508	375	375	375	241	108	0	0
1,775	1,800	224	91	0	0	3,900	3,950	673	662	513	511	518	385	385	385	251	118	0	0
1,800	1,825	229	96	0	0	3,950	4,000	684	673	523	522	528	395	395	395	261	128	0	0
1,825	1,850	234	101	0	0	4,000	4,050	696	683	533	532	538	405	405	405	271	138	5	0
1,850	1,875	239	106	0	0	4,050	4,100	707	694	543	539	548	415	415	415	281	148	15	0
1,875	1,900	244	111	0	0	4,100	4,150	718	704	553	553	558	425	425	425	291	158	25	0
1,900	1,925	249	116	0	0	4,150	4,200	729	715	563	561	568	435	435	435	301	168	35	0
1,925	1,950	254	121	0	0	4,200	4,250	740	725	573	572	578	445	445	445	311	178	45	0
1,950	1,975	259	126	0	0	4,250	4,300	751	736	583	582	588	455	455	455	321	188	55	0
1,975	2,000	264	131	0	0	4,300	4,350	762	746	593	591	598	467	466	466	331	198	65	0
2,000	2,025	269	136	2	0	4,350	4,400	773	757	603	601	608	478	476	476	341	208	75	0
2,025	2,050	274	141	7	0	4,400	4,450	784	768	613	611	618	489	487	487	351	218	85	0
2,050	2,075	279	146	12	0	4,450	4,500	795	778	623	621	628	500	497	497	361	228	95	0
2,075	2,100	284	151	17	0	4,500	4,550	806	789	633	631	638	511	508	508	371	238	105	0
2,100	2,125	289	156	22	0	4,550	4,600	817	799	643	641	648	522	518	518	381	248	115	0
2,125	2,150	294	161	27	0	4,600	4,650	828	810	653	651	658	533	529	529	391	258	125	0
2,150	2,175	299	166	32	0	4,650	4,700	839	820	663	661	668	544	539	539	401	268	135	2
2,175	2,200	304	171	37	0	4,700	4,750	851	831	673	671	678	555	550	550	411	278	145	12
2,200	2,225	309	176	42	0	4,750	4,800	862	841	683	681	688	566	560	560	421	288	155	22
2,225	2,250	314	181	47	0	4,800	4,850	873	852	693	691	698	577	571	571	431	298	165	32
2,250	2,275	319	186	52	0	4,850	4,900	884	862	703	701	708	589	581	581	441	308	175	42
2,275	2,300	324	191	57	0	4,900	4,950	895	873	713	711	718	600	592	592	451	318	185	52
2,300	2,325	329	196	62	0	4,950	5,000	906	883	723	721	728	611	603	603	461	328	195	62

"Table III

"Taxable years beginning after December 31, 1953

If adjusted gross income is—		And the number of exemptions is—				If adjusted gross income is—		And the number of exemptions is—												
At least	But less than	1	2	3	4 or more	At least	But less than	1		2		3		4	5	6	7	8 or more		
		And tax- payer is single or married filing sepa- rately	And tax- payer is head of house- hold	And tax- payer is single or married filing sepa- rately	And tax- payer is head of house- hold			And a joint re- turn is filed	And tax- payer is single or married filing sepa- rately	And tax- payer is head of house- hold	And a joint re- turn is filed									
		The tax shall be—								The tax shall be—										
\$0	\$675	\$0	\$0	\$0	\$0	\$2,325	\$2,350	\$301	\$301	\$181	\$181	\$181	\$61	\$61	\$61	\$0	\$0	\$0	\$0	\$0
375	700	4	0	0	0	2,350	2,375	305	305	185	185	185	65	65	65	0	0	0	0	0
700	725	8	0	0	0	2,375	2,400	310	310	190	190	190	70	70	70	0	0	0	0	0
725	750	13	0	0	0	2,400	2,425	314	314	194	194	194	74	74	74	0	0	0	0	0
750	775	17	0	0	0	2,425	2,450	319	319	199	199	199	79	79	79	0	0	0	0	0
775	800	22	0	0	0	2,450	2,475	323	323	203	203	203	83	83	83	0	0	0	0	0
800	825	26	0	0	0	2,475	2,500	328	328	208	208	208	88	88	88	0	0	0	0	0
825	850	31	0	0	0	2,500	2,525	332	332	212	212	212	92	92	92	0	0	0	0	0
850	875	35	0	0	0	2,525	2,550	337	337	217	217	217	97	97	97	0	0	0	0	0
875	900	40	0	0	0	2,550	2,575	341	341	221	221	221	101	101	101	0	0	0	0	0
900	925	44	0	0	0	2,575	2,600	346	346	226	226	226	106	106	106	0	0	0	0	0
925	950	49	0	0	0	2,600	2,625	350	350	230	230	230	110	110	110	0	0	0	0	0
950	975	53	0	0	0	2,625	2,650	355	355	235	235	235	115	115	115	0	0	0	0	0
975	1,000	58	0	0	0	2,650	2,675	359	359	239	239	239	119	119	119	0	0	0	0	0
1,000	1,025	62	0	0	0	2,675	2,700	364	364	244	244	244	124	124	124	4	0	0	0	0
1,025	1,050	67	0	0	0	2,700	2,725	368	368	248	248	248	128	128	128	8	0	0	0	0
1,050	1,075	71	0	0	0	2,725	2,750	373	373	253	253	253	133	133	133	13	0	0	0	0
1,075	1,100	76	0	0	0	2,750	2,775	377	377	257	257	257	137	137	137	17	0	0	0	0
1,100	1,125	80	0	0	0	2,775	2,800	382	382	262	262	262	142	142	142	22	0	0	0	0
1,125	1,150	85	0	0	0	2,800	2,825	386	386	266	266	266	146	146	146	26	0	0	0	0
1,150	1,175	89	0	0	0	2,825	2,850	391	391	271	271	271	151	151	151	31	0	0	0	0
1,175	1,200	94	0	0	0	2,850	2,875	395	395	275	275	275	155	155	155	35	0	0	0	0
1,200	1,225	98	0	0	0	2,875	2,900	400	400	280	280	280	160	160	160	40	0	0	0	0
1,225	1,250	103	0	0	0	2,900	2,925	405	404	284	284	284	164	164	164	44	0	0	0	0
1,250	1,275	107	0	0	0	2,925	2,950	410	409	289	289	289	169	169	169	49	0	0	0	0
1,275	1,300	112	0	0	0	2,950	2,975	415	414	293	293	293	173	173	173	53	0	0	0	0
1,300	1,325	116	0	0	0	2,975	3,000	420	419	298	298	298	178	178	178	58	0	0	0	0
1,325	1,350	121	1	0	0	3,000	3,050	427	426	305	305	305	185	185	185	65	0	0	0	0
1,350	1,375	125	5	0	0	3,050	3,100	437	435	314	314	314	194	194	194	74	0	0	0	0
1,375	1,400	130	10	0	0	3,100	3,150	447	445	323	323	323	203	203	203	83	0	0	0	0
1,400	1,425	134	14	0	0	3,150	3,200	457	454	332	332	332	212	212	212	92	0	0	0	0
1,425	1,450	139	19	0	0	3,200	3,250	467	464	341	341	341	221	221	221	101	0	0	0	0
1,450	1,475	143	23	0	0	3,250	3,300	476	473	350	350	350	230	230	230	110	0	0	0	0
1,475	1,500	148	28	0	0	3,300	3,350	486	482	359	359	359	239	239	239	119	0	0	0	0
1,500	1,525	152	32	0	0	3,350	3,400	496	492	368	368	368	248	248	248	128	8	0	0	0
1,525	1,550	157	37	0	0	3,400	3,450	506	501	377	377	377	257	257	257	137	17	0	0	0
1,550	1,575	161	41	0	0	3,450	3,500	516	511	386	386	386	266	266	266	146	26	0	0	0
1,575	1,600	166	46	0	0	3,500	3,550	526	520	395	395	395	275	275	275	155	35	0	0	0
1,600	1,625	170	50	0	0	3,550	3,600	536	530	404	404	404	284	284	284	164	44	0	0	0
1,625	1,650	175	55	0	0	3,600	3,650	546	539	414	413	413	293	293	293	173	53	0	0	0
1,650	1,675	179	59	0	0	3,650	3,700	556	549	424	423	422	302	302	302	182	62	0	0	0
1,675	1,700	184	64	0	0	3,700	3,750	566	558	434	432	431	311	311	311	191	71	0	0	0
1,700	1,725	188	68	0	0	3,750	3,800	575	567	443	441	440	320	320	320	200	80	0	0	0
1,725	1,750	193	73	0	0	3,800	3,850	585	577	453	451	449	329	329	329	209	89	0	0	0
1,750	1,775	197	77	0	0	3,850	3,900	595	586	463	460	458	338	338	338	218	98	0	0	0
1,775	1,800	202	82	0	0	3,900	3,950	605	596	473	470	467	347	347	347	227	107	0	0	0
1,800	1,825	206	86	0	0	3,950	4,000	615	605	483	479	476	356	356	356	236	116	0	0	0
1,825	1,850	211	91	0	0	4,000	4,050	625	615	493	489	485	365	365	365	245	125	5	0	0
1,850	1,875	215	95	0	0	4,050	4,100	635	624	503	498	494	374	374	374	254	134	14	0	0
1,875	1,900	220	100	0	0	4,100	4,150	645	634	513	508	503	383	383	383	263	143	23	0	0
1,900	1,925	224	104	0	0	4,150	4,200	655	643	523	517	512	392	392	392	272	152	32	0	0
1,925	1,950	229	109	0	0	4,200	4,250	665	653	533	527	521	401	401	401	281	161	41	0	0
1,950	1,975	233	113	0	0	4,250	4,300	674	662	542	536	530	410	410	410	290	170	50	0	0
1,975	2,000	238	118	0	0	4,300	4,350	684	671	552	545	539	420	419	419	299	179	59	0	0
2,000	2,025	242	122	2	0	4,350	4,400	694	681	562	555	548	430	429	428	308	188	68	0	0
2,025	2,050	247	127	7	0	4,400	4,450	704	690	572	564	557	440	438	437	317	197	77	0	0
2,050	2,075	251	131	11	0	4,450	4,500	714	700	582	574	566	450	448	446	326	206	86	0	0
2,075	2,100	256	136	16	0	4,500	4,550	724	709	592	583	575	460	457	455	335	215	95	0	0
2,100	2,125	260	140	20	0	4,550	4,600	734	719	602	593	584	470	467	464	344	224	104	0	0
2,125	2,150	265	145	25	0	4,600	4,650	744	728	612	602	593	480	476	473	353	233	113	0	0
2,150	2,175	269	149	29	0	4,650	4,700	754	738	622	612	602	490	486	482	362	242	122	2	0
2,175	2,200	274	154	34	0	4,700	4,750	764	747	632	621	611	500	495	491	371	251	131	11	0
2,200	2,225	278	158	38	0	4,750	4,800	773	756	641	630	620	509	504	500	380	260	140	20	0
2,225	2,250	283	163	43	0	4,800	4,850	783	766	651	640	629	519	514	509	389	269	149	29	0
2,250	2,275	287	167	47	0	4,850	4,900	793	775	661	649	638	529	523	518	398	278	158	38	0
2,275	2,300	292	172	52	0	4,900	4,950	803	785	671	659	647	539	533	527	407	287	167	47	0
2,300	2,325	296	176	56	0	4,950	5,000	813	794	681	668	656	549	542	536	416	296	176	56	0

SEC. 103. INAPPLICABILITY OF CERTAIN PENALTIES AND ADDITIONS TO TAX.

(a) **PENALTIES FOR FAILURE TO FILE RETURN.**—Section 145 (relating to penalties with respect to failure to file returns, pay tax, etc.) is hereby amended by relettering subsection (f) as subsection (g) and by adding after subsection (e) a new subsection (f) as follows:

“(f) In the case of taxable years beginning prior to November 1, 1951, and ending after October 31, 1951, the penalties prescribed by this section for willful failure to make declarations of, or pay, estimated tax shall not be applicable to a failure to take into account the increase in rates of tax imposed on individuals by the Revenue Act of 1951.”

(b) **ADDITIONS TO TAX.**—Section 294 (d) (2) (relating to additions to tax for substantial under-estimates of estimated tax) is hereby amended by adding at the end thereof a new sentence as follows: “In the case of taxable years beginning prior to November 1, 1951, and ending after October 31, 1951, the additions to tax prescribed by this subsection shall not be applicable if the taxpayer failed to meet the requirements of this paragraph by reason of the increase in rates of tax on individuals imposed by the Revenue Act of 1951.”

SEC. 104. COMPUTATION OF TAX IN CASE OF CERTAIN JOINT RETURNS.

If a joint return of a husband and wife is filed under the provisions of section 51 (b) (3) of the Internal Revenue Code in a case where the husband and wife have different taxable years because of the death of either spouse, and the taxable year of the surviving spouse covered by such joint return began before November 1, 1951, and ended after October 31, 1951, the amendments made by this part and section 131 shall be applicable in respect of such joint return as if the taxable years of both spouses covered by the joint return ended on the date of the closing of the surviving spouse's taxable year.

SEC. 105. EFFECTIVE DATE OF PART I.

Except as provided in section 104, the amendments made by this part shall be applicable only with respect to taxable years beginning after October 31, 1951, and to taxable years beginning on January 1, 1951, and ending on December 31, 1951. For treatment of taxable years (other than the calendar year 1951) beginning before November 1, 1951, and ending after October 31, 1951, see section 131.

PART II—CORPORATION INCOME TAXES

SEC. 121. INCREASE IN RATE OF CORPORATION NORMAL TAX.

(a) **AMENDMENT OF SECTION 13.**—Subsections (a) and (b) of section 13 (relating to normal tax on corporations) are hereby amended to read as follows:

“(a) **DEFINITIONS.**—For the purposes of this chapter—

“(1) **ADJUSTED NET INCOME.**—The term ‘adjusted net income’ means the net income minus the credit provided in section 26 (a), relating to interest on certain obligations of the United States and Government corporations.

“(2) **NORMAL-TAX NET INCOME.**—The term ‘normal-tax net income’ means the adjusted net income minus the sum of the following credits:

“(A) The credit for dividends received provided in section 26 (b);

“(B) In the case of a public utility, the credit for dividends paid on its preferred stock provided in section 26 (h); and

"(C) In the case of a western hemisphere trade corporation (as defined in section 109), the credit provided in section 26 (i).

"(b) IMPOSITION OF TAX.—There shall be levied, collected, and paid for each taxable year upon the normal-tax net income of every corporation (except a corporation subject to a tax imposed by section 231 (a), Supplement G, or Supplement Q)—

"(1) CALENDAR YEAR 1951.—In the case of a taxable year beginning on January 1, 1951, and ending on December 31, 1951, a tax of $28\frac{3}{4}$ per centum of the normal-tax net income.

"(2) TAXABLE YEARS BEGINNING AFTER MARCH 31, 1951, AND BEFORE APRIL 1, 1954.—In the case of taxable years beginning after March 31, 1951, and before April 1, 1954, a tax of 30 per centum of the normal-tax income.

"(3) TAXABLE YEARS BEGINNING AFTER MARCH 31, 1954.—In the case of taxable years beginning after March 31, 1954, a tax of 25 per centum of the normal-tax net income."

(b) MAXIMUM TAX.—Section 430 (a) (2) (relating to the limitation on the rate of the excess profits tax) is hereby amended as follows:

(1) By inserting after "(2)" the following: "(A) in the case of taxable years ending before April 1, 1951,".

(2) By striking out the period at the end of paragraph (2) and inserting "or" and by adding after paragraph (2) the following:

"(B) in the case of taxable years beginning on January 1, 1951, and ending on December 31, 1951, an amount equal to $17\frac{1}{4}$ per centum of the excess profits net income for the taxable year, except that in the case of an affiliated group of includible corporations making or required to make a consolidated return for the taxable year under section 141, such amount shall be reduced by an amount which bears the same ratio (but not in excess of 100 per centum) to the increase of 2 per centum in the surtax imposed by reason of section 141 (c) as the amount of the consolidated excess profits net income bears to the amount of the consolidated corporation surtax net income, or

"(C) in the case of taxable years beginning after March 31, 1951, an amount equal to 18 per centum of the excess profits net income for the taxable year, except that in the case of an affiliated group of includible corporations making or required to make a consolidated return for the taxable year under section 141, such amount shall be reduced by an amount which bears the same ratio (but not in excess of 100 per centum) to the increase of 2 per centum in the surtax imposed by reason of section 141 (c) as the amount of the consolidated excess profits net income bears to the amount of the consolidated corporation surtax net income, or".

(c) MUTUAL INSURANCE COMPANIES OTHER THAN LIFE OR MARINE.—

(1) Section 207 (a) (1) (relating to normal tax and surtax on mutual insurance companies, other than life or marine) is hereby amended by striking out subparagraphs (A) and (B) and inserting in lieu thereof the following:

"(A) Taxable Years Beginning After December 31, 1950, and Before April 1, 1951.—In the case of taxable years beginning after December 31, 1950, and before April 1, 1951, and ending after March 31, 1951—

"(i) Normal tax.—A normal tax of $28\frac{3}{4}$ per centum of the normal-tax net income, or $57\frac{1}{2}$ per centum of the

amount by which the normal-tax net income exceeds \$3,000, whichever is the lesser; plus

“(ii) Surtax.—A surtax of 22 per centum of the corporation surtax net income in excess of \$25,000.

“(B) Taxable Years Beginning After March 31, 1951, and Before April 1, 1954.—In the case of taxable years beginning after March 31, 1951, and before April 1, 1954—

“(i) Normal tax.—A normal tax of 30 per centum of the normal-tax net income, or 60 per centum of the amount by which the normal-tax net income exceeds \$3,000, whichever is the lesser; plus

“(ii) Surtax.—A surtax of 22 per centum of the corporation surtax net income in excess of \$25,000.

“(C) Taxable Years Beginning After March 31, 1954.—In the case of a taxable year beginning after March 31, 1954—

“(i) Normal tax.—A normal tax of 25 per centum of the normal-tax net income, or 50 per centum of the amount by which the normal-tax net income exceeds \$3,000, whichever is the lesser; plus

“(ii) Surtax.—A surtax of 22 per centum of the corporation surtax net income in excess of \$25,000.”

(2) Section 207 (a) (3) (relating to a normal tax and surtax on interinsurers and reciprocal underwriters) is hereby amended by striking out subparagraphs (A) and (B) and inserting in lieu thereof the following:

“(A) Taxable Years Beginning After December 31, 1950, and before April 1, 1951.—In the case of taxable years beginning after December 31, 1950, and before April 1, 1951, and ending after March 31, 1951—

“(i) Normal tax.—A normal tax of 28¾ per centum of the normal-tax net income, or 57½ per centum of the amount by which the normal-tax net income exceeds \$50,000, whichever is the lesser; plus

“(ii) Surtax.—A surtax of 22 per centum of the corporation surtax net income in excess of \$25,000, or 33 per centum of the amount by which the corporation surtax net income exceeds \$50,000, whichever is the lesser.

“(B) Taxable Years Beginning After March 31, 1951, and Before April 1, 1954.—In the case of taxable years beginning after March 31, 1951, and before April 1, 1954—

“(i) Normal tax.—A normal tax of 30 per centum of the normal-tax net income, or 60 per centum of the amount by which the normal-tax net income exceeds \$50,000, whichever is the lesser; plus

“(ii) Surtax.—A surtax of 22 per centum of the corporation surtax net income in excess of \$25,000, or 33 per centum of the amount by which the corporation surtax net income exceeds \$50,000, whichever is the lesser.

“(C) Taxable Years Beginning After March 31, 1954.—In the case of a taxable year beginning after March 31, 1954—

“(i) Normal tax.—A normal tax of 25 per centum of the normal-tax net income, or 50 per centum of the amount by which the normal-tax net income exceeds \$50,000, whichever is the lesser; plus

“(ii) Surtax.—A surtax of 22 per centum of the corporation surtax net income in excess of \$25,000, or 33 per centum of the amount by which the corporation surtax net income exceeds \$50,000, whichever is the lesser.”

(d) **REGULATED INVESTMENT COMPANIES.**—Section 362 (b) (relating to tax on regulated investment companies) is hereby amended by striking out paragraphs (3) and (4) and inserting in lieu thereof the following:

“(3) In the case of taxable years beginning after December 31, 1950, and before April 1, 1951, and ending after March 31, 1951, there shall be levied, collected, and paid for each taxable year upon its Supplement Q net income a tax equal to $28\frac{3}{4}$ per centum of the amount thereof. In the case of taxable years beginning after March 31, 1951, and before April 1, 1954, there shall be levied, collected, and paid for each taxable year upon its Supplement Q net income a tax equal to 30 per centum of the amount thereof. In the case of taxable years beginning after March 31, 1954, there shall be levied, collected, and paid for each taxable year upon its Supplement Q net income a tax equal to 25 per centum of the amount thereof.

“(4) In the case of taxable years beginning after December 31, 1950, there shall be levied, collected, and paid for each taxable year upon its Supplement Q surtax net income a tax equal to 22 per centum of the amount thereof in excess of \$25,000.”

(e) **BUSINESS INCOME OF CERTAIN SECTION 101 ORGANIZATIONS.**—Section 421 (a) (1) (relating to imposition of tax on business income of certain section 101 organizations) is hereby amended by inserting before the period at the end thereof the following: “; except that (A) in the case of taxable years beginning before April 1, 1951, and ending after March 31, 1951, the normal tax shall be $28\frac{3}{4}$ per centum of the Supplement U net income, and (B) in the case of taxable years beginning after March 31, 1951, and before April 1, 1954, the normal tax shall be 30 per centum of the Supplement U net income”.

(f) **AMENDMENT OF SECTION 15.**—Section 15 (relating to surtax on corporations) is hereby amended to read as follows:

“**SEC. 15. SURTAX ON CORPORATIONS.**

“(a) **CORPORATION SURTAX NET INCOME.**—For the purposes of this chapter, the term ‘corporation surtax net income’ means the net income minus the sum of the following credits:

“(1) The credit for dividends received provided in section 26 (b);

“(2) In the case of a public utility, the credit for dividends paid on its preferred stock provided in section 26 (h);

“(3) In the case of a western hemisphere trade corporation (as defined in section 109), the credit provided in section 26 (i).

“(b) **IMPOSITION OF TAX.**—There shall be levied, collected, and paid for each taxable year upon the corporation surtax net income of every corporation (except a corporation subject to a tax imposed by section 231 (a), Supplement G, or Supplement Q) a surtax of 22 per centum of the amount of the corporation surtax net income in excess of \$25,000.

“(c) **DISALLOWANCE OF SURTAX EXEMPTION AND MINIMUM EXCESS PROFITS CREDIT.**—If any corporation transfers, on or after January 1, 1951, all or part of its property (other than money) to another corporation which was created for the purpose of acquiring such property or which was not actively engaged in business at the time of such acquisition, and if after such transfer the transferor corporation or its stockholders, or both, are in control of such transferee corporation during any part of the taxable year of such transferee corporation, then such transferee corporation shall not for such tax-

able year (except as may be otherwise determined under section 129 (b)) be allowed either the \$25,000 exemption from surtax provided in subsection (b) or the \$25,000 minimum excess profits credit provided in the last sentence of section 431, unless such transferee corporation shall establish by the clear preponderance of the evidence that the securing of such exemption or credit was not a major purpose of such transfer. For the purposes of this subsection, control means the ownership of stock possessing at least 80 per centum of the total combined voting power of all classes of stock entitled to vote or at least 80 per centum of the total value of shares of all classes of stock of the corporation. In determining the ownership of stock for the purpose of this subsection, the ownership of stock shall be determined in accordance with the provisions of section 503, except that constructive ownership under section 503 (a) (2) shall be determined only with respect to the individual's spouse and minor children. The provisions of section 129 (b), and the authority of the Secretary under such section, shall, to the extent not inconsistent with the provisions of this subsection, be applicable to this subsection. This subsection shall not apply to any taxable year with respect to which the tax imposed by subchapter D of this chapter is not in effect."

(g) **TECHNICAL AMENDMENT.**—Section 14 (relating to normal tax on special classes of corporations in the case of taxable years beginning before July 1, 1950) is hereby repealed.

SEC. 122. CREDITS OF CORPORATIONS.

(a) **DIVIDENDS RECEIVED CREDIT.**—Paragraphs (1) and (2) of section 26 (b) (relating to credit for dividends received) are hereby amended to read as follows:

"(1) **IN GENERAL.**—85 per centum of the amount received as dividends (other than dividends described in paragraph (2) on the preferred stock of a public utility) from a domestic corporation which is subject to taxation under this chapter.

"(2) **CERTAIN PREFERRED STOCK.**—

"(A) **Calendar Year 1951.**—In the case of a taxable year beginning on January 1, 1951, and ending on December 31, 1951, 61 per centum of the amount received as dividends on the preferred stock of a public utility which is subject to taxation under this chapter and with respect to which the credit provided in section 26 (h) for dividends paid is allowable.

"(B) **Taxable Years Beginning After March 31, 1951, and Before April 1, 1954.**—In the case of taxable years beginning after March 31, 1951, and before April 1, 1954, 62 per centum of the amount received as dividends on the preferred stock of a public utility which is subject to taxation under this chapter and with respect to which the credit provided in section 26 (h) for dividends paid is allowable.

"(C) **Taxable Years Beginning After March 31, 1954.**—In the case of taxable years beginning after March 31, 1954, 59 per centum of the amount received as dividends on the preferred stock of a public utility which is subject to taxation under this chapter and with respect to which the credit provided in section 26 (h) for dividends paid is allowable."

(b) **CREDIT FOR DIVIDENDS PAID ON CERTAIN PREFERRED STOCK.**—The first sentence of section 26 (h) (1) (relating to amount of credit for dividends paid on certain preferred stock) is hereby amended

to read as follows: "In the case of a public utility, (A) for a taxable year beginning on January 1, 1951, and ending on December 31, 1951, an amount equal to 28 per centum of the lesser of (i) the amount of dividends paid during the taxable year on its preferred stock or (ii) the adjusted net income for such taxable year minus the credit for dividends received provided in subsection (b) for such year, (B) for a taxable year beginning after March 31, 1951, and before April 1, 1954, an amount equal to 27 per centum of the lesser of (i) the amount of dividends paid during the taxable year on its preferred stock or (ii) the adjusted net income for such taxable year minus the credit for dividends received provided in subsection (b) for such year, and (C) for a taxable year beginning after March 31, 1954, an amount equal to 30 per centum of the lower of (i) the amount of dividends paid during the taxable year on its preferred stock or (ii) the adjusted net income for such taxable year minus the credit for dividends received provided in subsection (b) for such year."

(c) WESTERN HEMISPHERE TRADE CORPORATIONS.—Section 26 (i) (relating to credit of a western hemisphere trade corporation) is hereby amended to read as follows:

"(i) WESTERN HEMISPHERE TRADE CORPORATIONS.—In the case of a western hemisphere trade corporation (as defined in section 109)—

"(1) CALENDAR YEAR 1951.—In the case of a taxable year beginning on January 1, 1951, and ending on December 31, 1951, an amount equal to 28 per centum of its normal-tax net income computed without regard to the credit provided in this subsection.

"(2) TAXABLE YEARS BEGINNING AFTER MARCH 31, 1951, AND BEFORE APRIL 1, 1954.—In the case of a taxable year beginning after March 31, 1951, and before April 1, 1954, an amount equal to 27 per centum of its normal-tax net income computed without regard to the credit provided in this subsection.

"(3) TAXABLE YEARS BEGINNING AFTER MARCH 31, 1954.—In the case of a taxable year beginning after March 31, 1954, an amount equal to 30 per centum of its normal-tax net income computed without regard to the credit provided in this subsection."

SEC. 123. COMPUTATION OF ALTERNATIVE CAPITAL GAINS TAX.

Section 117 (c) (1) (relating to alternative tax on corporations) is hereby amended by striking out the second paragraph and inserting in lieu thereof the following:

"(A) A partial tax shall first be computed upon the net income reduced by the amount of such excess, at the rates and in the manner as if this subsection had not been enacted.

"(B) There shall then be ascertained an amount equal to 25 per centum of such excess, except that in the case of any taxable year beginning after March 31, 1951, and before April 1, 1954, there shall be ascertained an amount equal to 26 per centum of such excess.

"(C) The total tax shall be the partial tax computed under subparagraph (A) plus the amount computed under subparagraph (B)."

SEC. 124. FILING OF CORPORATION RETURNS FOR TAXABLE YEARS ENDING AFTER MARCH 31, 1951, AND BEFORE OCTOBER 1, 1951.

In the case of a corporation subject to a tax imposed by chapter 1 of the Internal Revenue Code for a taxable year ending after March 31, 1951, but prior to October 1, 1951, such corporation shall after the date of the enactment of this Act and on or before January 15, 1952, make a return for such taxable year with respect to the tax imposed by chapter 1 of the Internal Revenue Code for such taxable year. The return required by this section for such taxable year shall constitute the return for such taxable year for all purposes of the Internal Revenue Code; and no return for such taxable year, with respect to any tax imposed by chapter 1 of such code, filed on or before the date of the enactment of this Act shall be considered for any of such purposes as a return for such year. The taxes imposed by chapter 1 of such code (determined with the amendments made by this Act) for such taxable year shall be paid on January 15, 1952, in lieu of the time prescribed in section 56 (a) of such code. All payments with respect to any tax for such taxable year imposed by chapter 1 of such code under the law in effect prior to the enactment of this Act, to the extent that such payments have not been credited or refunded, shall be deemed payments made at the time of the filing of the return required by this section on account of the tax for such taxable year under chapter 1 determined with the amendments made by this Act.

SEC. 125. EFFECTIVE DATE.

The amendments made by this part shall be applicable only with respect to taxable years beginning after March 31, 1951, and to taxable years beginning on January 1, 1951, and ending on December 31, 1951, except that the amendments made to sections 207, 362, and 421 of the Internal Revenue Code shall be applicable to taxable years beginning after December 31, 1950, and ending after March 31, 1951. In the case of an insurance company subject to the tax imposed by section 207, the provisions of section 26 (b) of such code applicable to the calendar year 1951 shall be applicable to a taxable year beginning after December 31, 1950, and before April 1, 1951, and ending after March 31, 1951. For treatment of taxable years (other than the calendar year 1951) beginning before April 1, 1951, and ending after March 31, 1951, see section 131.

PART III—FISCAL YEAR TAXPAYERS

SEC. 131. FISCAL YEAR TAXPAYERS.

(a) **AMENDMENT OF SECTION 108.**—Section 108 is hereby amended by striking out paragraph (2) of subsection (f) and inserting in lieu thereof the following:

“(2) that portion of a tentative tax consisting of—

“(A) a tentative normal tax of 25 per centum of the normal-tax net income, plus

“(B) a tentative surtax of 20 per centum of the surtax net income in excess of \$25,000,

which the number of days in such taxable year after June 30, 1950, and before April 1, 1951, bears to the total number of days in such taxable year, plus (if the taxable year ends after March 31, 1951)

"(3) that portion of a tentative tax consisting of—

"(A) a tentative normal tax of 30 per centum of the normal-tax net income, plus

"(B) a tentative surtax of 20 per centum of the surtax net income in excess of \$25,000,

which the number of days in such taxable year after March 31, 1951, bears to the total number of days in such taxable year.

In computing for the purposes of paragraph (2) the normal-tax net income and the corporation surtax net income, the credits provided in section 26 applicable to taxable years beginning on July 1, 1950, shall be allowed in the manner and to the extent provided in sections 13 and 15 applicable to years beginning on such date, except that such credits shall be applied without regard to the amendments made to section 26 by title II of the Excess Profits Tax Act of 1950. In computing for the purposes of paragraph (3) the normal-tax net income and the corporation surtax net income, the credits provided in section 26 applicable to taxable years beginning on April 1, 1951, shall be allowed in the manner and to the extent provided in sections 13 and 15 applicable to years beginning on such date.

"(g) CERTAIN TAXABLE YEARS OF CORPORATIONS BEGINNING AFTER JUNE 30, 1950, AND BEFORE APRIL 1, 1951.—In the case of a taxable year (other than one beginning on January 1, 1951, and ending on December 31, 1951) of a corporation beginning after June 30, 1950, and before April 1, 1951, and ending after March 31, 1951, the tax imposed by sections 13 and 15 shall be an amount equal to the sum of—

"(1) that portion of a tentative tax, computed under the provisions of sections 13 and 15 applicable to such taxable year, which the number of days in such taxable year prior to April 1, 1951, bears to the total number of days in such taxable year, plus

"(2) that portion of a tentative tax, computed under the provisions of sections 13 and 15 applicable to years beginning on April 1, 1951, as if such provisions were applicable to such taxable year, which the number of days in such taxable year after March 31, 1951, bears to the total number of days in such taxable year.

"(h) CERTAIN TAXABLE YEARS OF INDIVIDUALS BEGINNING BEFORE NOVEMBER 1, 1951, AND ENDING AFTER OCTOBER 31, 1951.—In the case of a taxable year (other than one beginning on January 1, 1951, and ending on December 31, 1951) of a taxpayer, other than a corporation, beginning before November 1, 1951, and ending after October 31, 1951, the tax imposed by sections 11 and 12, section 400, or section 421 (a) (2), shall be an amount equal to the sum of—

"(1) that portion of a tentative tax, computed under the provisions of sections 11 and 12, section 400, or section 421 (a) (2), applicable to such year, which the number of calendar months in such taxable year prior to November 1, 1951, bears to the total number of calendar months in such taxable year, plus

"(2) that portion of a tentative tax, computed under the provisions of sections 11 and 12, section 400, or section 421 (a) (2), applicable to years beginning on November 1, 1951, as if such provisions (other than the provisions relating to head of household) were applicable to such taxable year, which the number of calendar months in such taxable year after October 31, 1951, bears to the total number of calendar months in such taxable year.

This subsection shall not apply in the case of a trust described in section 421 (b) (2) if the taxable year of such trust began before January 1, 1951.

"(i) **DEFINITION OF CALENDAR MONTH.**—For the purposes of this section, a calendar month only part of which falls within a taxable year (1) shall be disregarded if less than 15 days of such month are included in such taxable year, and (2) shall be included as a calendar month within the taxable year if more than 14 days of such month fall within the taxable year.

"(j) **TAXABLE YEARS OF INDIVIDUALS BEGINNING IN 1953 AND ENDING IN 1954.**—In the case of a taxable year of a taxpayer, other than a corporation, beginning before January 1, 1954, and ending after December 31, 1953, the tax imposed by sections 11 and 12, section 400, or section 421 (a) (2), shall be an amount equal to the sum of—

"(1) that portion of a tentative tax, computed under the provisions of sections 11 and 12, section 400, or section 421 (a) (2), applicable to years beginning on January 1, 1953, which the number of calendar months in such taxable year prior to January 1, 1954, bears to the total number of calendar months in such taxable year, plus

"(2) that portion of a tentative tax, computed under the provisions of sections 11 and 12, section 400, or section 421 (a) (2), applicable to years beginning on January 1, 1954, as if such provisions were applicable to such taxable year, which the number of calendar months in such taxable year after December 31, 1953, bears to the total number of calendar months in such taxable year.

"(k) **TAXABLE YEARS OF CORPORATIONS BEGINNING BEFORE APRIL 1, 1954, AND ENDING AFTER MARCH 31, 1954.**—In the case of a taxable year of a corporation beginning before April 1, 1954, and ending after March 31, 1954, the tax imposed by sections 13 and 15, or section 421 (a) (1), shall be an amount equal to the sum of—

"(1) that portion of a tentative tax, computed under the provisions of sections 13 and 15, or section 421 (a) (1), applicable to years beginning on January 1, 1953, which the number of days in such taxable year prior to April 1, 1954, bears to the total number of days in such taxable year, plus

"(2) that portion of a tentative tax, computed under the provisions of sections 13 and 15, or section 421 (a) (1), applicable to years beginning on April 1, 1954, as if such provisions were applicable to such taxable year, which the number of days in such taxable year after March 31, 1954, bears to the total number of days in such taxable year."

(b) **COMPUTATION OF EXCESS PROFITS TAX.**—Subsection (b) of section 430 (relating to computation of excess profits tax in the case of certain taxable years) is hereby amended to read as follows:

"(b) **CERTAIN TAXABLE YEARS BEGINNING BEFORE 1951.**—

"(1) **TAXABLE YEARS ENDING BEFORE APRIL 1, 1951.**—In the case of a taxable year beginning before July 1, 1950, and ending after June 30, 1950, and before April 1, 1951, the tax imposed by subsection (a) shall be an amount equal to that portion of a tentative tax, computed under the provisions of subsection (a) applicable to taxable years ending on December 31, 1950, which the number of days in such taxable year after June 30, 1950, bears to the total number of days in such taxable year.

"(2) **TAXABLE YEARS ENDING AFTER MARCH 31, 1951.**—In the case of a taxable year (other than a taxable year beginning on January 1, 1951, and ending on December 31, 1951) beginning before

April 1, 1951, and ending after March 31, 1951, the tax imposed by subsection (a) shall be an amount equal to the sum of—

“(A) that portion of a tentative tax, computed under the provisions of subsection (a) applicable to taxable years ending on December 31, 1950, which the number of days in such taxable year after June 30, 1950, and before April 1, 1951, bears to the total number of days in such taxable year, plus

“(B) that portion of a tentative tax, computed under the provisions of subsection (a) applicable to taxable years beginning on April 1, 1951, which the number of days in such taxable year after March 31, 1951, bears to the total number of days in such taxable year.”

(c) **TECHNICAL AMENDMENTS.—**

(1) Section 108 (e) (2) is hereby amended by inserting after “section 400,” the following: “applicable to years beginning on October 1, 1950,”.

(2) Section 108 (g) is hereby amended by striking out “(g)” and inserting in lieu thereof “(l)”.

TITLE II—WITHHOLDING OF TAX AT SOURCE

SEC. 201. PERCENTAGE METHOD OF WITHHOLDING.

Section 1622 (a) (relating to percentage method of withholding on wages) is hereby amended by inserting before the period at the end thereof the following: “, except that in the case of wages paid on or after November 1, 1951, and before January 1, 1954, the tax shall be equal to 20 per centum of such excess in lieu of 18 per centum”.

SEC. 202. WAGE BRACKET WITHHOLDING.

So much of section 1622 (c) (1) as precedes the tables in such section is hereby amended to read as follows:

“(1) (A) Wages paid after October 31, 1951, and before January 1, 1954.—At the election of the employer with respect to any employee, the employer shall deduct and withhold upon the wages paid to such employee after October 31, 1951, and before January 1, 1954, a tax determined in accordance with the following tables, which shall be in lieu of the tax required to be deducted and withheld under subsection (a):

"If the payroll period with respect to an employee is weekly

And the wages are—		And the number of withholding exemptions claimed is—										
At least	But less than	0	1	2	3	4	5	6	7	8	9	10 or more
The amount of tax to be withheld shall be—												
\$0.....	\$13.....	20% of wages	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$13.....	\$14.....	\$2.70	.10	0	0	0	0	0	0	0	0	0
\$14.....	\$15.....	2.90	.30	0	0	0	0	0	0	0	0	0
\$15.....	\$16.....	3.10	.50	0	0	0	0	0	0	0	0	0
\$16.....	\$17.....	3.30	.70	0	0	0	0	0	0	0	0	0
\$17.....	\$18.....	3.50	.90	0	0	0	0	0	0	0	0	0
\$18.....	\$19.....	3.70	1.10	0	0	0	0	0	0	0	0	0
\$19.....	\$20.....	3.90	1.30	0	0	0	0	0	0	0	0	0
\$20.....	\$21.....	4.10	1.50	0	0	0	0	0	0	0	0	0
\$21.....	\$22.....	4.30	1.70	0	0	0	0	0	0	0	0	0
\$22.....	\$23.....	4.50	1.90	0	0	0	0	0	0	0	0	0
\$23.....	\$24.....	4.70	2.10	0	0	0	0	0	0	0	0	0
\$24.....	\$25.....	4.90	2.30	0	0	0	0	0	0	0	0	0
\$25.....	\$26.....	5.10	2.50	0	0	0	0	0	0	0	0	0
\$26.....	\$27.....	5.30	2.70	.20	0	0	0	0	0	0	0	0
\$27.....	\$28.....	5.50	2.90	.40	0	0	0	0	0	0	0	0
\$28.....	\$29.....	5.70	3.10	.60	0	0	0	0	0	0	0	0
\$29.....	\$30.....	5.90	3.30	.80	0	0	0	0	0	0	0	0
\$30.....	\$31.....	6.10	3.50	1.00	0	0	0	0	0	0	0	0
\$31.....	\$32.....	6.30	3.70	1.20	0	0	0	0	0	0	0	0
\$32.....	\$33.....	6.50	3.90	1.40	0	0	0	0	0	0	0	0
\$33.....	\$34.....	6.70	4.10	1.60	0	0	0	0	0	0	0	0
\$34.....	\$35.....	6.90	4.30	1.80	0	0	0	0	0	0	0	0
\$35.....	\$36.....	7.10	4.50	2.00	0	0	0	0	0	0	0	0
\$36.....	\$37.....	7.30	4.70	2.20	0	0	0	0	0	0	0	0
\$37.....	\$38.....	7.50	4.90	2.40	0	0	0	0	0	0	0	0
\$38.....	\$39.....	7.70	5.10	2.60	0	0	0	0	0	0	0	0
\$39.....	\$40.....	7.90	5.30	2.80	.20	0	0	0	0	0	0	0
\$40.....	\$41.....	8.10	5.50	3.00	.40	0	0	0	0	0	0	0
\$41.....	\$42.....	8.30	5.70	3.20	.60	0	0	0	0	0	0	0
\$42.....	\$43.....	8.50	5.90	3.40	.80	0	0	0	0	0	0	0
\$43.....	\$44.....	8.70	6.10	3.60	1.00	0	0	0	0	0	0	0
\$44.....	\$45.....	8.90	6.30	3.80	1.20	0	0	0	0	0	0	0
\$45.....	\$46.....	9.10	6.50	4.00	1.40	0	0	0	0	0	0	0
\$46.....	\$47.....	9.30	6.70	4.20	1.60	0	0	0	0	0	0	0
\$47.....	\$48.....	9.50	6.90	4.40	1.80	0	0	0	0	0	0	0
\$48.....	\$49.....	9.70	7.10	4.60	2.00	0	0	0	0	0	0	0
\$49.....	\$50.....	9.90	7.30	4.80	2.20	0	0	0	0	0	0	0
\$50.....	\$51.....	10.10	7.50	5.00	2.40	0	0	0	0	0	0	0
\$51.....	\$52.....	10.30	7.70	5.20	2.60	0	0	0	0	0	0	0
\$52.....	\$53.....	10.50	7.90	5.40	2.80	.20	0	0	0	0	0	0
\$53.....	\$54.....	10.70	8.10	5.60	3.00	.40	0	0	0	0	0	0
\$54.....	\$55.....	10.90	8.30	5.80	3.20	.60	0	0	0	0	0	0
\$55.....	\$56.....	11.10	8.50	6.00	3.40	.80	0	0	0	0	0	0
\$56.....	\$57.....	11.30	8.70	6.20	3.60	1.00	0	0	0	0	0	0
\$57.....	\$58.....	11.50	8.90	6.40	3.80	1.20	0	0	0	0	0	0
\$58.....	\$59.....	11.70	9.10	6.60	4.00	1.40	0	0	0	0	0	0
\$59.....	\$60.....	11.90	9.30	6.80	4.20	1.60	0	0	0	0	0	0
\$60.....	\$62.....	12.20	9.60	7.10	4.50	1.90	0	0	0	0	0	0
\$62.....	\$64.....	12.60	10.00	7.50	4.90	2.30	0	0	0	0	0	0
\$64.....	\$66.....	13.00	10.40	7.90	5.30	2.70	.20	0	0	0	0	0
\$66.....	\$68.....	13.40	10.80	8.30	5.70	3.10	.60	0	0	0	0	0
\$68.....	\$70.....	13.80	11.20	8.70	6.10	3.50	1.00	0	0	0	0	0
\$70.....	\$72.....	14.20	11.60	9.10	6.50	3.90	1.40	0	0	0	0	0
\$72.....	\$74.....	14.60	12.00	9.50	6.90	4.30	1.80	0	0	0	0	0
\$74.....	\$76.....	15.00	12.40	9.90	7.30	4.70	2.20	0	0	0	0	0
\$76.....	\$78.....	15.40	12.80	10.30	7.70	5.10	2.60	0	0	0	0	0
\$78.....	\$80.....	15.80	13.20	10.70	8.10	5.50	3.00	.40	0	0	0	0
\$80.....	\$82.....	16.20	13.60	11.10	8.50	5.90	3.40	.80	0	0	0	0
\$82.....	\$84.....	16.60	14.00	11.50	8.90	6.30	3.80	1.20	0	0	0	0
\$84.....	\$86.....	17.00	14.40	11.90	9.30	6.70	4.20	1.60	0	0	0	0
\$86.....	\$88.....	17.40	14.80	12.30	9.70	7.10	4.60	2.00	0	0	0	0
\$88.....	\$90.....	17.80	15.20	12.70	10.10	7.50	5.00	2.40	0	0	0	0
\$90.....	\$92.....	18.20	15.60	13.10	10.50	7.90	5.40	2.80	.30	0	0	0
\$92.....	\$94.....	18.60	16.00	13.50	10.90	8.30	5.80	3.20	.70	0	0	0
\$94.....	\$96.....	19.00	16.40	13.90	11.30	8.70	6.20	3.60	1.10	0	0	0
\$96.....	\$98.....	19.40	16.80	14.30	11.70	9.10	6.60	4.00	1.50	0	0	0
\$98.....	\$100.....	19.80	17.20	14.70	12.10	9.50	7.00	4.40	1.90	0	0	0
\$100.....	\$105.....	20.50	17.90	15.40	12.80	10.20	7.70	5.10	2.60	0	0	0
\$105.....	\$110.....	21.50	18.90	16.40	13.80	11.20	8.70	6.10	3.60	1.00	0	0
\$110.....	\$115.....	22.50	19.90	17.40	14.80	12.20	9.70	7.10	4.60	2.00	0	0
\$115.....	\$120.....	23.50	20.90	18.40	15.80	13.20	10.70	8.10	5.60	3.00	.40	0
\$120.....	\$125.....	24.50	21.90	19.40	16.80	14.20	11.70	9.10	6.60	4.00	1.40	0
\$125.....	\$130.....	25.50	22.90	20.40	17.80	15.20	12.70	10.10	7.60	5.00	2.40	0
\$130.....	\$135.....	26.50	23.90	21.40	18.80	16.20	13.70	11.10	8.60	6.00	3.40	.90
\$135.....	\$140.....	27.50	24.90	22.40	19.80	17.20	14.70	12.10	9.60	7.00	4.40	1.90
\$140.....	\$145.....	28.50	25.90	23.40	20.80	18.20	15.70	13.10	10.60	8.00	5.40	2.90
\$145.....	\$150.....	29.50	26.90	24.40	21.80	19.20	16.70	14.10	11.60	9.00	6.40	3.90
\$150.....	\$160.....	31.00	28.40	25.90	23.30	20.70	18.20	15.60	13.10	10.50	7.90	5.40
\$160.....	\$170.....	33.00	30.40	27.90	25.30	22.70	20.20	17.60	15.10	12.50	9.90	7.40
\$170.....	\$180.....	35.00	32.40	29.90	27.30	24.70	22.20	19.60	17.10	14.50	11.90	9.40
\$180.....	\$190.....	37.00	34.40	31.90	29.30	26.70	24.20	21.60	19.10	16.50	13.90	11.40
\$190.....	\$200.....	39.00	36.40	33.90	31.30	28.70	26.20	23.60	21.10	18.50	15.90	13.40
\$200 and over.....		20 percent of the excess over \$200 plus—										
		40.00	37.40	34.90	32.30	29.70	27.20	24.60	22.10	19.50	16.90	14.40

"If the payroll period with respect to an employee is biweekly

And the wages are—		And the number of withholding exemptions claimed is—										
At least	But less than	0	1	2	3	4	5	6	7	8	9	10 or more
The amount of tax to be withheld shall be—												
\$0.....	\$26.....	20% of wages	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$26.....	\$28.....	\$5.40	.30	0	0	0	0	0	0	0	0	0
\$28.....	\$30.....	5.80	.70	0	0	0	0	0	0	0	0	0
\$30.....	\$32.....	6.20	1.10	0	0	0	0	0	0	0	0	0
\$32.....	\$34.....	6.60	1.50	0	0	0	0	0	0	0	0	0
\$34.....	\$36.....	7.00	1.90	0	0	0	0	0	0	0	0	0
\$36.....	\$38.....	7.40	2.30	0	0	0	0	0	0	0	0	0
\$38.....	\$40.....	7.80	2.70	0	0	0	0	0	0	0	0	0
\$40.....	\$42.....	8.20	3.10	0	0	0	0	0	0	0	0	0
\$42.....	\$44.....	8.60	3.50	0	0	0	0	0	0	0	0	0
\$44.....	\$46.....	9.00	3.90	0	0	0	0	0	0	0	0	0
\$46.....	\$48.....	9.40	4.30	0	0	0	0	0	0	0	0	0
\$48.....	\$50.....	9.80	4.70	0	0	0	0	0	0	0	0	0
\$50.....	\$52.....	10.20	5.10	0	0	0	0	0	0	0	0	0
\$52.....	\$54.....	10.60	5.50	.30	0	0	0	0	0	0	0	0
\$54.....	\$56.....	11.00	5.90	.70	0	0	0	0	0	0	0	0
\$56.....	\$58.....	11.40	6.30	1.10	0	0	0	0	0	0	0	0
\$58.....	\$60.....	11.80	6.70	1.50	0	0	0	0	0	0	0	0
\$60.....	\$62.....	12.20	7.10	1.90	0	0	0	0	0	0	0	0
\$62.....	\$64.....	12.60	7.50	2.30	0	0	0	0	0	0	0	0
\$64.....	\$66.....	13.00	7.90	2.70	0	0	0	0	0	0	0	0
\$66.....	\$68.....	13.40	8.30	3.10	0	0	0	0	0	0	0	0
\$68.....	\$70.....	13.80	8.70	3.50	0	0	0	0	0	0	0	0
\$70.....	\$72.....	14.20	9.10	3.90	0	0	0	0	0	0	0	0
\$72.....	\$74.....	14.60	9.50	4.30	0	0	0	0	0	0	0	0
\$74.....	\$76.....	15.00	9.90	4.70	0	0	0	0	0	0	0	0
\$76.....	\$78.....	15.40	10.30	5.10	0	0	0	0	0	0	0	0
\$78.....	\$80.....	15.80	10.70	5.50	.40	0	0	0	0	0	0	0
\$80.....	\$82.....	16.20	11.10	5.90	.80	0	0	0	0	0	0	0
\$82.....	\$84.....	16.60	11.50	6.30	1.20	0	0	0	0	0	0	0
\$84.....	\$86.....	17.00	11.90	6.70	1.60	0	0	0	0	0	0	0
\$86.....	\$88.....	17.40	12.30	7.10	2.00	0	0	0	0	0	0	0
\$88.....	\$90.....	17.80	12.70	7.50	2.40	0	0	0	0	0	0	0
\$90.....	\$92.....	18.20	13.10	7.90	2.80	0	0	0	0	0	0	0
\$92.....	\$94.....	18.60	13.50	8.30	3.20	0	0	0	0	0	0	0
\$94.....	\$96.....	19.00	13.90	8.70	3.60	0	0	0	0	0	0	0
\$96.....	\$98.....	19.40	14.30	9.10	4.00	0	0	0	0	0	0	0
\$98.....	\$100.....	19.80	14.70	9.50	4.40	0	0	0	0	0	0	0
\$100.....	\$102.....	20.20	15.10	9.90	4.80	0	0	0	0	0	0	0
\$102.....	\$104.....	20.60	15.50	10.30	5.20	.10	0	0	0	0	0	0
\$104.....	\$106.....	21.00	15.90	10.70	5.60	.50	0	0	0	0	0	0
\$106.....	\$108.....	21.40	16.30	11.10	6.00	.90	0	0	0	0	0	0
\$108.....	\$110.....	21.80	16.70	11.50	6.40	1.30	0	0	0	0	0	0
\$110.....	\$112.....	22.20	17.10	11.90	6.80	1.70	0	0	0	0	0	0
\$112.....	\$114.....	22.60	17.50	12.30	7.20	2.10	0	0	0	0	0	0
\$114.....	\$116.....	23.00	17.90	12.70	7.60	2.50	0	0	0	0	0	0
\$116.....	\$118.....	23.40	18.30	13.10	8.00	2.90	0	0	0	0	0	0
\$118.....	\$120.....	23.80	18.70	13.50	8.40	3.30	0	0	0	0	0	0
\$120.....	\$124.....	24.40	19.30	14.10	9.00	3.90	0	0	0	0	0	0
\$124.....	\$128.....	25.20	20.10	14.90	9.80	4.70	0	0	0	0	0	0
\$128.....	\$132.....	26.00	20.90	15.70	10.60	5.50	.40	0	0	0	0	0
\$132.....	\$136.....	26.80	21.70	16.50	11.40	6.30	1.20	0	0	0	0	0
\$136.....	\$140.....	27.60	22.50	17.30	12.20	7.10	2.00	0	0	0	0	0
\$140.....	\$144.....	28.40	23.30	18.10	13.00	7.90	2.80	0	0	0	0	0
\$144.....	\$148.....	29.20	24.10	18.90	13.80	8.70	3.60	0	0	0	0	0
\$148.....	\$152.....	30.00	24.90	19.70	14.60	9.50	4.40	0	0	0	0	0
\$152.....	\$156.....	30.80	25.70	20.50	15.40	10.30	5.20	0	0	0	0	0
\$156.....	\$160.....	31.60	26.50	21.30	16.20	11.10	6.00	.80	0	0	0	0
\$160.....	\$164.....	32.40	27.30	22.10	17.00	11.90	6.80	1.60	0	0	0	0
\$164.....	\$168.....	33.20	28.10	22.90	17.80	12.70	7.60	2.40	0	0	0	0
\$168.....	\$172.....	34.00	28.90	23.70	18.60	13.50	8.40	3.20	0	0	0	0
\$172.....	\$176.....	34.80	29.70	24.50	19.40	14.30	9.20	4.00	0	0	0	0
\$176.....	\$180.....	35.60	30.50	25.30	20.20	15.10	10.00	4.80	0	0	0	0
\$180.....	\$184.....	36.40	31.30	26.10	21.00	15.90	10.80	5.60	.50	0	0	0
\$184.....	\$188.....	37.20	32.10	26.90	21.80	16.70	11.60	6.40	1.30	0	0	0
\$188.....	\$192.....	38.00	32.90	27.70	22.60	17.50	12.40	7.20	2.10	0	0	0
\$192.....	\$196.....	38.80	33.70	28.50	23.40	18.30	13.20	8.00	2.90	0	0	0
\$196.....	\$200.....	39.60	34.50	29.30	24.20	19.10	14.00	8.80	3.70	0	0	0
\$200.....	\$210.....	41.00	35.90	30.70	25.60	20.50	15.40	10.20	5.10	0	0	0
\$210.....	\$220.....	43.00	37.90	32.70	27.60	22.50	17.40	12.20	7.10	2.00	0	0
\$220.....	\$230.....	45.00	39.90	34.70	29.60	24.50	19.40	14.20	9.10	4.00	0	0
\$230.....	\$240.....	47.00	41.90	36.70	31.60	26.50	21.40	16.20	11.10	6.00	.80	0
\$240.....	\$250.....	49.00	43.90	38.70	33.60	28.50	23.40	18.20	13.10	8.00	2.80	0
\$250.....	\$260.....	51.00	45.90	40.70	35.60	30.50	25.40	20.20	15.10	10.00	4.80	0
\$260.....	\$270.....	53.00	47.90	42.70	37.60	32.50	27.40	22.20	17.10	12.00	6.80	1.70
\$270.....	\$280.....	55.00	49.90	44.70	39.60	34.50	29.40	24.20	19.10	14.00	8.80	3.70
\$280.....	\$290.....	57.00	51.90	46.70	41.60	36.50	31.40	26.20	21.10	16.00	10.80	5.70
\$290.....	\$300.....	59.00	53.90	48.70	43.60	38.50	33.40	28.20	23.10	18.00	12.80	7.70
\$300.....	\$320.....	62.00	56.90	51.70	46.60	41.50	36.40	31.30	26.10	21.00	15.80	10.70
\$320.....	\$340.....	66.00	60.90	55.70	50.60	45.50	40.40	35.20	30.10	25.00	19.80	14.70
\$340.....	\$360.....	70.00	64.90	59.70	54.60	49.50	44.40	39.20	34.10	29.00	23.80	18.70
\$360.....	\$380.....	74.00	68.90	63.70	58.60	53.50	48.40	43.20	38.10	33.00	27.80	22.70
\$380.....	\$400.....	78.00	72.90	67.70	62.60	57.50	52.40	47.20	42.10	37.00	31.80	26.70
\$400 and over.....		20 percent of the excess over \$400 plus—										
		80.00	74.90	69.70	64.60	59.50	54.40	49.20	44.10	39.00	33.80	28.70

"If the payroll period with respect to an employee is semimonthly

And the wages are—		And the number of withholding exemptions claimed is—										
At least	But less than	0	1	2	3	4	5	6	7	8	9	10 or more
The amount of tax to be withheld shall be—												
\$0.	\$28.	20% of wages	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$28.	\$30.	5.80	.20	0	0	0	0	0	0	0	0	0
\$30.	\$32.	6.20	.60	0	0	0	0	0	0	0	0	0
\$32.	\$34.	6.60	1.00	0	0	0	0	0	0	0	0	0
\$34.	\$36.	7.00	1.40	0	0	0	0	0	0	0	0	0
\$36.	\$38.	7.40	1.80	0	0	0	0	0	0	0	0	0
\$38.	\$40.	7.80	2.20	0	0	0	0	0	0	0	0	0
\$40.	\$42.	8.20	2.60	0	0	0	0	0	0	0	0	0
\$42.	\$44.	8.60	3.00	0	0	0	0	0	0	0	0	0
\$44.	\$46.	9.00	3.40	0	0	0	0	0	0	0	0	0
\$46.	\$48.	9.40	3.80	0	0	0	0	0	0	0	0	0
\$48.	\$50.	9.80	4.20	0	0	0	0	0	0	0	0	0
\$50.	\$52.	10.20	4.60	0	0	0	0	0	0	0	0	0
\$52.	\$54.	10.60	5.00	0	0	0	0	0	0	0	0	0
\$54.	\$56.	11.00	5.40	0	0	0	0	0	0	0	0	0
\$56.	\$58.	11.40	5.80	.30	0	0	0	0	0	0	0	0
\$58.	\$60.	11.80	6.20	.70	0	0	0	0	0	0	0	0
\$60.	\$62.	12.20	6.60	1.10	0	0	0	0	0	0	0	0
\$62.	\$64.	12.60	7.00	1.50	0	0	0	0	0	0	0	0
\$64.	\$66.	13.00	7.40	1.90	0	0	0	0	0	0	0	0
\$66.	\$68.	13.40	7.80	2.30	0	0	0	0	0	0	0	0
\$68.	\$70.	13.80	8.20	2.70	0	0	0	0	0	0	0	0
\$70.	\$72.	14.20	8.60	3.10	0	0	0	0	0	0	0	0
\$72.	\$74.	14.60	9.00	3.50	0	0	0	0	0	0	0	0
\$74.	\$76.	15.00	9.40	3.90	0	0	0	0	0	0	0	0
\$76.	\$78.	15.40	9.80	4.30	0	0	0	0	0	0	0	0
\$78.	\$80.	15.80	10.20	4.70	0	0	0	0	0	0	0	0
\$80.	\$82.	16.20	10.60	5.10	0	0	0	0	0	0	0	0
\$82.	\$84.	16.60	11.00	5.50	0	0	0	0	0	0	0	0
\$84.	\$86.	17.00	11.40	5.90	.30	0	0	0	0	0	0	0
\$86.	\$88.	17.40	11.80	6.30	.70	0	0	0	0	0	0	0
\$88.	\$90.	17.80	12.20	6.70	1.10	0	0	0	0	0	0	0
\$90.	\$92.	18.20	12.60	7.10	1.50	0	0	0	0	0	0	0
\$92.	\$94.	18.60	13.00	7.50	1.90	0	0	0	0	0	0	0
\$94.	\$96.	19.00	13.40	7.90	2.30	0	0	0	0	0	0	0
\$96.	\$98.	19.40	13.80	8.30	2.70	0	0	0	0	0	0	0
\$98.	\$100.	19.80	14.20	8.70	3.10	0	0	0	0	0	0	0
\$100.	\$102.	20.20	14.60	9.10	3.50	0	0	0	0	0	0	0
\$102.	\$104.	20.60	15.00	9.50	3.90	0	0	0	0	0	0	0
\$104.	\$106.	21.00	15.40	9.90	4.30	0	0	0	0	0	0	0
\$106.	\$108.	21.40	15.80	10.30	4.70	0	0	0	0	0	0	0
\$108.	\$110.	21.80	16.20	10.70	5.10	0	0	0	0	0	0	0
\$110.	\$112.	22.20	16.60	11.10	5.50	0	0	0	0	0	0	0
\$112.	\$114.	22.60	17.00	11.50	5.90	.40	0	0	0	0	0	0
\$114.	\$116.	23.00	17.40	11.90	6.30	.80	0	0	0	0	0	0
\$116.	\$118.	23.40	17.80	12.30	6.70	1.20	0	0	0	0	0	0
\$118.	\$120.	23.80	18.20	12.70	7.10	1.60	0	0	0	0	0	0
\$120.	\$124.	24.40	18.80	13.30	7.70	2.20	0	0	0	0	0	0
\$124.	\$128.	25.20	19.60	14.10	8.50	3.00	0	0	0	0	0	0
\$128.	\$132.	26.00	20.40	14.90	9.30	3.80	0	0	0	0	0	0
\$132.	\$136.	26.80	21.20	15.70	10.10	4.60	0	0	0	0	0	0
\$136.	\$140.	27.60	22.00	16.50	10.90	5.40	0	0	0	0	0	0
\$140.	\$144.	28.40	22.80	17.30	11.70	6.20	.60	0	0	0	0	0
\$144.	\$148.	29.20	23.60	18.10	12.50	7.00	1.40	0	0	0	0	0
\$148.	\$152.	30.00	24.40	18.90	13.30	7.80	2.20	0	0	0	0	0
\$152.	\$156.	30.80	25.20	19.70	14.10	8.60	3.00	0	0	0	0	0
\$156.	\$160.	31.60	26.00	20.50	14.90	9.40	3.80	0	0	0	0	0
\$160.	\$164.	32.40	26.80	21.30	15.70	10.20	4.60	0	0	0	0	0
\$164.	\$168.	33.20	27.60	22.10	16.50	11.00	5.40	0	0	0	0	0
\$168.	\$172.	34.00	28.40	22.90	17.30	11.80	6.20	.70	0	0	0	0
\$172.	\$176.	34.80	29.20	23.70	18.10	12.60	7.00	1.50	0	0	0	0
\$176.	\$180.	35.60	30.00	24.50	18.90	13.40	7.80	2.30	0	0	0	0
\$180.	\$184.	36.40	30.80	25.30	19.70	14.20	8.60	3.10	0	0	0	0
\$184.	\$188.	37.20	31.60	26.10	20.50	15.00	9.40	3.90	0	0	0	0
\$188.	\$192.	38.00	32.40	26.90	21.30	15.80	10.20	4.70	0	0	0	0
\$192.	\$196.	38.80	33.20	27.70	22.10	16.60	11.00	5.50	0	0	0	0
\$196.	\$200.	39.60	34.00	28.50	22.90	17.40	11.80	6.30	.70	0	0	0
\$200.	\$210.	41.00	35.40	29.90	24.30	18.80	13.20	7.70	2.10	0	0	0
\$210.	\$220.	43.00	37.40	31.90	26.30	20.80	15.20	9.70	4.10	0	0	0
\$220.	\$230.	45.00	39.40	33.90	28.30	22.80	17.20	11.70	6.10	.60	0	0
\$230.	\$240.	47.00	41.40	35.90	30.30	24.80	19.20	13.70	8.10	2.60	0	0
\$240.	\$250.	49.00	43.40	37.90	32.30	26.80	21.20	15.70	10.10	4.60	0	0
\$250.	\$260.	51.00	45.40	39.90	34.30	28.80	23.20	17.70	12.10	6.60	1.00	0
\$260.	\$270.	53.00	47.40	41.90	36.30	30.80	25.20	19.70	14.10	8.60	3.00	0
\$270.	\$280.	55.00	49.40	43.90	38.30	32.80	27.20	21.70	16.10	10.60	5.00	0
\$280.	\$290.	57.00	51.40	45.90	40.30	34.80	29.20	23.70	18.10	12.60	7.00	1.40
\$290.	\$300.	59.00	53.40	47.90	42.30	36.80	31.20	25.70	20.10	14.60	9.00	3.40
\$300.	\$320.	62.00	56.40	50.90	45.30	39.80	34.20	28.70	23.10	17.60	12.00	6.40
\$320.	\$340.	66.00	60.40	54.90	49.30	43.80	38.20	32.70	27.10	21.60	16.00	10.40
\$340.	\$360.	70.00	64.40	58.90	53.30	47.80	42.20	36.70	31.10	25.60	20.00	14.40
\$360.	\$380.	74.00	68.40	62.90	57.30	51.80	46.20	40.70	35.10	29.60	24.00	18.40
\$380.	\$400.	78.00	72.40	66.90	61.30	55.80	50.20	44.70	39.10	33.60	28.00	22.40
\$400.	\$420.	82.00	76.40	70.90	65.30	59.80	54.20	48.70	43.10	37.60	32.00	26.40
\$420.	\$440.	86.00	80.40	74.90	69.30	63.80	58.20	52.70	47.10	41.60	36.00	30.40
\$440.	\$460.	90.00	84.40	78.90	73.30	67.80	62.20	56.70	51.10	45.60	40.00	34.40
\$460.	\$480.	94.00	88.40	82.90	77.30	71.80	66.20	60.70	55.10	49.60	44.00	38.40
\$480.	\$500.	98.00	92.40	86.90	81.30	75.80	70.20	64.70	59.10	53.60	48.00	42.40
\$500 and over.....		20 percent of the excess over \$500 plus—										
		100.00	94.40	88.90	83.30	77.80	72.20	66.70	61.10	55.60	50.00	44.40

"If the payroll period with respect to an employee is monthly

And the wages are—		And the number of withholding exemptions claimed is—										
At least	But less than	0	1	2	3	4	5	6	7	8	9	10 or more
		The amount of tax to be withheld shall be—										
\$0.	\$56.	20% of wages	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$56.	\$60.	\$11.60	.50	0	0	0	0	0	0	0	0	0
\$60.	\$64.	12.40	1.30	0	0	0	0	0	0	0	0	0
\$64.	\$68.	13.20	2.10	0	0	0	0	0	0	0	0	0
\$68.	\$72.	14.00	2.90	0	0	0	0	0	0	0	0	0
\$72.	\$76.	14.80	3.70	0	0	0	0	0	0	0	0	0
\$76.	\$80.	15.60	4.50	0	0	0	0	0	0	0	0	0
\$80.	\$84.	16.40	5.30	0	0	0	0	0	0	0	0	0
\$84.	\$88.	17.20	6.10	0	0	0	0	0	0	0	0	0
\$88.	\$92.	18.00	6.90	0	0	0	0	0	0	0	0	0
\$92.	\$96.	18.80	7.70	0	0	0	0	0	0	0	0	0
\$96.	\$100.	19.60	8.50	0	0	0	0	0	0	0	0	0
\$100.	\$104.	20.40	9.30	0	0	0	0	0	0	0	0	0
\$104.	\$108.	21.20	10.10	0	0	0	0	0	0	0	0	0
\$108.	\$112.	22.00	10.90	0	0	0	0	0	0	0	0	0
\$112.	\$116.	22.80	11.70	.60	0	0	0	0	0	0	0	0
\$116.	\$120.	23.60	12.50	1.40	0	0	0	0	0	0	0	0
\$120.	\$124.	24.40	13.30	2.20	0	0	0	0	0	0	0	0
\$124.	\$128.	25.20	14.10	3.00	0	0	0	0	0	0	0	0
\$128.	\$132.	26.00	14.90	3.80	0	0	0	0	0	0	0	0
\$132.	\$136.	26.80	15.70	4.60	0	0	0	0	0	0	0	0
\$136.	\$140.	27.60	16.50	5.40	0	0	0	0	0	0	0	0
\$140.	\$144.	28.40	17.30	6.20	0	0	0	0	0	0	0	0
\$144.	\$148.	29.20	18.10	7.00	0	0	0	0	0	0	0	0
\$148.	\$152.	30.00	18.90	7.80	0	0	0	0	0	0	0	0
\$152.	\$156.	30.80	19.70	8.60	0	0	0	0	0	0	0	0
\$156.	\$160.	31.60	20.50	9.40	0	0	0	0	0	0	0	0
\$160.	\$164.	32.40	21.30	10.20	0	0	0	0	0	0	0	0
\$164.	\$168.	33.20	22.10	11.00	0	0	0	0	0	0	0	0
\$168.	\$172.	34.00	22.90	11.80	.70	0	0	0	0	0	0	0
\$172.	\$176.	34.80	23.70	12.60	1.60	0	0	0	0	0	0	0
\$176.	\$180.	35.60	24.50	13.40	2.30	0	0	0	0	0	0	0
\$180.	\$184.	36.40	25.30	14.20	3.10	0	0	0	0	0	0	0
\$184.	\$188.	37.20	26.10	15.00	3.90	0	0	0	0	0	0	0
\$188.	\$192.	38.00	26.90	15.80	4.70	0	0	0	0	0	0	0
\$192.	\$196.	38.80	27.70	16.60	5.50	0	0	0	0	0	0	0
\$196.	\$200.	39.60	28.50	17.40	6.30	0	0	0	0	0	0	0
\$200.	\$204.	40.40	29.30	18.20	7.10	0	0	0	0	0	0	0
\$204.	\$208.	41.20	30.10	19.00	7.90	0	0	0	0	0	0	0
\$208.	\$212.	42.00	30.90	19.80	8.70	0	0	0	0	0	0	0
\$212.	\$216.	42.80	31.70	20.60	9.50	0	0	0	0	0	0	0
\$216.	\$220.	43.60	32.50	21.40	10.30	0	0	0	0	0	0	0
\$220.	\$224.	44.40	33.30	22.20	11.10	0	0	0	0	0	0	0
\$224.	\$228.	45.20	34.10	23.00	11.90	.80	0	0	0	0	0	0
\$228.	\$232.	46.00	34.90	23.80	12.70	1.60	0	0	0	0	0	0
\$232.	\$236.	46.80	35.70	24.60	13.50	2.40	0	0	0	0	0	0
\$236.	\$240.	47.60	36.50	25.40	14.30	3.20	0	0	0	0	0	0
\$240.	\$244.	48.40	37.30	26.20	15.10	4.00	0	0	0	0	0	0
\$244.	\$248.	49.20	38.10	27.00	15.90	4.80	0	0	0	0	0	0
\$248.	\$252.	50.00	38.90	27.80	16.70	5.60	0	0	0	0	0	0
\$252.	\$256.	50.80	39.70	28.60	17.50	6.40	0	0	0	0	0	0
\$256.	\$260.	51.60	40.50	29.40	18.30	7.20	0	0	0	0	0	0
\$260.	\$264.	52.40	41.30	30.20	19.10	8.00	0	0	0	0	0	0
\$264.	\$268.	53.20	42.10	31.00	19.90	8.80	0	0	0	0	0	0
\$268.	\$272.	54.00	42.90	31.80	20.70	9.60	0	0	0	0	0	0
\$272.	\$276.	54.80	43.70	32.60	21.50	10.40	0	0	0	0	0	0
\$276.	\$280.	55.60	44.50	33.40	22.30	11.20	0	0	0	0	0	0
\$280.	\$284.	56.40	45.30	34.20	23.10	12.00	0	0	0	0	0	0
\$284.	\$288.	57.20	46.10	35.00	23.90	12.80	0	0	0	0	0	0
\$288.	\$292.	58.00	46.90	35.80	24.70	13.60	0	0	0	0	0	0
\$292.	\$296.	58.80	47.70	36.60	25.50	14.40	0	0	0	0	0	0
\$296.	\$300.	59.60	48.50	37.40	26.30	15.20	0	0	0	0	0	0
\$300.	\$304.	60.40	49.30	38.20	27.10	16.00	0	0	0	0	0	0
\$304.	\$308.	61.20	50.10	39.00	27.90	16.80	0	0	0	0	0	0
\$308.	\$312.	62.00	50.90	39.80	28.70	17.60	0	0	0	0	0	0
\$312.	\$316.	62.80	51.70	40.60	29.50	18.40	0	0	0	0	0	0
\$316.	\$320.	63.60	52.50	41.40	30.30	19.20	0	0	0	0	0	0
\$320.	\$324.	64.40	53.30	42.20	31.10	20.00	0	0	0	0	0	0
\$324.	\$328.	65.20	54.10	43.00	31.90	20.80	0	0	0	0	0	0
\$328.	\$332.	66.00	54.90	43.80	32.70	21.60	0	0	0	0	0	0
\$332.	\$336.	66.80	55.70	44.60	33.50	22.40	0	0	0	0	0	0
\$336.	\$340.	67.60	56.50	45.40	34.30	23.20	1.30	0	0	0	0	0
\$340.	\$344.	68.40	57.30	46.20	35.10	24.00	2.90	0	0	0	0	0
\$344.	\$348.	69.20	58.10	47.00	36.30	25.20	14.00	2.90	0	0	0	0
\$348.	\$352.	70.00	58.90	47.80	37.50	26.80	15.60	4.50	0	0	0	0
\$352.	\$356.	70.80	59.70	48.60	38.70	28.40	17.20	6.10	0	0	0	0
\$356.	\$360.	71.60	60.50	49.40	39.90	30.00	18.80	7.70	0	0	0	0
\$360.	\$364.	72.40	61.30	50.20	41.10	31.60	20.40	9.30	0	0	0	0
\$364.	\$368.	73.20	62.10	51.00	42.30	33.20	22.00	10.90	0	0	0	0
\$368.	\$372.	74.00	62.90	51.80	43.50	34.80	23.60	12.50	1.40	0	0	0
\$372.	\$376.	74.80	63.70	52.60	44.70	36.40	25.20	14.10	4.20	0	0	0
\$376.	\$380.	75.60	64.50	53.40	45.90	38.00	26.80	15.70	8.00	0	0	0
\$380.	\$384.	76.40	65.30	54.20	47.10	39.60	28.40	17.30	11.80	0	0	0
\$384.	\$388.	77.20	66.10	55.00	48.30	41.20	30.00	18.90	25.60	0	0	0
\$388.	\$392.	78.00	66.90	55.80	49.50	42.80	31.60	20.50	49.00	0	0	0
\$392.	\$396.	78.80	67.70	56.60	50.70	44.40	33.20	22.10	92.40	0	0	0
\$396.	\$400.	79.60	68.50	57.40	51.90	46.00	34.80	23.70	135.80	0	0	0
\$400.	\$404.	80.40	69.30	58.20	53.10	47.60	36.40	25.30	179.20	0	0	0
\$404.	\$408.	81.20	70.10	59.00	54.30	49.20	38.00	26.90	222.60	0	0	0
\$408.	\$412.	82.00	70.90	59.80	55.50	50.80	39.60	28.50	266.00	0	0	0
\$412.	\$416.	82.80	71.70	60.60	56.70	52.40	41.20	30.10	309.40	0	0	0
\$416.	\$420.	83.60	72.50	61.40	57.90	54.00	42.80	31.70	352.80	0	0	0
\$420.	\$424.	84.40	73.30	62.20	59.10	55.60	44.40	33.30	396.20	0	0	0
\$424.	\$428.	85.20	74.10	63.00	60.30	57.20	46.00	34.90	439.60	0	0	0
\$428.	\$432.	86.00	74.90	63.80	61.50	58.80	47.60	36.50	483.00	0	0	0
\$432.	\$436.	86.80	75.70	64.60	62.70	60.40	49.20	38.10	526.40	0	0	0
\$436.	\$440.	87.60	76.50	65.40	63.90	62.00	50.80	39.70	569.80	0	0	0
\$440.	\$444.	88.40	77.30	66.20	65.10	63.60	52.40	41.30	613.20	0	0	0
\$444.	\$448.	89.20	78.10	67.00	66.30	65.20	54.00	42.90	656.60	0	0	0
\$448.	\$452.	90.00	78.90	67.80	67.50	66.80	55.60	44.50	699.99	0	0	0
\$452.	\$456.	90.80	79.70	68.60	68.70	68.40	57.20	46.10	743.38	0	0	0
\$456.	\$460.	91.60	80.50	69.40	69.90	69.60	58.80	47.70	786.77	0	0	0
\$460.	\$464.	92.40	81.30	70.20	71.10	71.20						

"If the payroll period with respect to an employee is a daily payroll period or a miscellaneous payroll period

And the wages divided by the number of days in such period are—		And the number of withholding exemptions claimed is—										
		0	1	2	3	4	5	6	7	8	9	10 or more
At least—	But less than—	The amount of tax to be withheld shall be the following amount multiplied by the number of days in such period—										
\$0.....	\$2.00.....	20% of wages	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$2.00.....	\$2.25.....	\$0.40	.05	0	0	0	0	0	0	0	0	0
\$2.25.....	\$2.50.....	.45	.10	0	0	0	0	0	0	0	0	0
\$2.50.....	\$2.75.....	.50	.15	0	0	0	0	0	0	0	0	0
\$2.75.....	\$3.00.....	.55	.20	0	0	0	0	0	0	0	0	0
\$3.00.....	\$3.25.....	.60	.25	0	0	0	0	0	0	0	0	0
\$3.25.....	\$3.50.....	.65	.30	0	0	0	0	0	0	0	0	0
\$3.50.....	\$3.75.....	.70	.35	0	0	0	0	0	0	0	0	0
\$3.75.....	\$4.00.....	.75	.40	.05	0	0	0	0	0	0	0	0
\$4.00.....	\$4.25.....	.80	.45	.10	0	0	0	0	0	0	0	0
\$4.25.....	\$4.50.....	.85	.50	.15	0	0	0	0	0	0	0	0
\$4.50.....	\$4.75.....	.90	.55	.20	0	0	0	0	0	0	0	0
\$4.75.....	\$5.00.....	.95	.60	.25	0	0	0	0	0	0	0	0
\$5.00.....	\$5.25.....	1.00	.65	.30	0	0	0	0	0	0	0	0
\$5.25.....	\$5.50.....	1.05	.70	.35	0	0	0	0	0	0	0	0
\$5.50.....	\$5.75.....	1.10	.75	.40	.05	0	0	0	0	0	0	0
\$5.75.....	\$6.00.....	1.15	.80	.45	.10	0	0	0	0	0	0	0
\$6.00.....	\$6.25.....	1.20	.85	.50	.15	0	0	0	0	0	0	0
\$6.25.....	\$6.50.....	1.25	.90	.55	.20	0	0	0	0	0	0	0
\$6.50.....	\$6.75.....	1.30	.95	.60	.25	0	0	0	0	0	0	0
\$6.75.....	\$7.00.....	1.35	1.00	.65	.30	0	0	0	0	0	0	0
\$7.00.....	\$7.25.....	1.40	1.05	.70	.35	0	0	0	0	0	0	0
\$7.25.....	\$7.50.....	1.45	1.10	.75	.40	0	0	0	0	0	0	0
\$7.50.....	\$7.75.....	1.50	1.15	.80	.45	.05	0	0	0	0	0	0
\$7.75.....	\$8.00.....	1.55	1.20	.85	.50	.10	0	0	0	0	0	0
\$8.00.....	\$8.25.....	1.60	1.25	.90	.55	.15	0	0	0	0	0	0
\$8.25.....	\$8.50.....	1.65	1.30	.95	.60	.20	0	0	0	0	0	0
\$8.50.....	\$8.75.....	1.70	1.35	1.00	.65	.25	0	0	0	0	0	0
\$8.75.....	\$9.00.....	1.75	1.40	1.05	.70	.30	0	0	0	0	0	0
\$9.00.....	\$9.25.....	1.80	1.45	1.10	.75	.35	0	0	0	0	0	0
\$9.25.....	\$9.50.....	1.85	1.50	1.15	.80	.40	.05	0	0	0	0	0
\$9.50.....	\$9.75.....	1.90	1.55	1.20	.85	.45	.10	0	0	0	0	0
\$9.75.....	\$10.00.....	1.95	1.60	1.25	.90	.50	.15	0	0	0	0	0
\$10.00.....	\$10.50.....	2.05	1.70	1.30	.95	.60	.20	0	0	0	0	0
\$10.50.....	\$11.00.....	2.15	1.80	1.40	1.05	.70	.30	0	0	0	0	0
\$11.00.....	\$11.50.....	2.25	1.90	1.50	1.15	.80	.40	.05	0	0	0	0
\$11.50.....	\$12.00.....	2.35	2.00	1.60	1.25	.90	.50	.15	0	0	0	0
\$12.00.....	\$12.50.....	2.45	2.10	1.70	1.35	1.00	.60	.25	0	0	0	0
\$12.50.....	\$13.00.....	2.55	2.20	1.80	1.45	1.10	.70	.35	0	0	0	0
\$13.00.....	\$13.50.....	2.65	2.30	1.90	1.55	1.20	.80	.45	.10	0	0	0
\$13.50.....	\$14.00.....	2.75	2.40	2.00	1.65	1.30	.90	.55	.20	0	0	0
\$14.00.....	\$14.50.....	2.85	2.50	2.10	1.75	1.40	1.00	.65	.30	0	0	0
\$14.50.....	\$15.00.....	2.95	2.60	2.20	1.85	1.50	1.10	.75	.40	.05	0	0
\$15.00.....	\$15.50.....	3.05	2.70	2.30	1.95	1.60	1.20	.85	.50	.15	0	0
\$15.50.....	\$16.00.....	3.15	2.80	2.40	2.05	1.70	1.30	.95	.60	.25	0	0
\$16.00.....	\$16.50.....	3.25	2.90	2.50	2.15	1.80	1.40	1.05	.70	.35	0	0
\$16.50.....	\$17.00.....	3.35	3.00	2.60	2.25	1.90	1.50	1.15	.80	.45	.05	0
\$17.00.....	\$17.50.....	3.45	3.10	2.70	2.35	2.00	1.60	1.25	.90	.55	.15	0
\$17.50.....	\$18.00.....	3.55	3.20	2.80	2.45	2.10	1.70	1.35	1.00	.65	.25	0
\$18.00.....	\$18.50.....	3.65	3.30	2.90	2.55	2.20	1.80	1.45	1.10	.75	.35	0
\$18.50.....	\$19.00.....	3.75	3.40	3.00	2.65	2.30	1.90	1.55	1.20	.85	.45	.10
\$19.00.....	\$19.50.....	3.85	3.50	3.10	2.75	2.40	2.00	1.65	1.30	.95	.55	.20
\$19.50.....	\$20.00.....	3.95	3.60	3.20	2.85	2.50	2.10	1.75	1.40	1.05	.65	.30
\$20.00.....	\$21.00.....	4.10	3.75	3.35	3.00	2.65	2.25	1.90	1.55	1.20	.80	.45
\$21.00.....	\$22.00.....	4.30	3.95	3.55	3.20	2.85	2.45	2.10	1.75	1.40	1.00	.65
\$22.00.....	\$23.00.....	4.50	4.15	3.75	3.40	3.05	2.65	2.30	1.95	1.60	1.20	.85
\$23.00.....	\$24.00.....	4.70	4.35	3.95	3.60	3.25	2.85	2.50	2.15	1.80	1.40	1.05
\$24.00.....	\$25.00.....	4.90	4.55	4.15	3.80	3.45	3.05	2.70	2.35	2.00	1.60	1.25
\$25.00.....	\$26.00.....	5.10	4.75	4.35	4.00	3.65	3.25	2.90	2.55	2.20	1.80	1.45
\$26.00.....	\$27.00.....	5.30	4.95	4.55	4.20	3.85	3.45	3.10	2.75	2.40	2.00	1.65
\$27.00.....	\$28.00.....	5.50	5.15	4.75	4.40	4.05	3.65	3.30	2.95	2.60	2.20	1.85
\$28.00.....	\$29.00.....	5.70	5.35	4.95	4.60	4.25	3.85	3.50	3.15	2.80	2.40	2.05
\$29.00.....	\$30.00.....	5.90	5.55	5.15	4.80	4.45	4.05	3.70	3.35	3.00	2.60	2.25
\$30 and over.....		20 percent of the excess over \$30 plus—										
		6.00	5.65	5.25	4.90	4.55	4.15	3.80	3.45	3.10	2.70	2.35

“(B) Wages paid after December 31, 1953.—At the election of the employer with respect to any employee, the employer shall deduct and withhold upon the wages paid to such employee after December 31, 1953, a tax determined in accordance with the following tables, which shall be in lieu of the tax required to be deducted and withheld under subsection (a).”

SEC. 203. ADDITIONAL WITHHOLDING OF TAX ON WAGES UPON AGREEMENT BY EMPLOYER AND EMPLOYEE.

Section 1622 (relating to income tax collected at source on wages) is hereby amended by adding at the end thereof the following new subsection:

“(k) **ADDITIONAL WITHHOLDING.**—The Secretary is authorized by regulations to provide, under such conditions and to such extent as he deems proper, for withholding in addition to that otherwise required under this section in cases in which the employer and the employee agree (in such form as the Secretary may by regulations prescribe) to such additional withholding. Such additional withholding shall for all purposes be considered tax required to be deducted and withheld under this subchapter.”

SEC. 204. EFFECTIVE DATE.

The amendments made by this title shall be applicable only with respect to wages paid on or after November 1, 1951.

TITLE III—MISCELLANEOUS INCOME TAX AMENDMENTS

SEC. 301. TAX TREATMENT IN CASE OF HEAD OF HOUSEHOLD.

(a) **SURTAX IN CASE OF HEAD OF HOUSEHOLD.**—Section 12 (c) is hereby amended to read as follows:

“(c) **RATES OF SURTAX—HEAD OF HOUSEHOLD.**—

“(1) **TAXABLE YEARS BEGINNING AFTER OCTOBER 31, 1951, AND BEFORE JANUARY 1, 1954.**—In the case of taxable years beginning after October 31, 1951, and before January 1, 1954, there shall be levied, collected, and paid for each taxable year upon the surtax net income of every individual who is the head of a household the surtax shown in the following table:

“If the surtax net income is:	The surtax shall be:
Not over \$2,000-----	19.2% of the surtax net income.
Over \$2,000 but not over \$4,000-----	\$384, plus 20.4% of excess over \$2,000.
Over \$4,000 but not over \$6,000-----	\$792, plus 24% of excess over \$4,000.
Over \$6,000 but not over \$8,000-----	\$1,272, plus 26% of excess over \$6,000.
Over \$8,000 but not over \$10,000-----	\$1,792, plus 31% of excess over \$8,000.
Over \$10,000 but not over \$12,000-----	\$2,412, plus 32% of excess over \$10,000.
Over \$12,000 but not over \$14,000-----	\$3,052, plus 38% of excess over \$12,000.
Over \$14,000 but not over \$16,000-----	\$3,812, plus 41% of excess over \$14,000.
Over \$16,000 but not over \$18,000-----	\$4,632, plus 44% of excess over \$16,000.
Over \$18,000 but not over \$20,000-----	\$5,512, plus 45% of excess over \$18,000.
Over \$20,000 but not over \$22,000-----	\$6,412, plus 49% of excess over \$20,000.
Over \$22,000 but not over \$24,000-----	\$7,392, plus 51% of excess over \$22,000.
Over \$24,000 but not over \$28,000-----	\$8,412, plus 54% of excess over \$24,000.

"If the surtax net income is:

The surtax shall be:

Over \$28,000 but not over \$32,000----	\$10,572, plus 57% of excess over \$28,000.
Over \$32,000 but not over \$38,000----	\$12,852, plus 60% of excess over \$32,000.
Over \$38,000 but not over \$44,000----	\$16,452, plus 63% of excess over \$38,000.
Over \$44,000 but not over \$50,000----	\$20,232, plus 68% of excess over \$44,000.
Over \$50,000 but not over \$60,000----	\$24,312, plus 69% of excess over \$50,000.
Over \$60,000 but not over \$70,000----	\$31,212, plus 70% of excess over \$60,000.
Over \$70,000 but not over \$80,000----	\$38,212, plus 74% of excess over \$70,000.
Over \$80,000 but not over \$90,000----	\$45,612, plus 76% of excess over \$80,000.
Over \$90,000 but not over \$100,000----	\$53,212, plus 78% of excess over \$90,000.
Over \$100,000 but not over \$150,000--	\$61,012, plus 82% of excess over \$100,000.
Over \$150,000 but not over \$200,000--	\$102,012, plus 85% of excess over \$150,000.
Over \$200,000 but not over \$300,000--	\$144,512, plus 88% of excess over \$200,000.
Over \$300,000-----	\$232,512, plus 89% of excess over \$300,000.

"(2) TAXABLE YEARS BEGINNING AFTER DECEMBER 31, 1953.—In the case of taxable years beginning after December 31, 1953, there shall be levied, collected, and paid for each taxable year upon the surtax net income of every individual who is the head of a household the surtax shown in the following table:

"If the surtax net income is:

The surtax shall be:

Not over \$2,000-----	17% of the surtax net income.
Over \$2,000 but not over \$4,000----	\$340, plus 18% of excess over \$2,000.
Over \$4,000 but not over \$6,000----	\$700, plus 21% of excess over \$4,000.
Over \$6,000 but not over \$8,000----	\$1,120, plus 23% of excess over \$6,000.
Over \$8,000 but not over \$10,000----	\$1,580, plus 27% of excess over \$8,000.
Over \$10,000 but not over \$12,000---	\$2,120, plus 29% of excess over \$10,000.
Over \$12,000 but not over \$14,000---	\$2,700, plus 33% of excess over \$12,000.
Over \$14,000 but not over \$16,000---	\$3,360, plus 36% of excess over \$14,000.
Over \$16,000 but not over \$18,000---	\$4,080, plus 39% of excess over \$16,000.
Over \$18,000 but not over \$20,000---	\$4,860, plus 40% of excess over \$18,000.
Over \$20,000 but not over \$22,000---	\$5,660, plus 44% of excess over \$20,000.
Over \$22,000 but not over \$24,000---	\$6,540, plus 46% of excess over \$22,000.
Over \$24,000 but not over \$28,000----	\$7,460, plus 49% of excess over \$24,000.
Over \$28,000 but not over \$32,000----	\$9,420, plus 51% of excess over \$28,000.
Over \$32,000 but not over \$38,000----	\$11,460, plus 55% of excess over \$32,000.
Over \$38,000 but not over \$44,000---	\$14,760, plus 59% of excess over \$38,000.
Over \$44,000 but not over \$50,000---	\$18,300, plus 63% of excess over \$44,000.
Over \$50,000 but not over \$60,000---	\$22,080, plus 65% of excess over \$50,000.
Over \$60,000 but not over \$70,000---	\$28,580, plus 68% of excess over \$60,000.
Over \$70,000 but not over \$80,000---	\$35,380, plus 71% of excess over \$70,000.

"If the surtax net income is:	The surtax shall be:
Over \$80,000 but not over \$90,000---	\$42,480, plus 73% of excess over \$80,000.
Over \$90,000 but not over \$100,000--	\$49,780, plus 77% of excess over \$90,000.
Over \$100,000 but not over \$150,000--	\$57,480, plus 80% of excess over \$100,000.
Over \$150,000 but not over \$200,000--	\$97,480, plus 84% of excess over \$150,000.
Over \$200,000 but not over \$300,000--	\$139,480, plus 87% of excess over \$200,000.
Over \$300,000-----	\$226,480, plus 88% of excess over \$300,000.

"(3) **DEFINITION OF HEAD OF HOUSEHOLD.**—For the purposes of this chapter, an individual shall be considered a head of a household if, and only if, such individual is not married at the close of his taxable year and maintains as his home a household which constitutes for such taxable year the principal place of abode, as a member of such household, of:

"(A) A son, stepson, daughter, or stepdaughter of the taxpayer, or a descendant of a son or daughter of the taxpayer, but if such son, stepson, daughter, stepdaughter, or descendant is married at the close of the taxpayer's taxable year, only if the taxpayer is entitled to an exemption for the taxable year for such person under section 25 (b); or

"(B) Any other person who is a dependent of the taxpayer, if the taxpayer is entitled to an exemption for the taxable year for such person under section 25 (b).

An individual shall be considered as maintaining a household only if over half of the cost of maintaining the household during the taxable year is furnished by such individual.

"(4) **DETERMINATION OF STATUS.**—For the purposes of this subsection—

"(A) a legally adopted child of a person shall be considered a child of such person by blood;

"(B) an individual who is legally separated from his spouse under a decree of divorce or of separate maintenance shall not be considered as married;

"(C) a taxpayer shall be considered as not married at the close of his taxable year if at any time during the taxable year his spouse is a nonresident alien; and

"(D) a taxpayer shall be considered as married at the close of his taxable year if his spouse (other than a spouse described in subparagraph (C)) died during the taxable year.

"(5) **NONRESIDENT ALIEN.**—For the purposes of this chapter a taxpayer shall in no case be considered a head of a household if at any time during the taxable year he is a nonresident alien."

(b) COMPUTATION OF TAX BY COLLECTOR.—

(1) Section 51 (f) (1) (relating to tax computed by collector in case of wage earners) is hereby amended by adding at the end thereof the following: "In the case of a head of a household electing the benefits of this subsection, the tax shall be computed by the collector under Supplement T without regard to the taxpayer's status as head of a household."

(2) Section 402 (relating to effect of election to pay the tax imposed by Supplement T) is hereby amended by adding at the end thereof the following: "In the case of a head of a household electing to have his tax computed by the collector pursuant to the

provisions of section 51 (f), the tax imposed by section 400 shall be computed without regard to the status of the taxpayer as a head of a household."

(c) **EFFECTIVE DATE.**—The amendments made by this section shall be applicable only with respect to taxable years beginning after October 31, 1951.

SEC. 302. PAYMENTS TO BENEFICIARIES OF DECEASED EMPLOYEES.

(a) **AMENDMENT OF SECTION 22 (b) (1).**—Section 22 (b) (1) (relating to exclusion of life insurance proceeds from gross income) is hereby amended to read as follows:

"(1) **LIFE INSURANCE, ETC.**—Amounts received—

"(A) under a life insurance contract, paid by reason of the death of the insured; or

"(B) under a contract of an employer providing for the payment of such amounts to the beneficiaries of an employee, paid by reason of the death of the employee;

whether in a single sum or otherwise (but if such amounts are held by the insurer, or the employer, under an agreement to pay interest thereon, the interest payments shall be included in gross income). The aggregate of the amounts excludible under subparagraph (B) by all the beneficiaries of the employee under all such contracts of any one employer may not exceed \$5,000."

(b) **EFFECTIVE DATE.**—The amendment made by this section shall be applicable with respect to taxable years beginning after December 31, 1950.

SEC. 303. JOINT AND SURVIVOR ANNUITIES.

(a) **AMENDMENT OF SECTION 22 (b) (2).**—Section 22 (b) (2) is amended by adding at the end thereof the following new subparagraph:

"(C) **Joint and Survivor Annuities.**—For purposes of subparagraphs (A) and (B) of this paragraph, where amounts are received by a surviving annuitant under a joint and survivor's annuity contract and the basis of such survivor annuitant's interest is determined under section 113 (a) (5) the consideration paid for such survivor's annuity shall be considered to be an amount equal to such basis."

(b) **AMENDMENT OF SECTION 113 (a) (5).**—Section 113 (a) (5) is amended by adding at the end thereof the following: "For the purposes of this paragraph, the survivor's interest in a joint and survivor's annuity shall be considered to be property 'acquired by bequest, devise, or inheritance' from the decedent if the death of the decedent was after December 31, 1950, and if the value of any part of such interest was required to be included in determining the value of the decedent's gross estate under section 811."

(c) **EFFECTIVE DATES.**—The amendments made by this section shall be applicable to taxable years ending after December 31, 1950.

SEC. 304. INCOME FROM DISCHARGE OF INDEBTEDNESS.

(a) **AMENDMENT OF SECTION 22 (b) (9).**—Effective with respect to discharges of indebtedness occurring within taxable years ending after December 31, 1950, section 22 (b) (9) (relating to income from discharge of indebtedness) is hereby amended (1) by striking out "if the taxpayer makes and files at the time of filing the return, in such manner as the Commissioner, with the approval of the Secretary, by regulations prescribes, its consent" and inserting in lieu thereof "if the taxpayer, at such time and in such manner as the Secretary by regulations prescribes, makes and files its consent", and (2) by striking out the last sentence thereof.

(b) **AMENDMENT OF SECTION 22 (b) (10).**—Section 22 (b) (10) (relating to income from discharge of indebtedness of a railroad corporation) is hereby amended by striking out “December 31, 1951” and inserting in lieu thereof “December 31, 1954”.

SEC. 305. COMPENSATION OF CERTAIN MEMBERS OF THE ARMED FORCES.

(a) **AMENDMENT OF SECTION 22 (b) (13).**—Section 22 (b) (13) (relating to exclusion from gross income of compensation of certain members of the armed forces) is hereby amended by striking out subparagraphs (A) and (B) and inserting in lieu thereof the following:

“(A) Enlisted Personnel.—Compensation received for active service as a member below the grade of commissioned officer in the armed forces of the United States for any month during any part of which such member—

“(i) served in a combat zone after June 24, 1950, and prior to January 1, 1954, or

“(ii) was hospitalized as a result of wounds, disease, or injury incurred while serving in a combat zone prior to January 1, 1954; but this clause shall not apply for any month during any part of which there are no combatant activities in any combat zone as determined under subparagraph (C) (iii) of this paragraph.

“(B) Commissioned Officers.—So much of the compensation as does not exceed \$200 received for active service as a commissioned officer in the armed forces of the United States for any month during any part of which such officer—

“(i) served in a combat zone after June 24, 1950, and prior to January 1, 1954, or

“(ii) was hospitalized as a result of wounds, disease, or injury incurred while serving in a combat zone prior to January 1, 1954; but this clause shall not apply for any month during any part of which there are no combatant activities in any combat zone as determined under subparagraph (C) (iii) of this paragraph.”

(b) **DEFINITION OF SERVICE IN COMBAT ZONE.**—Clause (iii) of section 22 (b) (13) (C) is hereby amended by striking out “such zone; and” and inserting in lieu thereof “such zone, except that June 25, 1950, shall be considered the date of the commencing of combatant activities in the combat zone designated in Executive Order 10195; and”.

(c) **WITHHOLDING ON WAGES.**—Section 1621 (a) (1) (relating to definition of the term “wages”) is hereby amended to read as follows:

“(1) for active service as a member of the armed forces of the United States performed prior to January 1, 1954, in a month for which such member is entitled to the benefits of section 22 (b) (13), or”.

(d) **EFFECTIVE DATES.**—The amendments made by subsections (a) and (b) shall be applicable to taxable years ending after June 24, 1950. The amendment made by subsection (c) shall be applicable with respect to wages paid after the tenth day following the date of the enactment of this Act.

SEC. 306. INVOLUNTARY LIQUIDATION AND REPLACEMENT OF INVENTORY.

(a) **AMENDMENT OF SECTION 22 (d) (6) (F) (iii).**—Section 22 (d) (6) (F) (iii) (relating to replacement of inventory involuntarily liquidated) is hereby amended by striking out the last sentence and inserting in lieu thereof the following: “If, for any taxable year ending after June 30, 1950, and prior to January 1, 1953, subparagraph (C) is applicable with respect to involuntary liquidations of goods

of the same class subject to the provisions of both subparagraph (A) and this subparagraph, the involuntary liquidations of such goods subject to the provisions of this subparagraph shall be considered for the purpose of subparagraph (C) as having occurred prior to the involuntary liquidations of such goods subject to the provisions of subparagraph (A). For the purpose of this clause, and with respect to the taxable years covered by this subparagraph, the reference in subparagraph (E) to section 734 (d) shall be taken as a reference to section 452 (d)."

(b) **EFFECTIVE DATE.**—The amendment made by subsection (a) shall be applicable with respect to taxable years ending after June 30, 1950.

SEC. 307. MEDICAL EXPENSES.

(a) **AMENDMENT OF SECTION 23 (x).**—Section 23 (x) (relating to medical, dental, etc., expenses) is hereby amended to read as follows:

"(x) **MEDICAL, DENTAL, ETC., EXPENSES.**—Expenses paid during the taxable year, not compensated for by insurance or otherwise, for medical care of the taxpayer, his spouse, or a dependent specified in section 25 (b) (3)—

"(1) If neither the taxpayer nor his spouse has attained the age of 65 before the close of the taxable year, to the extent that such expenses exceed 5 per centum of the adjusted gross income; or

"(2) If either the taxpayer or his spouse has attained the age of 65 before the close of the taxable year, (A) the amount of such expenses for the care of the taxpayer and his spouse, and (B) the amount by which such expenses for the care of such dependents exceed 5 per centum of the adjusted gross income.

The deduction under this subsection shall not be in excess of \$1,250 multiplied by the number of exemptions allowed under section 25 (b) for the taxable year (exclusive of exemptions allowed under section 25 (b) (1) (B) or (C), with a maximum deduction of \$2,500, except that the maximum deduction shall be \$5,000 in the case of a joint return of husband and wife under section 51 (b). The term 'medical care', as used in this subsection, shall include amounts paid for the diagnosis, cure, mitigation, treatment, or prevention of disease, or for the purpose of affecting any structure or function of the body (including amounts paid for accident or health insurance). The determination of whether an individual is married at any time during the taxable year shall be made in accordance with the provisions of section 51 (b) (5)."

(b) **EFFECTIVE DATE.**—The amendment made by this section shall be applicable with respect to taxable years beginning after December 31, 1950.

SEC. 308. STANDARD DEDUCTION.

(a) **METHOD OF ELECTION.**—Subparagraphs (A) and (B) of section 23 (aa) (3) (relating to optional standard deduction for individuals) are hereby amended by striking out the word "only"; and subparagraph (C) of section 23 (aa) (3) is hereby amended to read as follows:

"(C) If the taxpayer upon making his return fails to signify, in the manner provided by subparagraph (A) or (B), his election to take the standard deduction, such failure shall be considered his election not to take the standard deduction."

(b) **CHANGE OF ELECTION.**—Section 23 (aa) is hereby amended by adding at the end thereof the following new paragraph:

"(7) **CHANGE OF ELECTION.**—Under regulations prescribed by the Secretary, a change of an election to take, or not to take, the

standard deduction for any taxable year may be made after the filing of the return for such year. If the spouse of the taxpayer filed a separate return for any taxable year corresponding, for the purposes of paragraph (4), to the taxable year of the taxpayer, the change shall not be allowed unless, in accordance with such regulations—

“(A) the spouse makes a change of election with respect to the standard deduction for the taxable year covered in such separate return, consistent with the change of election sought by the taxpayer, and

“(B) the taxpayer and his spouse consent in writing to the assessment, within such period as may be agreed upon with the Secretary, of any deficiency, to the extent attributable to such change of election, even though at the time of the filing of such consent the assessment of such deficiency would otherwise be prevented by the operation of any law or rule of law.

This paragraph shall not apply if the tax liability of the taxpayer's spouse, for the taxable year corresponding (for the purposes of paragraph (4)) to the taxable year of the taxpayer, has been compromised under the provisions of section 3761.”

(c) **EFFECTIVE DATE.**—The amendments made by this section shall be applicable only with respect to taxable years beginning after December 31, 1949.

SEC. 309. EXPENDITURES IN THE DEVELOPMENT OF MINES.

(a) **DEDUCTION OF EXPENDITURES.**—Section 23 (relating to deductions from gross income) is hereby amended by adding at the end thereof the following new subsection:

“(cc) **DEVELOPMENT OF MINES.**—

“(1) **IN GENERAL.**—Except as provided in paragraph (2), all expenditures paid or incurred during the taxable year for the development of a mine or other natural deposit (other than an oil or gas well) if paid or incurred after December 31, 1950, and after the existence of ores or minerals in commercially marketable quantities has been disclosed. This subsection shall not apply to expenditures for the acquisition or improvement of property of a character which is subject to the allowance for depreciation provided in section 23 (1), but allowances for depreciation shall be considered, for the purposes of this subsection, as expenditures.

“(2) **ELECTION OF TAXPAYER.**—At the election of the taxpayer, made in accordance with regulations prescribed by the Secretary, expenditures described in paragraph (1) paid or incurred during the taxable year shall be treated as deferred expenses and shall be deductible on a ratable basis as the units of produced ores or minerals benefited by such expenditures are sold. In the case of such expenditures paid or incurred during the development stage of the mine or deposit, the election shall apply only with respect to the excess of such expenditures during the taxable year over the net receipts during the taxable year from the ores or minerals produced from such mine or deposit. The election under this paragraph, if made, must be for the total amount of such expenditures, or the total amount of such excess, as the case may be, with respect to the mine or deposit, and shall be binding for such taxable year.

“(3) **ADJUSTED BASIS OF MINE OR DEPOSIT.**—The amount of expenditures which are treated under paragraph (2) as deferred

expenses shall be taken into account in computing the adjusted basis of the mine or deposit, except that such amount, and the adjustments to basis provided in section 113 (b) (1) (J), shall be disregarded in determining the adjusted basis of the property for the purpose of computing a deduction for depletion under section 114."

(b) **ADJUSTED BASIS FOR DETERMINING GAIN OR LOSS UPON SALE OR EXCHANGE.**—Section 113 (b) (1) (relating to adjusted basis of property) is hereby amended by adding at the end thereof the following subparagraph:

"(J) for amounts allowed as deductions as deferred expenses under section 23 (cc) (2) (relating to certain expenditures in the development of mines) and resulting in a reduction of the taxpayer's taxes under this chapter, but not less than the amounts allowable under such section for the taxable year and prior years."

(c) **TECHNICAL AMENDMENT.**—Section 24 (a) (2) (relating to items not deductible) is hereby amended by adding after the word "estate" the following: ", except expenditures for the development of mines or deposits deductible under section 23 (cc)".

(d) **EFFECTIVE DATE.**—The amendments made by this section shall be applicable to taxable years ending after December 31, 1950.

SEC. 310. GROSS INCOME OF DEPENDENT OF TAXPAYER.

(a) **INCREASE IN AMOUNT OF GROSS INCOME PERMITTED.**—Section 25 (b) (1) (D) (relating to exemptions for dependents of taxpayer) is hereby amended by striking out "\$500" and inserting in lieu thereof "\$600".

(b) **EFFECTIVE DATE.**—The amendment made by subsection (a) shall be applicable only with respect to taxable years beginning after December 31, 1950.

SEC. 311. CREDIT FOR DIVIDENDS RECEIVED.

(a) **DIVIDENDS FROM FOREIGN CORPORATION ENGAGED IN TRADE OR BUSINESS IN THE UNITED STATES.**—Section 26 (b) (relating to dividends received credit) is hereby amended by inserting after paragraph (2) the following new paragraph:

"(3) **DIVIDENDS RECEIVED FROM CERTAIN FOREIGN CORPORATIONS.**—In the case of dividends received from a foreign corporation (other than a foreign personal holding company) which is subject to taxation under this chapter, if, for an uninterrupted period of not less than 36 months ending with the close of such foreign corporation's taxable year in which such dividends are paid (or, if the corporation has not been in existence for 36 months at the close of such taxable year, for the period the foreign corporation has been in existence as of the close of such taxable year) such foreign corporation has been engaged in trade or business within the United States and has derived 50 per centum or more of its gross income from sources within the United States—

"(A) an amount equal to 85 per centum of the dividends received out of its earnings or profits specified in clause (2) of the first sentence of section 115 (a), but such amount shall not exceed an amount which bears the same ratio to 85 per centum of such dividends received out of such earnings or profits as the gross income of such foreign corporation for the taxable year from sources within the United States bears to its gross income from all sources for such taxable year, and

"(B) an amount equal to 85 per centum of the dividends received out of that part of its earnings or profits specified in

clause (1) of the first sentence of section 115 (a) accumulated after the beginning of such uninterrupted period, but such amount shall not exceed an amount which bears the same ratio to 85 per centum of such dividends received out of such accumulated earnings or profits as the gross income of such foreign corporation from sources within the United States for the portion of such uninterrupted period ending at the beginning of such taxable year bears to its gross income from all sources for such portion of such uninterrupted period.

For determination of earnings or profits distributed in any taxable year, see section 115 (b)."

(b) **TECHNICAL AMENDMENT.**—Section 119 (a) (2) (B) (relating to rules as to source of income in the case of dividends) is hereby amended by inserting before the semicolon at the end thereof the following: "to the extent exceeding the amount which is 100/85ths of the amount of the credit allowable under section 26 (b) in respect of such dividends".

(c) **EFFECTIVE DATE.**—The amendments made by this section shall be applicable only with respect to taxable years beginning after December 31, 1950.

SEC. 312. JOINT RETURN AFTER FILING SEPARATE RETURN.

(a) **CHANGE OF ELECTION.**—Section 51 of the Internal Revenue Code (relating to making of individual returns) is hereby amended by adding at the end thereof the following new subsection:

"(g) **JOINT RETURN AFTER FILING SEPARATE RETURN.**—

"(1) **IN GENERAL.**—If an individual has filed a separate return for a taxable year for which a joint return could have been made by him and his spouse under subsection (b) of this section, and the time prescribed by law for filing the return for such taxable year has expired, such individual and his spouse may nevertheless make a joint return for such taxable year. A joint return filed by the husband and wife in such a case shall constitute the return of the husband and wife for such taxable year, and all payments, credits, refunds, or other repayments made or allowed with respect to the separate return of either spouse for such taxable year shall be taken into account in determining the extent to which the tax based upon the joint return has been paid.

"(2) **PAYMENTS REQUIRED BEFORE JOINT RETURN CAN BE MADE.**—A joint return can be made under paragraph (1) only if there is paid in full at or before the time of the filing of the joint return—

"(A) all amounts previously assessed with respect to either spouse for such taxable year;

"(B) all amounts shown as the tax by either spouse upon his separate return for such taxable year; and

"(C) any amount determined, at the time of the filing of the joint return, as a deficiency with respect to either spouse for such taxable year if, prior to such filing, a notice under section 272 (a) of such deficiency has been mailed.

"(3) **TIME FOR MAKING JOINT RETURN.**—A joint return cannot be made under paragraph (1)—

"(A) after the expiration of three years from the last date prescribed by law for filing the return for such taxable year (determined without regard to any extension of time granted to either spouse);

"(B) after there has been mailed to either spouse, with respect to such taxable year, a notice of deficiency under section 272 (a), if the spouse, as to such notice, files a petition

with the Tax Court of the United States within the time prescribed in such section;

“(C) after either spouse has commenced a suit in any court for the recovery of any part of the tax for such taxable year; or

“(D) after either spouse has entered into a closing agreement under section 3760 with respect to such taxable year, or after any civil or criminal case arising against either spouse with respect to such taxable year has been compromised under section 3761.

“(4) **ELECTIONS MADE IN SEPARATE RETURN.**—If a joint return is made under this subsection, any election (other than the election to file a separate return) made by either spouse in his separate return for such taxable year with respect to the treatment of any income, deduction, or credit of such spouse shall not be changed in the making of the joint return where such election would have been irrevocable if the joint return had not been made.

“(5) **DEATH OF SPOUSE.**—If a joint return is made under this subsection after the death of either spouse, such return with respect to the decedent can be made only by his executor or administrator.

“(6) **ADDITIONS TO THE TAX.**—Where the amount shown as the tax by the husband and wife on a joint return made under this subsection exceeds the aggregate of the amounts shown as the tax upon the separate return of each spouse—

“(A) **Negligence.**—If any part of such excess is attributable to negligence or intentional disregard of rules and regulations (but without intent to defraud) at the time of the making of such separate return, then 5 per centum of the total amount of such excess shall be assessed, collected, and paid in the same manner as if it were a deficiency;

“(B) **Fraud.**—If any part of such excess is attributable to fraud with intent to evade tax at the time of the making of such separate return, then 50 per centum of the total amount of such excess shall be so assessed, collected, and paid, in lieu of the 50 per centum addition to the tax provided in section 3612 (d) (2).

“(7) **RULES FOR APPLICATION OF SECTIONS 275 AND 291.**—For the purposes of section 275 (relating to period of limitations upon assessment and collection), and for the purposes of section 291 (relating to delinquent returns), a joint return made under this subsection shall be deemed to have been filed—

“(A) where both spouses filed separate returns prior to making the joint return—on the date the last separate return was filed (but not earlier than the last date prescribed by law for filing the return of either spouse);

“(B) where only one spouse filed a separate return prior to the making of the joint return, and the other spouse had less than \$600 of gross income for such taxable year—on the date of the filing of such separate return (but not earlier than the last date prescribed by law for the filing of such separate return); or

“(C) where only one spouse filed a separate return prior to the making of the joint return, and the other spouse had gross income of \$600 or more for such taxable year—on the date of the filing of such joint return.

“(8) **RULE FOR APPLICATION OF SECTION 322.**—For the purposes of section 322 (relating to refunds and credits), a joint return

made under this subsection shall be deemed to have been filed on the last date prescribed by law for filing the return for such taxable year (determined without regard to any extension of time granted to either spouse).

“(9) **ADDITIONAL TIME FOR ASSESSMENT.**—If a joint return is made under this subsection, the period of limitations provided in sections 275 and 276 on the making of assessments and the beginning of distraint or a proceeding in court for collection shall with respect to such return include one year immediately after the date of the filing of such joint return (computed without regard to the provisions of paragraph (7) of this subsection).

“(10) **RULE FOR APPLICATION OF SECTION 3809 (a).**—For the purposes of section 3809 (a) (relating to criminal penalties in the case of fraudulent returns) the term ‘return’ includes a separate return filed by a spouse with respect to a taxable year for which a joint return is made under this subsection after the filing of such separate return.”

(b) **EFFECTIVE DATE.**—The amendment made by subsection (a) shall be applicable only with respect to taxable years beginning after December 31, 1950.

SEC. 313. MUTUAL SAVINGS BANKS, BUILDING AND LOAN ASSOCIATIONS, COOPERATIVE BANKS.

(a) **MUTUAL SAVINGS BANKS.**—Section 101 (2) (relating to exemption from tax of mutual savings banks) is hereby repealed.

(b) **BUILDING AND LOAN ASSOCIATIONS AND COOPERATIVE BANKS.**—Section 101 (4) (relating to exemption from tax of building and loan associations and cooperative banks) is hereby amended to read as follows:

“(4) Credit unions without capital stock organized and operated for mutual purposes and without profit; and corporations or associations without capital stock organized prior to September 1, 1951, and operated for mutual purposes and without profit for the purpose of providing reserve funds for, and insurance of, shares or deposits in—

“(A) domestic building and loan associations,

“(B) cooperative banks without capital stock organized and operated for mutual purposes and without profit, or

“(C) mutual savings banks not having capital stock represented by shares;”.

(c) **EXEMPTIONS FROM EXCESS PROFITS TAX.**—Section 454 (corporations exempt from the excess profits tax) is hereby amended by adding at the end thereof the following:

“(h) Any mutual savings bank not having capital stock represented by shares, any domestic building and loan association (as defined in section 3797 (a) (19)), and any cooperative bank without capital stock organized and operated for mutual purposes and without profit.”

(d) **FEDERAL SAVINGS AND LOAN ASSOCIATIONS.**—Section 5 (h) of the Home Owners’ Loan Act of 1933, as amended (12 U. S. C. 1464 (h)), is hereby amended by striking out “date)” and inserting in lieu thereof the following: “date, and except, in the case of taxable years beginning after December 31, 1951, income, war-profits, and excess-profits taxes)”.

(e) **BAD DEBT RESERVES.**—Section 23 (k) (1) (relating to deduction from gross income of bad debts) is hereby amended by adding at the end thereof the following: “In the case of a mutual savings bank not having capital stock represented by shares, a domestic building and loan association, and a cooperative bank without capital stock organ-

ized and operated for mutual purposes and without profit, the reasonable addition to a reserve for bad debts shall be determined with due regard to the amount of the taxpayer's surplus or bad debt reserves existing at the close of December 31, 1951. In the case of a taxpayer described in the preceding sentence, the reasonable addition to a reserve for bad debts for any taxable year shall in no case be less than the amount determined by the taxpayer as the reasonable addition for such year; except that the amount determined by the taxpayer under this sentence shall not be greater than the lesser of (A) the amount of its net income for the taxable year, computed without regard to this subsection, or (B) the amount by which 12 per centum of the total deposits or withdrawable accounts of its depositors at the close of such year exceeds the sum of its surplus, undivided profits, and reserves at the beginning of the taxable year."

(f) **DIVIDENDS PAID TO DEPOSITORS.**—Section 23 (r) (relating to the deduction from gross income of certain dividends paid by banking corporations) is hereby amended to read as follows:

"(r) **DIVIDENDS PAID BY BANKING CORPORATIONS.**—

"(1) In the case of mutual savings banks, cooperative banks, and domestic building and loan associations, amounts paid to, or credited to the accounts of, depositors or holders of accounts as dividends on their deposits or withdrawable accounts, if such amounts paid or credited are withdrawable on demand subject only to customary notice of intention to withdraw.

"(2) For deduction of dividends paid by certain other banking corporations, see section 121."

(g) **DEDUCTION FOR REPAYMENT OF CERTAIN LOANS.**—Section 23 (relating to deductions from gross income) is hereby amended by adding at the end thereof the following:

"(dd) **REPAYMENT BY MUTUAL SAVINGS BANKS, ETC., OF CERTAIN LOANS.**—In the case of a mutual savings bank not having capital stock represented by shares, a domestic building and loan association, or a cooperative bank without capital stock organized and operated for mutual purposes and without profit, amounts paid by the taxpayer during the taxable year in repayment of loans made prior to September 1, 1951, by (1) the United States or any agency or instrumentality thereof which is wholly owned by the United States, or (2) any mutual fund established under the authority of the laws of any State."

(h) **DEFINITION OF BANK.**—Section 104 (a) (relating to definition of bank) is hereby amended by inserting at the end thereof the following: "Such term also means a domestic building and loan association."

(i) **DEFINITION OF DOMESTIC BUILDING AND LOAN ASSOCIATION.**—Section 3797 (a) (relating to definitions for the purposes of the Internal Revenue Code) is hereby amended by adding at the end thereof the following new paragraph:

"(19) **DOMESTIC BUILDING AND LOAN ASSOCIATION.**—The term 'domestic building and loan association' means a domestic building and loan association, a domestic savings and loan association, and a Federal savings and loan association, substantially all the business of which is confined to making loans to members."

(j) **EFFECTIVE DATE.**—The amendments made by this section shall be applicable only with respect to taxable years beginning after December 31, 1951.

SEC. 314. INCOME TAX TREATMENT OF EXEMPT COOPERATIVES.

(a) **AMENDMENT OF SECTION 101 (12).**—Section 101 (12) is hereby amended as follows:

(1) By inserting after "(12)" the following: "(A)".

(2) By inserting after such paragraph the following:

“(B) An organization exempt from taxation under the provisions of subparagraph (A) shall be subject to the taxes imposed by sections 13 and 15, or section 117 (c) (1), except that in computing the net income of such an organization there shall be allowed as deductions from gross income (in addition to other deductions allowable under section 23)—

“(i) amounts paid as dividends during the taxable year upon its capital stock, and

“(ii) amounts allocated during the taxable year to patrons with respect to its income not derived from patronage (whether or not such income was derived during such taxable year) whether paid in cash, merchandise, capital stock, revolving fund certificates, retain certificates, certificates of indebtedness, letters of advice, or in some other manner that discloses to each patron the dollar amount allocated to him. Allocations made after the close of the taxable year and on or before the fifteenth day of the ninth month following the close of such year shall be considered as made on the last day of such taxable year to the extent the allocations are attributable to income derived before the close of such year.

Patronage dividends, refunds, and rebates to patrons with respect to their patronage in the same or preceding years (whether paid in cash, merchandise, capital stock, revolving fund certificates, retain certificates, certificates of indebtedness, letters of advice, or in some other manner that discloses to each patron the dollar amount of such dividend, refund, or rebate) shall be taken into account in computing net income in the same manner as in the case of a cooperative organization not exempt under subparagraph (A). Such dividends, refunds, and rebates made after the close of the taxable year and on or before the 15th day of the ninth month following the close of such year shall be considered as made on the last day of such taxable year to the extent the dividends, refunds, or rebates, are attributable to patronage occurring before the close of such year.”

(b) **TECHNICAL AMENDMENTS.—**

(1) Section 101 is hereby amended by striking out “Except as provided in supplement U” and inserting in lieu thereof the following: “Except as provided in paragraph (12) (B) and in supplement U”.

(2) The last sentence of section 101 is hereby amended by striking out “Notwithstanding supplement U” and inserting in lieu thereof “Notwithstanding paragraph (12) (B) and supplement U”.

(c) **INFORMATION RETURNS.—**Section 148 (relating to information by corporations) is hereby amended by adding at the end thereof the following:

“(f) **PATRONAGE DIVIDENDS.—**Any corporation allocating amounts as patronage dividends, rebates, or refunds (whether in cash, merchandise, capital stock, revolving fund certificates, retain certificates, certificates of indebtedness, letters of advice, or in some other manner that discloses to each patron the amount of such dividend, refund, or rebate) shall render a correct return stating (1) the name and address of each patron to whom it has made such allocations amounting to \$100 or more during the calendar year, and (2) the amount of such allocations to each patron. If required by the Secretary, any such corporation shall render a correct return of all patronage dividends, rebates, or refunds made during the calendar year to its patrons. This subsection shall not apply in the case of any corporation (includ-

ing any cooperative or nonprofit corporation engaged in rural electrification) exempt from taxation under section 101 (10) or (11) or in the case of any corporation subject to a tax imposed by supplement G."

(d) **EFFECTIVE DATE.**—The amendments made by subsections (a) and (b) of this section shall be applicable only with respect to taxable years beginning after December 31, 1951. The amendment made by subsection (c) shall be applicable to the calendar year 1951 and subsequent calendar years.

SEC. 315. SURTAX ON CORPORATIONS IMPROPERLY ACCUMULATING SURPLUS.

(a) **LONG-TERM CAPITAL GAINS.**—Section 102 (d) (1) (relating to definition of section 102 net income) is hereby amended by adding at the end thereof the following new subparagraph:

"(D) **Long-Term Capital Gains.**—The excess of the net long-term capital gain for the taxable year over the net short-term capital loss for such year, minus the taxes imposed by this chapter attributable to such excess. The taxes attributable to such excess shall be an amount equal to the difference between (i) the taxes imposed by this chapter (except the tax imposed by this section) for such year and (ii) such taxes computed for such year without including such excess in net income."

(b) **EFFECTIVE DATE.**—The amendment made by subsection (a) shall be applicable only with respect to taxable years beginning after December 31, 1950.

SEC. 316. ELECTION AS TO RECOGNITION OF GAIN IN CERTAIN CORPORATE LIQUIDATIONS.

(a) **AMENDMENT OF SECTION 112 (b) (7).**—Section 112 (b) (7) (relating to recognition of gain in certain corporate liquidations) is hereby amended by striking out in subparagraph (A) (ii) "1951" and by inserting in lieu thereof "1951 or 1952".

(b) **BASIS OF PROPERTY.**—Section 113 (a) (18) (relating to basis of property received in certain corporate liquidations) is amended by striking out "the Revenue Act of 1950" and by inserting in lieu thereof "any revenue act".

(c) **EFFECTIVE DATE.**—The amendments made by this section shall be applicable only to taxable years ending after December 31, 1951.

SEC. 317. CERTAIN DISTRIBUTIONS OF STOCK ON REORGANIZATION.

(a) **DISTRIBUTIONS NOT IN LIQUIDATION.**—Section 112 (b) (relating to nonrecognition of gain or loss in the case of certain exchanges) is hereby amended by adding at the end thereof the following new paragraph:

"(11) **DISTRIBUTION OF STOCK NOT IN LIQUIDATION.**—If there is distributed, in pursuance of a plan of reorganization, to a shareholder of a corporation which is a party to the reorganization, stock (other than preferred stock) in another corporation which is a party to the reorganization, without the surrender by such shareholder of stock, no gain to the distributee from the receipt of such stock shall be recognized unless it appears that (A) any corporation which is a party to such reorganization was not intended to continue the active conduct of a trade or business after such reorganization, or (B) the corporation whose stock is distributed was used principally as a device for the distribution of earnings and profits to the shareholders of any corporation a party to the reorganization."

(b) **BASIS OF STOCK.**—Section 113 (a) (relating to unadjusted basis for determining gain or loss) is hereby amended by adding at the end thereof the following new paragraph:

"(23) **TAX-FREE DISTRIBUTIONS.**—If the property consists of stock distributed after the date of the enactment of the Revenue Act of 1951 to a taxpayer in connection with a transaction described in section 112 (b) (11) (hereinafter in this paragraph called 'new stock'), or consists of stock in respect of which such distribution was made (hereinafter in this paragraph called 'old stock'), then the basis of the new stock and of the old stock, respectively, shall, in the shareholder's hands, be determined by allocating between the old stock and the new stock the adjusted basis of the old stock; such allocation to be made under regulations prescribed by the Secretary."

(c) **EFFECTIVE DATE.**—The amendments made by this section shall be applicable with respect to taxable years ending after the date of the enactment of this Act, but shall apply only with respect to distributions of stock made after such date.

SEC. 318. GAIN FROM SALE OR EXCHANGE OF TAXPAYER'S RESIDENCE.

(a) **NONRECOGNITION OF GAIN IN CERTAIN CASES.**—Section 112 (relating to recognition of gain or loss) is hereby amended by adding at the end thereof the following new subsection:

"(n) **GAIN FROM SALE OR EXCHANGE OF RESIDENCE.**—

"(1) **NONRECOGNITION OF GAIN.**—If property (hereinafter in this subsection called 'old residence') used by the taxpayer as his principal residence is sold by him and, within a period beginning one year prior to the date of such sale and ending one year after such date, property (hereinafter in this subsection called 'new residence') is purchased and used by the taxpayer as his principal residence, gain (if any) from such sale shall be recognized only to the extent that the taxpayer's selling price of the old residence exceeds the taxpayer's cost of purchasing the new residence.

"(2) **RULES FOR APPLICATION OF SUBSECTION.**—For the purposes of this subsection:

"(A) An exchange by the taxpayer of his residence for other property shall be considered as a sale of such residence, and the acquisition of a residence upon the exchange of property shall be considered as a purchase of such residence.

"(B) If the taxpayer's residence (as a result of its destruction in whole or in part, theft, or seizure) is compulsorily or involuntarily converted into property or into money, such destruction, theft, or seizure shall be considered as a sale of the residence; and if the residence is so converted into property which is used by the taxpayer as his residence, such conversion shall be considered as a purchase of such property by the taxpayer.

"(C) In the case of an exchange or conversion described in subparagraph (A) or (B), in determining the extent to which the selling price of the old residence exceeds the taxpayer's cost of purchasing the new residence, the amount realized by the taxpayer upon such exchange or conversion shall be considered the selling price of the old residence.

"(D) A residence any part of which was constructed or reconstructed by the taxpayer shall be considered as purchased by the taxpayer. In determining the taxpayer's cost of purchasing a residence, there shall be included only so much of his cost as is attributable to the acquisition, construction, reconstruction, and improvements made which are properly chargeable to capital account, during the period specified in paragraph (1).

"(E) If a residence is purchased by the taxpayer prior to the date of his sale of the old residence, the purchased residence shall not be treated as his new residence if sold or otherwise disposed of by him prior to the date of the sale of the old residence.

"(F) If the taxpayer, during the period described in paragraph (1), purchases more than one residence which is used by him as his principal residence at some time within one year after the date of the sale of the old residence, only the last of such residences so used by him after the date of such sale shall constitute the new residence. If within the one year referred to in the preceding sentence property used by the taxpayer as his principal residence is destroyed, stolen, seized, requisitioned, or condemned, or is sold or exchanged under threat or imminence thereof, then for the purposes of the preceding sentence such one year shall be considered as ending with the date of such destruction, theft, seizure, requisition, condemnation, sale, or exchange.

"(G) In the case of a new residence the construction of which was commenced by the taxpayer prior to the expiration of one year after the date of the sale of the old residence, the period specified in paragraph (1), and the one year referred to in subparagraph (F) of this paragraph, shall be considered as including a period of 18 months beginning with the date of the sale of the old residence.

"(3) **LIMITATION.**—The provisions of paragraph (1) shall not be applicable with respect to the sale of the taxpayer's residence if within one year prior to the date of such sale the taxpayer sold at a gain other property used by him as his principal residence, and any part of such gain was not recognized by reason of the provisions of paragraph (1). For the purposes of this paragraph, the destruction, theft, seizure, requisition, or condemnation of property or the sale or exchange of property under threat or imminence thereof, shall not be considered as a sale of such property.

"(4) **BASIS OF NEW RESIDENCE.**—Where the purchase of a new residence results, under paragraph (1), in the nonrecognition of gain upon the sale of an old residence, in determining the adjusted basis of the new residence as of any time following the sale of the old residence, the adjustments to basis shall include a reduction by an amount equal to the amount of the gain not so recognized upon the sale of the old residence. For this purpose, the amount of the gain not so recognized upon the sale of the old residence includes only so much of such gain as is not recognized by reason of the cost, up to such time, of purchasing the new residence.

"(5) **TENANT-STOCKHOLDER IN A COOPERATIVE APARTMENT CORPORATION.**—For the purposes of this subsection, section 113 (b) (1) (K), and section 117 (h) (7), references to property used by the taxpayer as his principal residence, and references to the residence of a taxpayer, shall include stock held by a tenant-stockholder (as defined in section 23 (z) (2)) in a cooperative apartment (as defined in such section) if—

"(A) in the case of stock sold, the apartment which the taxpayer was entitled to occupy as such stockholder was used by him as his principal residence, and

"(B) in the case of stock purchased, the taxpayer used as his principal residence the apartment which he was entitled to occupy as such stockholder.

"(6) **HUSBAND AND WIFE.**—If the taxpayer and his spouse, in accordance with regulations which shall be prescribed by the Sec-

retary pursuant to this paragraph, consent to the application of subparagraph (B) of this paragraph, then—

“(A) for the purposes of this subsection, the words ‘taxpayer’s selling price of the old residence’ shall mean the selling price (of the taxpayer, or of the taxpayer and his spouse) of the old residence, and the words ‘taxpayer’s cost of purchasing the new residence’ shall mean the cost (to the taxpayer, his spouse, or both) of purchasing the new residence (whether held by the taxpayer, his spouse, or the taxpayer and his spouse); and

“(B) so much of the gain upon the sale of the old residence as is not recognized solely by reason of this paragraph, and so much of the adjustment under paragraph (4) to the basis of the new residence as results solely from this paragraph, shall be allocated between the taxpayer and his spouse as provided in such regulations.

This paragraph shall apply only if the old residence and the new residence are each used by the taxpayer and his spouse as their principal residence. In case the taxpayer and his spouse do not consent to the application of subparagraph (B) of this paragraph, then the recognition of gain upon the sale of the old residence shall be determined under this subsection without regard to the rules provided in this paragraph.

“(7) **STATUTE OF LIMITATIONS.**—If the taxpayer during a taxable year sells at a gain property used by him as his principal residence, then—

“(A) the statutory period for the assessment of any deficiency attributable to any part of such gain shall not expire prior to the expiration of three years from the date the Secretary is notified by the taxpayer (in such manner as the Secretary may by regulations prescribe) of—

“(i) the taxpayer’s cost of purchasing the new residence which the taxpayer claims results in nonrecognition of any part of such gain,

“(ii) the taxpayer’s intention not to purchase a new residence within the period specified in paragraph (1), or

“(iii) a failure to make such purchase within such period; and

“(B) such deficiency may be assessed prior to the expiration of such three-year period notwithstanding the provisions of any other law or rule of law which would otherwise prevent such assessment.”

(b) **TECHNICAL AMENDMENTS.**—

(1) Section 112 (f) (relating to involuntary conversions) is hereby amended by adding at the end thereof the following: “This subsection shall not apply, in the case of property used by the taxpayer as his principal residence, if the destruction, theft, seizure, requisition, or condemnation of the residence, or the sale or exchange of such residence under threat or imminence thereof, occurred after December 31, 1950.”

(2) Section 113 (a) (9) (relating to basis of property acquired as a result of involuntary conversions) is hereby amended by adding at the end thereof the following: “This paragraph shall not apply in respect of property acquired as a result of a compulsory or involuntary conversion of property used by the taxpayer as his principal residence if the destruction, theft, seizure, requisition, or condemnation of such residence, or the sale or exchange of such residence under threat or imminence thereof, occurred after December 31, 1950.”

(3) Section 113 (b) (1) (relating to adjusted basis of property) is hereby amended by adding at the end thereof the following new subparagraph:

“(K) in the case of a residence the acquisition of which resulted, under the provisions of section 112 (n), in the nonrecognition of any part of the gain realized upon the sale, exchange, or involuntary conversion of another residence, to the extent provided in section 112 (n) (4).”

(4) Section 117 (h) (relating to determination of holding period) is hereby amended by adding at the end thereof the following new paragraph:

“(7) In determining the period for which the taxpayer has held a residence, the acquisition of which resulted under section 112 (n) in the nonrecognition of any part of the gain realized on the sale, exchange, or involuntary conversion of another residence, there shall be included the period for which such other residence had been held as of the date of such sale, exchange, or involuntary conversion.”

(5) Section 276 (relating to period of limitation upon assessment and collection) is hereby amended by adding at the end thereof the following:

“(e) GAIN UPON SALE OR EXCHANGE OF RESIDENCE.—In the case of a deficiency described in section 112 (n) (7), such deficiency may be assessed at any time prior to the expiration of the time therein provided.”

(c) EFFECTIVE DATE.—The amendments made by this section shall be applicable to taxable years ending after December 31, 1950, but the provisions of section 112 (n) (1) and (6) of the Internal Revenue Code shall apply only with respect to residences sold (within the meaning of such section) after such date.

SEC. 319. PERCENTAGE DEPLETION.

(a) ALLOWANCE OF PERCENTAGE DEPLETION.—So much of paragraph (4) of section 114 (b) as precedes the last sentence of subparagraph (A) is hereby amended to read as follows:

“(4) PERCENTAGE DEPLETION FOR COAL AND METAL MINES AND FOR CERTAIN OTHER MINES AND NATURAL MINERAL DEPOSITS.—

“(A) IN GENERAL.—The allowance for depletion under section 23 (m) in the case of the following mines and other natural deposits shall be—

“(i) in the case of sand, gravel, slate, stone (including pumice and scoria), brick and tile clay, shale, oyster shell, clam shell, granite, marble, sodium chloride, and, if from brine wells, calcium chloride, magnesium chloride, and bromine, 5 per centum,

“(ii) in the case of coal, asbestos, brucite, dolomite, magnesite, perlite, wollastonite, calcium carbonates, and magnesium carbonates, 10 per centum,

“(iii) in the case of metal mines, apatite, bauxite, fluor-spar, flake graphite, vermiculite, beryl, garnet, feldspar, mica, talc (including pyrophyllite), lepidolite, spodumene, barite, ball clay, sagger clay, china clay, phosphate rock, rock asphalt, trona, bentonite, gilsonite, thenardite, borax, fuller's earth, tripoli, refractory and fire clay, quartzite, diatomaceous earth, metallurgical grade limestone, chemical grade limestone, and potash, 15 per centum, and

“(iv) in the case of sulfur, 23 per centum,

of the gross income from the property during the taxable year, excluding from such gross income an amount equal to any rents or royalties paid or incurred by the taxpayer in respect of the property."

(b) **TECHNICAL AMENDMENT.**—So much of paragraph (2) of section 114 (b) as precedes "discovered by the taxpayer after February 28, 1913" is hereby amended to read as follows: -

"(2) **DISCOVERY VALUE IN THE CASE OF MINES.**—In the case of mines (except mines in respect of which percentage depletion is allowable under paragraph (4) of this subsection)".

(c) **EFFECTIVE DATE.**—The amendments made by this section shall be applicable only with respect to taxable years beginning after December 31, 1950.

SEC. 320. REDEMPTION OF STOCK TO PAY DEATH TAXES.

(a) **AMENDMENT OF SECTION 115 (g) (3).**—Section 115 (g) (3) (relating to redemption of stock to pay death taxes) is hereby amended by striking out "50 per centum of the value of the net estate" and inserting in lieu thereof "35 per centum of the value of the gross estate".

(b) **EFFECTIVE DATE.**—The amendment made by subsection (a) shall be applicable to taxable years ending on or after the date of the enactment of this Act, but shall apply only to amounts distributed on or after such date.

SEC. 321. EARNED INCOME FROM SOURCES WITHOUT THE UNITED STATES.

(a) **EXCLUSION FROM GROSS INCOME.**—Section 116 (a) (relating to earned income from sources without the United States) is hereby amended by striking out paragraphs (1) and (2) and inserting in lieu thereof the following:

"(1) **BONA FIDE RESIDENT OF FOREIGN COUNTRY.**—In the case of an individual citizen of the United States, who establishes to the satisfaction of the Secretary that he has been a bona fide resident of a foreign country or countries for an uninterrupted period which includes an entire taxable year, amounts received from sources without the United States (except amounts paid by the United States or any agency thereof) if such amounts constitute earned income (as defined in paragraph (3)) attributable to such period; but such individual shall not be allowed as a deduction from his gross income any deductions properly allocable to or chargeable against amounts excluded from gross income under this paragraph.

"(2) **PRESENCE IN FOREIGN COUNTRY FOR 17 MONTHS.**—In the case of an individual citizen of the United States, who during any period of 18 consecutive months is present in a foreign country or countries during at least 510 full days in such period, amounts received from sources without the United States (except amounts paid by the United States or any agency thereof) if such amounts constitute earned income (as defined in paragraph (3)) attributable to such period; but such individual shall not be allowed as a deduction from his gross income any deductions properly allocable to or chargeable against amounts excluded from gross income under this paragraph."

(b) **WITHHOLDING OF TAX ON WAGES.**—Section 1621 (a) (8) (A) (relating to definition of wages) is hereby amended to read as follows:

"(A) for services for an employer (other than the United States or any agency thereof) performed in a foreign country by a citizen of the United States, if at the time of the pay-

ment of such remuneration the employer is required by the law of any foreign country to withhold income tax upon such remuneration, or it is reasonable to believe that such remuneration will be excluded from gross income under the provisions of section 116 (a) (1) or (2), or”.

(c) **EFFECTIVE DATES.**—The amendment made by subsection (a) shall be applicable to taxable years beginning after December 31, 1950. The amendment made by subsection (b) shall be applicable with respect to wages paid on or after January 1, 1952.

SEC. 322. CAPITAL GAINS AND LOSSES.

(a) **TREATMENT OF LONG-TERM CAPITAL GAINS AND LOSSES.**—

(1) **AMENDMENT OF SECTION 23.**—Section 23 (relating to deductions from gross income) is hereby amended by adding at the end thereof the following new subsection:

“(ee) **LONG-TERM CAPITAL GAINS.**—In the case of a taxpayer other than a corporation, the deduction for long-term capital gains provided in section 117 (b).”

(2) **AMENDMENT OF SECTION 117 (b).**—Section 117 (b) (relating to treatment of long-term capital gains and losses) is hereby amended to read as follows:

“(b) **DEDUCTION FROM GROSS INCOME.**—In the case of a taxpayer other than a corporation, if for any taxable year the net long-term capital gain exceeds the net short-term capital loss, 50 per centum of the amount of such excess shall be a deduction from gross income. In the case of an estate or trust, the deduction shall be computed by excluding the portion (if any), of the gains for the taxable year from sales or exchanges of capital assets, which, under section 162 (b) or (c), is includible by the income beneficiaries as gain derived from the sale or exchange of capital assets.”

(b) **ALTERNATIVE TAX.**—Section 117 (c) (2) (relating to alternative tax) is hereby amended to read as follows:

“(2) **OTHER TAXPAYERS.**—If for any taxable year the net long-term capital gain of any taxpayer (other than a corporation) exceeds the net short-term capital loss, there shall be levied, collected, and paid, in lieu of the tax imposed by sections 11 and 12 (or, in the case of certain tax-exempt trusts, in lieu of the tax imposed by section 421), a tax determined as follows, if and only if such tax is less than the tax imposed by such sections:

“(A) A partial tax shall first be computed upon the net income reduced by an amount equal to 50 per centum of such excess, at the rates and in the manner as if this subsection had not been enacted.

“(B) There shall then be ascertained an amount equal to 25 per centum of the excess of the net long-term capital gain over the net short-term capital loss. In the case of any taxable year beginning after October 31, 1951, and before November 1, 1953, there shall be ascertained, in lieu of the amount computed under the preceding sentence, an amount equal to 26 per centum of the excess of the net long-term capital gain over the net short-term capital loss.

“(C) The total tax shall be the partial tax computed under subparagraph (A) plus the amount computed under subparagraph (B).”

(c) **TECHNICAL AMENDMENTS.**—

(1) **AMENDMENT OF SECTION 22 (n).**—Section 22 (n) (relating to the definition of adjusted gross income) is hereby amended by striking out the word “and” at the end of paragraph (5), by striking out the period at the end of paragraph (6) and inserting in lieu thereof “; and”, and by inserting after paragraph (6) the following new paragraph:

“(7) **LONG-TERM CAPITAL GAINS.**—The deduction allowed by section 23 (ee).”

(2) **AMENDMENT OF SECTION 117 (a).**—Paragraphs (2) and (4) of section 117 (a) (relating to definitions of short-term capital gain and long-term capital gain) are each hereby amended by striking out “net income” and inserting in lieu thereof “gross income”.

(3) **AMENDMENT OF SECTION 117 (j).**—Section 117 (j) (2) (A) (relating to gains and losses from involuntary conversion and from the sale or exchange of certain property used in the trade or business) is hereby amended to read as follows:

“(A) In determining under this paragraph whether gains exceed losses, the gains described therein shall be included only if and to the extent taken into account in computing gross income and the losses described therein shall be included only if and to the extent taken into account in computing net income, except that subsection (d) shall not apply.”

(4) **AMENDMENT OF SECTION 122 (d) (4).**—Section 122 (d) (4) (relating to computation of net operating loss deduction) is hereby amended to read as follows:

“(4) The amount deductible on account of losses from sales or exchanges of capital assets shall not exceed the amount includible on account of gains from such sales or exchanges. The deduction provided in section 23 (ee) shall not be allowed.”

(5) **AMENDMENT OF SECTION 162 (a).**—Section 162 (a) (relating to computation of net income of estates and trusts) is hereby amended by striking out the semicolon and inserting in lieu thereof a period and the following: “Where any amount of the income so paid or set aside is attributable to gain from the sale or exchange of capital assets held for more than six months, proper adjustment of the deduction otherwise allowable under this subsection shall be made for any deduction allowable to the trust under section 23 (ee);”.

(d) **EFFECTIVE DATE.**—The amendments made by this section shall be applicable only with respect to taxable years beginning on or after the date of the enactment of this Act. In determining under section 117 (e) of the Internal Revenue Code the amount of the carryover to a taxable year beginning on or after such date, of the capital loss for a taxable year beginning before such date, such amendments shall not affect the computation of the amount of the net capital loss or of the net capital gain for any taxable year beginning before such date.

SEC. 323. SALE OF LAND WITH UNHARVESTED CROP.

(a) **TREATMENT OF GAIN OR LOSS.**—Section 117 (j) (relating to sale or exchange of property used in the trade or business) is hereby amended—

(1) By inserting immediately before the period at the end of the second sentence of paragraph (1) thereof the following: “and unharvested crops to which paragraph (3) is applicable”; and

(2) By adding at the end thereof a new paragraph to read as follows:

“(3) **SALE OF LAND WITH UNHARVESTED CROP.**—In the case of an unharvested crop on land used in the trade or business and held for more than 6 months, if the crop and the land are sold or exchanged (or compulsorily or involuntarily converted as described in paragraph (2)) at the same time and to the same person, the crop shall be considered as ‘property used in the trade or business’.”

(b) **TREATMENT OF DEDUCTIONS.**—

(1) **AMENDMENT OF SECTION 24.**—Section 24 (relating to items not deductible) is hereby amended by adding at the end thereof a new subsection to read as follows:

“(f) **SALE OF LAND WITH UNHARVESTED CROP.**—Where an unharvested crop sold by the taxpayer is considered under the provisions of section 117 (j) (3) as ‘property used in the trade or business’, in computing net income no deduction (whether or not for the taxable year of the sale and whether for expenses, depreciation, or otherwise) attributable to the production of such crop shall be allowed.”

(2) **AMENDMENT OF SECTION 113 (b) (1).**—Section 113 (b) (1) (relating to adjustments to basis) is hereby amended by adding at the end thereof a new subparagraph to read as follows:

“(L) for deductions to the extent disallowed under section 24 (f), notwithstanding the provisions of any other subparagraph of this paragraph.”

(c) **EFFECTIVE DATE.**—The amendment made by subsection (a) shall be applicable only with respect to sales, exchanges, and conversions, occurring in taxable years beginning after December 31, 1950. The amendments made by subsection (b) shall be applicable to any taxable year for which a deduction is disallowed by reason of sales, exchanges, or conversions to which subsection (a) is applicable.

SEC. 324. SALES OF LIVESTOCK.

Section 117 (j) (1) is hereby amended by adding at the end thereof the following new sentences: “Such term also includes livestock, regardless of age, held by the taxpayer for draft, breeding, or dairy purposes, and held by him for 12 months or more from the date of acquisition. Such term does not include poultry.” The first sentence added to section 117 (j) (1) by the amendment made by this section shall be applicable with respect to taxable years beginning after December 31, 1941, except that the extension of the holding period from 6 to 12 months shall be applicable only with respect to taxable years beginning after December 31, 1950. The second sentence added to section 117 (j) (1) by the amendment made by this section shall be applicable only with respect to taxable years beginning after December 31, 1950.

SEC. 325. TAX TREATMENT OF COAL ROYALTIES.

(a) **DEFINITION OF PROPERTY USED IN THE TRADE OR BUSINESS.**—Section 117 (j) (1) (relating to the definition of property used in the trade or business) is hereby amended by adding after the word “timber” in the second sentence thereof the following: “or coal”.

(b) **GAIN OR LOSS UPON CERTAIN DISPOSALS OF TIMBER OR COAL.**—Section 117 (k) (2) (relating to the disposal of timber) is hereby amended to read as follows:

“(2). In the case of the disposal of timber or coal (including lignite), held for more than 6 months prior to such disposal, by the owner thereof under any form or type of contract by virtue of which the owner retains an economic interest in such timber or coal, the difference between the amount received for such timber or coal and the adjusted depletion basis thereof shall be considered as though it were a gain or loss, as the case may be, upon the sale of such timber or coal. Such owner shall not be entitled to the allowance for percentage depletion provided for in section 114 (b) (4) with respect to such coal. This paragraph shall not apply to income realized by the owner as a co-adventurer, partner, or principal in the mining of such coal. The date of disposal of such coal shall be deemed to be the date such coal is mined. In determining the gross income, the adjusted gross income, or the net income of the lessee, the deductions allowable with respect to rents and royalties shall be determined without regard to the provisions of this paragraph. This paragraph shall have no application, in the case of coal, for the purposes of applying sec-

tion 102 or subchapter A of chapter 2 (including the computation under section 117 (c) (1) of a tax in lieu of the tax imposed by section 500)."

(c) **CLERICAL AMENDMENT.**—The heading to section 117 (k) (relating to the gain or loss upon the cutting of timber) is hereby amended to read as follows: "(k) **GAIN OR LOSS IN THE CASE OF TIMBER OR COAL.**".

(d) **TECHNICAL AMENDMENT.**—Section 481 (a) (4) is hereby amended by striking out "cutting or disposal of timber" and inserting in lieu thereof "cutting of timber, or the disposal of timber or coal,".

(e) **CONFORMING AMENDMENTS.**—

(1) Section 433 (relating to computation of excess profits net income) is hereby amended by inserting at the end thereof the following new subsection:

"(d) **GAIN OR LOSS UPON CERTAIN DISPOSALS OF COAL IN BASE PERIOD.**—For the purpose of subsection (b), the excess profits net income shall be computed as if the provisions of section 117 (j) and (k) (2) which relate to disposals of coal were a part of the law applicable to the taxable year for which excess profits net income is computed."

(2) Section 440 (a) (1) (relating to definition of "inadmissible assets") is hereby amended by striking out "and" at the end of subparagraph (A); by striking out the period at the end of subparagraph (B) and inserting in lieu thereof "; and"; and by adding at the end thereof the following new subparagraph:

"(C) The economic interest referred to in the provisions of section 117 (k) (2) relating to coal if the taxpayer is subject to such provisions with respect to the income from such coal."

(3) The amendments made by this subsection shall be applicable in computing the tax under subchapter D of chapter 1 for taxable years ending after December 31, 1950.

(f) **EFFECTIVE DATE.**—Except as provided in subsection (e), the amendments made by this section shall be applicable only with respect to taxable years ending after December 31, 1950 (whether the contract was made on, before, or after such date), but shall apply only with respect to amounts received or accrued after such date.

SEC. 326. COLLAPSIBLE CORPORATIONS.

(a) **Definitions with Respect to Collapsible Corporations.**—Section 117 (m) (2) (relating to definitions with respect to collapsible corporations) is hereby amended to read as follows:

"(2) **DEFINITIONS.**—

"(A) For the purposes of this subsection, the term 'collapsible corporation' means a corporation formed or availed of principally for the manufacture, construction, or production of property, for the purchase of property which (in the hands of the corporation) is property described in subsection (a) (1) (A), or for the holding of stock in a corporation so formed or availed of, with a view to—

"(i) the sale or exchange of stock by its shareholders (whether in liquidation or otherwise), or a distribution to its shareholders, prior to the realization by the corporation manufacturing, constructing, producing, or purchasing the property of a substantial part of the net income to be derived from such property, and

"(ii) the realization by such shareholders of gain attributable to such property.

“(B) For the purposes of subparagraph (A), a corporation shall be deemed to have manufactured, constructed, produced, or purchased property, if—

“(i) it engaged in the manufacture, construction, or production of such property to any extent,

“(ii) it holds property having a basis determined, in whole or in part, by reference to the cost of such property in the hands of a person who manufactured, constructed, produced, or purchased the property, or

“(iii) it holds property having a basis determined, in whole or in part, by reference to the cost of property manufactured, constructed, produced, or purchased by the corporation.”

(b) **LIMITATIONS ON APPLICATION OF SECTION 117 (m).**—Subparagraphs (A), (B), and (C) of section 117 (m) (3) (relating to the limitations on the application of section 117 (m)) are hereby amended to read as follows:

“(A) this subsection shall not apply unless, at any time after the commencement of the manufacture, construction, or production of the property, or at the time of the purchase of the property described in subsection (a) (1) (A) or at any time thereafter, such shareholder (i) owned (or was considered as owning) more than 10 per centum in value of the outstanding stock of the corporation, or (ii) owned stock which was considered as owned at such time by another shareholder who then owned (or was considered as owning) more than 10 per centum in value of the outstanding stock of the corporation;

“(B) this subsection shall not apply to the gain recognized during a taxable year unless more than 70 per centum of such gain is attributable to the property so manufactured, constructed, produced, or purchased; and

“(C) this subsection shall not apply to gain realized after the expiration of three years following the completion of such manufacture, construction, production, or purchase.”

(c) **EFFECTIVE DATE.**—The amendments made by this section shall be applicable to taxable years ending after August 31, 1951, but shall be applicable only with respect to gains realized after such date. The determination of the tax treatment of gains realized prior to September 1, 1951, shall be made as if this section had not been enacted and without inferences drawn from the fact that the amendments to section 117 (m) made by this section are not expressly made applicable to gains realized prior to September 1, 1951, and without inferences drawn from the limitations contained in section 117 (m), as amended by this section.

SEC. 327. DEALERS IN SECURITIES—CAPITAL GAINS AND ORDINARY LOSSES.

Effective with respect to sales or exchanges made after the expiration of the thirtieth day after the date of the enactment of this Act, section 117 is hereby amended by adding at the end thereof the following new subsection:

“(n) **DEALERS IN SECURITIES.**—

“(1) **CAPITAL GAINS.**—Gain by a dealer in securities from the sale or exchange of any security shall in no event be considered as gain from the sale or exchange of a capital asset unless—

“(A) the security was, prior to the expiration of the thirtieth day after the date of its acquisition or after the date of the enactment of the Revenue Act of 1951 (whichever is

the later), clearly identified in the dealer's records as a security held for investment; and

"(B) the security was not, at any time after the expiration of such thirtieth day, held by such dealer primarily for sale to customers in the ordinary course of his trade or business.

"(2) **ORDINARY LOSSES.**—Loss by a dealer in securities from the sale or exchange of any security shall, except as otherwise provided in subsection (i) (relating to bond, etc., losses of banks), in no event be considered as loss from the sale or exchange of property which is not a capital asset if at any time after the thirtieth day following the date of the enactment of the Revenue Act of 1951 the security was clearly identified in the dealer's records as a security held for investment.

"(3) **DEFINITION OF SECURITY.**—For the purposes of this subsection the term 'security' means any share of stock in any corporation, certificate of stock or interest in any corporation, note, bond, debenture, or evidence of indebtedness, or any evidence of an interest in or right to subscribe to or purchase any of the foregoing."

SEC. 328. TREATMENT OF GAIN ON SALES OF CERTAIN PROPERTY BETWEEN SPOUSES AND BETWEEN AN INDIVIDUAL AND A CONTROLLED CORPORATION.

(a) **DISALLOWANCE OF CAPITAL GAIN TREATMENT.**—Section 117 (relating to capital gains and losses) is hereby amended by adding at the end thereof the following new subsection:

"(o) **GAIN FROM SALE OF CERTAIN PROPERTY BETWEEN SPOUSES OR BETWEEN AN INDIVIDUAL AND A CONTROLLED CORPORATION.**—

"(1) **TREATMENT OF GAIN AS ORDINARY INCOME.**—In the case of a sale or exchange, directly or indirectly, of property described in paragraph (2)—

"(A) between a husband and wife; or

"(B) between an individual and a corporation more than 80 per centum in value of the outstanding stock of which is owned by such individual, his spouse, and his minor children and minor grandchildren;

any gain recognized to the transferor from the sale or exchange of such property shall be considered as gain from the sale or exchange of property which is neither a capital asset nor property described in subsection (j).

"(2) **SUBSECTION APPLICABLE ONLY TO SALES OR EXCHANGES OF DEPRECIABLE PROPERTY.**—This subsection shall apply only in the case of a sale or exchange of property by a transferor which in the hands of the transferee is property of a character which is subject to the allowance for depreciation provided in section 23 (1)."

(b) **EFFECTIVE DATE.**—The amendment made by subsection (a) shall be applicable with respect to taxable years ending after April 30, 1951, but shall apply only with respect to sales or exchanges made after May 3, 1951.

SEC. 329. RECEIPTS OF CERTAIN TERMINATION PAYMENTS BY EMPLOYEE.

(a) **TAXABILITY TO EMPLOYEE AS CAPITAL GAIN.**—Section 117 of the Internal Revenue Code is hereby amended by adding at the end thereof the following subsection:

"(p) **TAXABILITY TO EMPLOYEE OF TERMINATION PAYMENTS.**—Amounts received from the assignment or release by an employee, after more than twenty years' employment, of all his rights to receive, after termination of his employment and for a period of not less than five years (or for a period ending with his death), a percentage of future profits or receipts of his employer shall be considered an amount

received from the sale or exchange of a capital asset held for more than six months, if such rights were included in the terms of the employment of such employee for not less than twelve years, and if the total of the amounts received for such assignment or release are received in one taxable year and after the termination of such employment."

(b) **EFFECTIVE DATE.**—The amendment made by this section shall be applicable with respect to taxable years beginning after December 31, 1950.

SEC. 330. NET OPERATING LOSS CARRY-OVER.

(a) **LOSS FOR TAXABLE YEAR BEGINNING BEFORE 1948.**—So much of subparagraph (A) of section 122 (b) (2) (relating to the amount of carry-overs) as precedes "the taxpayer" is hereby amended to read as follows:

"(A) Loss for Taxable Year Beginning Before 1948.—Except as provided in subparagraph (D), if for any taxable year beginning before January 1, 1948,"

(b) **ALLOWANCE OF THREE-YEAR LOSS CARRY-OVER FROM TAXABLE YEARS 1948-1949.**—Section 122 (b) (2) (relating to the amount of carry-over) is hereby amended by adding after subparagraph (B) the following new subparagraphs:

"(C) Loss for Taxable Year Beginning After December 31, 1947, and Before January 1, 1950.—If for any taxable year beginning after December 31, 1947, and before January 1, 1950, the taxpayer has a net operating loss, such net operating loss shall be a net operating loss carry-over for each of the three succeeding taxable years, except that the carry-over in the case of each such succeeding taxable year (other than the first succeeding taxable year) shall be the excess, if any, of the amount of such net operating loss over the sum of the net income for each of the intervening years computed—

"(i) with the exceptions, additions, and limitations provided in subsection (d) (1), (2), (4), and (6), and

"(ii) by determining the net operating loss deduction for each intervening taxable year without regard to such net operating loss or to the net operating loss for any succeeding taxable year and without regard to any reduction specified in subsection (c).

For the purpose of the preceding sentence, the net operating loss for any taxable year beginning after December 31, 1947, and before January 1, 1950, shall be reduced by the sum of the net income for each of the two preceding taxable years computed—

"(iii) with the exceptions, additions, and limitations provided in subsection (d) (1), (2), (4), and (6), and

"(iv) by determining the net operating loss deduction without regard to such net operating loss or to the net operating loss for the succeeding taxable year, and without regard to any reduction specified in subsection (c).

"(D) Loss for Taxable Year Beginning After December 31, 1946, and Before January 1, 1948, in the Case of a Corporation Which Commenced Business After December 31, 1945.—If for any taxable year beginning after December 31, 1946, and before January 1, 1948, a corporation which commenced business after December 31, 1945, has a net operating loss, such net operating loss shall be a net operating loss carry-over for each of the three succeeding taxable years, except that the carry-over in the case of each such succeeding taxable year (other than the first succeeding taxable year)

shall be the excess, if any, of the amount of such net operating loss over the sum of the net income for each of the intervening years computed—

“(i) with the exceptions, additions, and limitations provided in subsection (d) (1), (2), (4), and (6), and

“(ii) by determining the net operating loss deduction for each intervening taxable year without regard to such net operating loss or to the net operating loss for any succeeding taxable year and without regard to any reduction specified in subsection (c).

For the purpose of the preceding sentence, the net operating loss for any taxable year beginning after December 31, 1946, shall be reduced by the sum of the net income for each of the two preceding taxable years computed—

“(iii) with the exceptions, additions, and limitations provided in subsection (d) (1), (2), (4), and (6), and

“(iv) by determining the net operating loss deduction without regard to such net operating loss or to the net operating loss for the succeeding taxable year, and without regard to any reduction specified in subsection (c).”

(c) **EFFECTIVE DATE.**—The amendments made by this section shall be applicable in computing the net operating loss deduction for taxable years beginning after December 31, 1948.

SEC. 331. STOCK OPTIONS.

(a) **OPTION SUBJECT TO STOCKHOLDER APPROVAL.**—Section 130A (d) (relating to definition of restricted stock option) is hereby amended by striking out “As used in” and inserting “For the purposes of” and by adding at the end thereof the following:

“(5) **STOCKHOLDER APPROVAL.**—If the grant of an option is subject to approval by stockholders, the date of grant of the option shall be determined as if the option had not been subject to such approval.”

(b) **EFFECTIVE DATE.**—The amendment made by subsection (a) shall be effective as if it had been enacted as part of section 218 of the Revenue Act of 1950.

SEC. 332. CREDIT FOR TAXES OF FOREIGN CORPORATIONS.

(a) **FOREIGN SUBSIDIARY OF A DOMESTIC CORPORATION.**—Effective with respect to dividends received by a domestic corporation from a foreign corporation during taxable years beginning after December 31, 1950, the first sentence of section 131 (f) (1) is hereby amended by striking out “a majority” and inserting in lieu thereof “at least 10 per centum”.

(b) **FOREIGN SUBSIDIARY OF A FOREIGN CORPORATION.**—Effective with respect to dividends received by a foreign corporation from another foreign corporation in taxable years beginning after December 31, 1950, section 131 (f) (2) is hereby amended by striking out “all the voting stock (except qualifying shares)” and inserting in lieu thereof “50 per centum or more of the voting stock”.

(c) **CLERICAL AMENDMENT.**—So much of section 131 (f) (1) as precedes the first sentence thereof is hereby amended to read as follows:

“(f) **TAXES OF FOREIGN CORPORATION.**—

“(1) **TREATMENT OF TAXES PAID BY FOREIGN CORPORATION.**—”.

SEC. 333. INFORMATION AT SOURCE ON PAYMENTS OF INTEREST.

Section 147 (a) is hereby amended by striking out “interest,” in the first sentence. Section 147 (b) is hereby amended to read as follows:

“(b) **RETURNS REGARDLESS OF AMOUNT OF PAYMENT.**—Such returns may be required, regardless of amounts, (1) in the case of payments of

interest, and (2) in the case of collections of items (not payable in the United States) of interest upon the bonds of foreign countries and interest upon the bonds of and dividends from foreign corporations by persons undertaking as a matter of business or for profit the collection of foreign payments of such interest or dividends by means of coupons, checks, or bills of exchange."

SEC. 334. ABATEMENT OF INCOME TAX FOR CERTAIN MEMBERS OF ARMED FORCES UPON DEATH.

Supplement D of chapter 1 of the Internal Revenue Code (relating to returns and payment of tax) is hereby amended by adding at the end thereof the following new section:

"SEC. 154. INCOME TAXES OF MEMBERS OF ARMED FORCES UPON DEATH.

"In the case of any individual who dies after June 24, 1950, and prior to January 1, 1954, while in active service as a member of the Armed Forces of the United States, if such death occurred while serving in a combat zone (as determined under section 22 (b) (13)) or as a result of wounds, disease, or injury incurred while so serving—

"(a) the tax imposed by this chapter shall not apply with respect to the taxable year in which falls the date of his death, or with respect to any prior taxable year ending on or after the first day he so served in a combat zone after June 24, 1950; and

"(b) the tax under this chapter and under the corresponding title of each prior revenue law for taxable years preceding those specified in clause (a) which is unpaid at the date of his death (including interest, additions to the tax, and additional amounts) shall not be assessed, and if assessed the assessment shall be abated, and if collected shall be credited or refunded as an overpayment."

SEC. 335. EMPLOYEES' TRUSTS.

(a) **AMENDMENT OF SECTION 165 (b).**—Section 165 (b) (relating to taxability of beneficiary on distributions from an employees' trust) is hereby amended by adding at the end thereof the following new sentence: "Where such total distributions include securities of the employer corporation, there shall be excluded from such excess the net unrealized appreciation attributable to that part of the total distributions which consists of the securities of the employer corporation so distributed. The amount of such net unrealized appreciation and the resulting adjustments to basis of the securities of the employer corporation so distributed shall be determined in accordance with regulations which shall be prescribed by the Secretary. For purposes of this subsection, the term 'securities' means only shares of stock and bonds or debentures issued by a corporation with interest coupons or in registered form, and the term 'securities of the employer corporation' includes securities of a parent or subsidiary corporation (as defined in section 130A (d) (2) and (3)) of the employer corporation."

(b) **EFFECTIVE DATE.**—The amendment made by this section shall be applicable with respect to distributions made after December 31, 1950.

SEC. 336. LIFE INSURANCE COMPANIES.

(a) **TAX FOR 1951.**—Section 201 (a) (1) (relating to imposition of tax on life insurance companies) is hereby amended by adding at the end thereof the following: "In lieu of the taxes imposed by the preceding sentence, there shall be levied, collected, and paid for taxable years beginning in 1951 upon the 1951 adjusted normal-tax net income (as defined in section 203A) of every life insurance company a tax equal to the sum of the following:

" $3\frac{3}{4}$ per centum of the amount thereof not in excess of \$200,000, plus

" $6\frac{1}{2}$ per centum of the amount thereof in excess of \$200,000."

(b) **ADJUSTED NORMAL-TAX NET INCOME FOR 1951.**—Chapter 1 is hereby amended by inserting after section 203 the following new section:

"SEC. 203A. 1951 ADJUSTED NORMAL-TAX NET INCOME.

"(a) **1951 ADJUSTED NORMAL-TAX NET INCOME.**—For the purposes of section 201, the term '1951 adjusted normal-tax net income' means the normal-tax net income plus eight times the amount of the adjustment for certain reserves provided in section 202 (c) and minus the reserve interest credit, if any, provided in subsection (b) of this section.

"(b) **RESERVE INTEREST CREDIT.**—For the purposes of subsection (a), the reserve interest credit shall be an amount determined as follows:

"(1) Divide the amount of the adjusted net income (as defined in subsection (c)) by the amount of the required interest (as defined in subsection (d)).

"(2) If the quotient obtained in paragraph (1) is 1.05 or more, the reserve interest credit shall be zero.

"(3) If the quotient obtained in paragraph (1) is 1.00 or less, the reserve interest credit shall be an amount equal to 50 per centum of the normal-tax net income.

"(4) If the quotient obtained in paragraph (1) is more than 1.00 but less than 1.05, the reserve interest credit shall be the amount obtained by multiplying the normal-tax net income by 10 times the difference between the figures 1.05 and such quotient.

"(c) **ADJUSTED NET INCOME.**—For the purposes of subsection (b) (1), the term 'adjusted net income' means the net income computed without any deduction for tax-free interest minus 50 per centum of the amount of the adjustment for certain reserves provided in section 202 (c).

"(d) **REQUIRED INTEREST.**—For the purposes of subsection (b) (1), the term 'required interest' means the total of—

"(1) The sum of the amounts obtained by multiplying (A) each rate of interest assumed in computing the taxpayer's life insurance reserves by (B) the means of the amounts of the taxpayer's adjusted reserves computed at that rate at the beginning and end of the taxable year,

"(2) 2 per centum of the reserve for deferred dividends, and

"(3) Interest paid."

(c) **TECHNICAL AMENDMENTS.**—

(1) Section 433 (a) (1) (H) (relating to excess profits net income of life insurance companies) is hereby amended by changing the semicolon at the end thereof to a period and by inserting thereafter the following: "In the case of taxable years beginning in 1951, there shall be used, in lieu of the figure referred to in clause (i) of the first sentence of this subparagraph, the figure .87;".

(2) Section 201 (f) (relating to disallowance of double deductions) is hereby amended by striking out "or 203" and inserting in lieu thereof "203, or 203A".

(d) **EFFECTIVE DATE.**—The amendments made by this section shall be applicable to taxable years beginning in 1951.

SEC. 337. TAX TREATMENT OF CERTAIN INVESTMENT COMPANIES.

(a) **INCLUSION OF CERTAIN REGISTERED MANAGEMENT COMPANIES IN THE DEFINITION OF REGULATED INVESTMENT COMPANY.**—Section 361 (relating to definition of regulated investment companies) is hereby amended by adding at the end thereof the following new subsection:

“(c) **CERTAIN INVESTMENT COMPANIES.**—If the Securities and Exchange Commission determines in accordance with regulations issued by it, and certifies to the Secretary not more than 60 days prior to the close of the taxable year of a registered management investment company, that such investment company is principally engaged in the furnishing of capital to other corporations which are principally engaged in the development or exploitation of inventions, technological improvements, new processes, or products not previously generally available, such investment company may, in the computation of 50 per centum of the value of its assets under subparagraph (A) of subsection (b) (3) for any quarter of such taxable year, include the value of any securities of an issuer, notwithstanding the fact that such investment company holds more than 10 per centum of the outstanding voting securities of such issuer, but only if the investment company has not continuously held any security of such issuer (or of any predecessor company of such issuer as determined under regulations prescribed by the Secretary) for 10 or more years preceding such quarter of such taxable year. The provisions of this subsection shall not apply at the close of any quarter of a taxable year to an investment company if at the close of such quarter more than 25 per centum of the value of its total assets is represented by securities of issuers with respect to each of which the investment company holds more than 10 per centum of the outstanding voting securities of such issuer and in respect of each of which or any predecessor thereof the investment company has continuously held any security for 10 or more years preceding such quarter unless the value of its total assets so represented is reduced to 25 per centum or less within 30 days after the close of such quarter. The terms used in this subsection shall have the same meaning as in subsection (b) (3) of this section. For the purposes of this subsection, unless the Securities and Exchange Commission determines otherwise, a corporation shall be considered to be principally engaged in the development or exploitation of inventions, technological improvements, new processes, or products not previously generally available, for at least 10 years after the date of the first acquisition of any security in such corporation or any predecessor thereof by such investment company if at the date of such acquisition the corporation or its predecessor was principally so engaged, and an investment company shall be considered at any date to be furnishing capital to any company whose securities it holds if within 10 years prior to such date it has acquired any of such securities, or any securities surrendered in exchange therefor, from such other company or predecessor thereof. For the purposes of the certification hereunder, the Securities and Exchange Commission shall have authority to issue such rules, regulations and orders, and to conduct such investigations and hearings, either public or private, as it may deem appropriate.”

(b) **TECHNICAL AMENDMENT.**—Section 361 (b) (3) (A) is hereby amended by inserting after “the total assets of the taxpayer and” the following: “, except and to the extent provided in subsection (c),”.

(c) **EFFECTIVE DATE.**—The amendments made by this section shall be applicable only with respect to taxable years beginning after December 31, 1950.

SEC. 338. EXCHANGES AND DISTRIBUTIONS IN OBEDIENCE TO ORDERS OF SECURITIES AND EXCHANGE COMMISSION.

(a) **DEFINITION OF SYSTEM GROUP.**—Section 373 (d) (1) (relating to the definition of the term “system group”) is hereby amended to read as follows:

“(1) At least 90 per centum of each class of the stock (other than (A) stock which is preferred as to both dividends and assets, and (B) stock which is limited and preferred as to dividends but which is not preferred as to assets but only if the total value of such stock is less than 1 per centum of the aggregate value of all classes of stock which are not preferred as to both dividends and assets) of each of the corporations (except the common parent corporation) is owned directly by one or more of the other corporations; and”.

(b) **EFFECTIVE DATE.**—The amendment made by subsection (a) shall be applicable with respect to taxable years affected by an exchange or distribution made after December 31, 1947.

SEC. 339. TAXATION OF BUSINESS INCOME OF STATE COLLEGES AND UNIVERSITIES.

(a) **AMENDMENT OF SECTION 421 (b).**—Section 421 (b) (1) (organizations subject to tax under Supplement U) is hereby amended to read as follows:

“(1) **ORGANIZATIONS TAXABLE AS CORPORATIONS.**—

“(A) **Organizations Exempt Under Section 101 (1), (6), (7) and (14).**—The taxes imposed by subsection (a) (1) shall apply in the case of any organization (other than a church, a convention or association of churches, or a trust described in paragraph (2)) which is exempt, except as provided in this supplement, from taxation under this chapter by reason of paragraph (1), (6), or (7) of section 101. Such taxes shall also apply in the case of a corporation described in section 101 (14) if the income is payable to an organization which itself is subject to the tax imposed by subsection (a) or to a church or to a convention or association of churches.

“(B) **State Colleges and Universities.**—The taxes imposed by subsection (a) (1) shall apply in the case of any college or university which is an agency or instrumentality of any government or any political subdivision thereof, or which is owned or operated by a government or any political subdivision thereof or by any agency or instrumentality of any one or more governments or political subdivisions. Such taxes shall also apply in the case of any corporation wholly owned by one or more such colleges or universities.”

(b) **UNRELATED TRADE OR BUSINESS.**—Section 422 (b) (definition of unrelated trade or business) is hereby amended as follows:

(1) By inserting after “under section 101” the following: “(or, in the case of an organization described in section 421 (b) (1) (B), to the exercise or performance of any purpose or function described in section 101 (6))”.

(2) By inserting in paragraph (2) thereof after “section 101 (6)” the following: “or in the case of a college or university described in section 421 (b) (1) (B)”.

(c) **EFFECTIVE DATE.**—The amendments made by this section shall be applicable only with respect to taxable years beginning after December 31, 1951.

SEC. 340. FAMILY PARTNERSHIPS.

(a) **DEFINITION OF PARTNER.**—Section 3797 (a) (2) is hereby amended by adding at the end thereof the following: “A person shall be recognized as a partner for income tax purposes if he owns a capital interest in a partnership in which capital is a material income-producing factor, whether or not such interest was derived by purchase or gift from any other person.”

(b) **ALLOCATION OF PARTNERSHIP INCOME.**—Supplement F of chapter 1 is hereby amended by adding at the end thereof the following new section:

“SEC. 191. FAMILY PARTNERSHIPS.

“In the case of any partnership interest created by gift, the distributive share of the donee under the partnership agreement shall be includible in his gross income, except to the extent that such share is determined without allowance of reasonable compensation for services rendered to the partnership by the donor, and except to the extent that the portion of such share attributable to donated capital is proportionately greater than the share of the donor attributable to the donor's capital. The distributive share of a partner in the earnings of the partnership shall not be diminished because of absence due to military service. For the purpose of this section, an interest purchased by one member of a family from another shall be considered to be created by gift from the seller, and the fair market value of the purchased interest shall be considered to be donated capital. The ‘family’ of any individual shall include only his spouse, ancestors, and lineal descendants, and any trust for the primary benefit of such persons.”

(c) **EFFECTIVE DATE.**—The amendments made by this section shall be applicable with respect to taxable years beginning after December 31, 1950. The determination as to whether a person shall be recognized as a partner for income tax purposes for any taxable year beginning before January 1, 1951, shall be made as if this section had not been enacted and without inferences drawn from the fact that this section is not expressly made applicable with respect to taxable years beginning before January 1, 1951. In applying this subsection where the taxable year of any family partner is different from the taxable year of the partnership—

(1) if a taxable year of the partnership beginning in 1950 ends within or with, as to all of the family partners, taxable years which begin in 1951, then the amendments made by this section shall be applicable with respect to all distributive shares of income derived by the family partners from such taxable year of the partnership beginning in 1950, and

(2) if a taxable year of the partnership ending in 1951 ends within or with a taxable year of any family partner which began in 1950, then the amendments made by this section shall not be applicable with respect to any of the distributive shares of income derived by the family partners from such taxable year of the partnership.

SEC. 341. WAR LOSSES.

(a) **TAX UPON WAR LOSS RECOVERY.**—Section 127 (c) (relating to recoveries included in gross income) is hereby amended to read as follows:

“(c) **RECOVERIES.**—

“(1) **GENERAL RULE.**—Upon the recovery in the taxable year of any money or property in respect of property considered under subsection (a) as destroyed or seized in any prior taxable year,

the amount of such recovery shall be included in gross income to the extent provided in paragraph (2), unless the provisions of paragraph (3) are applicable to the taxable year pursuant to an election made by the taxpayer under the provisions of paragraph (5).

“(2) INCLUSION IN GROSS INCOME.—

“(A) Amount of Recovery.—The amount of the recovery of any money or property in respect of property considered under subsection (a) as destroyed or seized in any prior taxable year shall be an amount equal to the aggregate of such money and the fair market value of such property, determined as of the date of the recovery.

“(B) Amount of Gain Includible.—To the extent that the amount of the recovery plus the aggregate of the amounts of previous such recoveries do not exceed that part of the aggregate of the allowable deductions in prior taxable years on account of the destruction or seizure of property described in subsection (a) which did not result in a reduction of any tax of the taxpayer under this chapter or chapter 2, such amount shall not be includible in gross-income and shall not be deemed gain upon the involuntary conversion of property as a result of its destruction or seizure. To the extent that such amount plus the aggregate of the amounts of previous such recoveries exceed that part of the aggregate of such deductions, which did not result in a reduction of any tax of the taxpayer under this chapter or chapter 2 and do not exceed that part of the aggregate of such deductions which did result in a reduction of any tax of the taxpayer under this chapter or chapter 2, such amount shall be included in gross income but shall not be deemed a gain upon the involuntary conversion of property as a result of its destruction or seizure. To the extent that such amount plus the aggregate of the amounts of previous such recoveries exceed the aggregate of the allowable deductions in prior taxable years on account of the destruction or seizure of property described in subsection (a), such amount shall be considered a gain upon the involuntary conversion of property as a result of its destruction or seizure and shall be recognized or not recognized as provided in section 112 (f). If for any previous taxable year the taxpayer chooses under subsection (b) to treat any obligations and liabilities as discharged or satisfied out of the property or interest described in subsection (a), and if such obligations and liabilities were not so discharged or satisfied, the amount of such obligations and liabilities treated as discharged or satisfied under subsection (b) shall be considered for the purposes of this section as a deduction by reason of this section which did not result in a reduction of any tax of the taxpayer under this chapter or chapter 2. For the purposes of this paragraph an allowable deduction for any taxable year on account of the destruction or seizure of property described in subsection (a) shall, to the extent not allowed in computing the tax of the taxpayer for such taxable year, be considered an allowable deduction which did not result in a reduction of any tax for the taxpayer under this chapter or chapter 2.

“(3) TAX ADJUSTMENT MEASURED BY PRIOR BENEFITS.—If the provisions of this paragraph are applicable to the taxable year pursuant to an election made by the taxpayer under the provisions of paragraph (5)—

“(A) Amount of Recovery.—The amount of the recovery in the taxable year of any money or property in respect of property considered under subsection (a) as destroyed or seized in any prior taxable year shall be an amount equal to the aggregate of such money and the fair market value of such property, determined as of the date of the recovery. For the purpose of this paragraph, in the case of the recovery of the same property or interest considered under subsection (a) as destroyed or seized, the fair market value of such property or interest shall, at the option of the taxpayer, be considered an amount equal to the adjusted basis (for determining loss) of such property or interest in the hands of the taxpayer on the date such property or interest was considered under subsection (a) as destroyed or seized. The amount of the recovery determined under this subparagraph shall be reduced for the purposes of subparagraphs (B) and (C) by the amount of the obligations or liabilities with respect to the property considered under subsection (a) as destroyed or seized in respect of which the recovery was received, if the taxpayer for any previous taxable year chose under subsection (b) (2) to treat such obligations or liabilities as discharged or satisfied out of such property, and such obligations or liabilities were not so discharged or satisfied prior to the date of the recovery.

“(B) Adjustment for Prior Tax Benefits.—That part of the amount of the recovery, in respect of any property considered under subsection (a) as destroyed or seized, which is not in excess of the allowable deductions in prior taxable years on account of such destruction or seizure of the property (the amount of such allowable deductions being first reduced by the aggregate amount of any prior recoveries in respect of the same property) shall be excluded from gross income for the taxable year of the recovery for the purpose of computing the tax under this chapter and chapter 2; but there shall be added to, and assessed and collected as a part of, the tax under this chapter for the taxable year of the recovery the total increase in the tax under this chapter and chapter 2 for all taxable years which would result by decreasing, in an amount equal to such part of the recovery so excluded, such deductions allowable in the prior taxable years with respect to the destruction or seizure of the property. Such increase in the tax for each such year so resulting shall be computed in accordance with regulations prescribed by the Secretary. Such regulations shall give effect to previous recoveries of any kind (including recoveries described in section 22 (b) (12)) with respect to any prior year, and shall provide for the case where there was no tax for the prior year, but shall otherwise treat the tax previously determined for any year in accordance with the principles set forth in section 3801 (d). All credits allowable against the tax for any year and all carry-overs and carry-backs affected by so decreasing the allowable deductions shall be taken into account in computing the increase in the tax, except that the computation of the excess profits credit under chapter 2 E for any taxable year shall not be affected.

“(C) Gain Upon Recovery.—The amount of any recovery or part thereof, in respect of property considered under subsection (a) as destroyed or seized, which is not excluded from gross income under the provisions of subparagraph (B) shall

be considered for the taxable year of the recovery as gain on the involuntary conversion of property as a result of its destruction or seizure and shall be recognized or not recognized as provided in section 112 (f).

“(D) Recoveries Treated as Gross Income for Certain Purposes.—For the purposes of sections 51, 52, and 3801 (b) the recovery in the taxable year of any money or property in respect of property considered under subsection (a) as destroyed or seized in any prior taxable year shall be deemed to be an item includible in gross income for the taxable year in which the recovery is made.

“(4) RESTORATION OF VALUE OF INVESTMENTS REFERABLE TO DESTROYED OR SEIZED PROPERTY.—For the purpose of this subsection the restoration in whole or in part of the value of any interest described in subsection (a) (3) by reason of any recovery of money or property in respect of property to which such interest related and which was considered under subsection (a) (1) or (2) as destroyed or seized shall be deemed a recovery of property in respect of property considered under subsection (a) as destroyed or seized. In applying paragraph (3) of this subsection such restoration shall be treated as the recovery of the same interest considered under subsection (a) as destroyed or seized.

“(5) ELECTION BY TAXPAYER FOR APPLICATION OF PARAGRAPH (3).—If the taxpayer elects to have the provisions of paragraph (3) applicable to any taxable year in which he recovered any money or property in respect of property considered under subsection (a) as destroyed or seized, the provisions of paragraph (3) shall be applicable to all taxable years of the taxpayer beginning after December 31, 1941, and such election, once made, shall be irrevocable. The election shall be made in such manner and at such time as the Secretary may by regulations prescribe, except that no election under this paragraph may be made after December 31, 1952, unless the taxpayer recovers money or property (in respect of property considered under subsection (a) as destroyed or seized) during a taxable year ending after the date of the enactment of the Revenue Act of 1951. If pursuant to such election the provisions of paragraph (3) are applicable to any taxable year—

“(A) the period of limitations provided in sections 275 and 276 on the making of assessments and the beginning of distraint or a proceeding in court for collection shall not, with respect to—

“(i) the amount to be added to the tax for such taxable year under the provisions of paragraph (3), and

“(ii) any deficiency for such taxable year or for any other taxable year, to the extent attributable to the basis of the recovered property being determined under the provisions of subsection (d) (2),

expire prior to the expiration of two years following the date of the making of such election, and such amount and such deficiency may be assessed at any time prior to the expiration of such period notwithstanding any law or rule of law which would otherwise prevent such assessment and collection, and

“(B) in case refund or credit of any overpayment resulting from the application of the provisions of paragraph (3) to such taxable year is prevented on the date of the making of such election, or within one year from such date, by the operation of any law or rule of law (other than section 3761, relating to compromises), refund or credit of such overpay-

ment may, nevertheless, be made or allowed if claim therefor is filed within one year from such date.

In the case of any taxable year ending before the date of the making by the taxpayer of an election under this paragraph, no interest shall be paid on any overpayment resulting from the application of the provisions of paragraph (3) to such taxable year, and no interest shall be assessed or collected with respect to any amount or any deficiency specified in clause (A), for any period prior to the expiration of six months following the date of the making of such election by the taxpayer."

(b) **BASIS OF RECOVERED PROPERTY.**—Section 127 (d) (relating to basis of recovered property) is hereby amended to read as follows:

"(d) **BASIS OF RECOVERED PROPERTY.**—

"(1) **IN GENERAL.**—The unadjusted basis of property recovered in respect of property considered as destroyed or seized under subsection (a) shall be determined under this subsection. Such basis shall be an amount equal to the fair market value of such property, determined as of the date of the recovery, reduced by an amount equal to the excess of the aggregate of such fair market value and the amounts of previous recoveries of money or property in respect of property considered under subsection (a) as destroyed or seized over the aggregate of the allowable deductions in prior taxable years on account of the destruction or seizure of property described in subsection (a), and increased by that portion of the amount of the recovery which under subsection (c) is treated as a recognized gain from the involuntary conversion of property. Upon application of the taxpayer, the aggregate of the bases (determined under the preceding sentence) of any properties recovered in respect of properties considered under subsection (a) as destroyed or seized may be allocated among the properties so recovered in such manner as the Secretary may determine under regulations prescribed by him, and the amounts so allocated to any such property so recovered shall be the unadjusted basis of such property in lieu of the unadjusted basis of such property determined under the preceding sentence.

"(2) **PROPERTY RECOVERED IN TAXABLE YEAR TO WHICH SUBSECTION (c) (3) IS APPLICABLE.**—In the case of a taxpayer who has made an election under the provisions of subsection (c) (5), the basis of property recovered shall be an amount equal to the value at which such property is included in the amount of the recovery under subsection (c) (3) (A) (determined without regard to the last sentence thereof), reduced by such part of the gain under subsection (c) (3) (C) which is not recognized as provided in section 112 (f)."

(c) **CREDIT FOR FOREIGN TAXES.**—Section 131 (a) (relating to allowance of credit for taxes of foreign countries and possessions of the United States) is hereby amended by inserting after "section 102" the following: "and except the additional tax imposed for the taxable year under the provisions of section 127 (c) (3)".

(d) **EFFECTIVE DATES.**—The amendments made by this section shall be applicable to taxable years beginning after December 31, 1941.

SEC. 342. DEDUCTION OF EXPENDITURES FOR MINE EXPLORATION.

(a) **DEDUCTION OF MINE EXPLORATION EXPENDITURES.**—Section 23 (relating to deductions from gross income) is hereby amended by adding at the end thereof the following new subsection:

"(ff) **DEDUCTION OF EXPLORATION EXPENDITURES.**—

"(1) **IN GENERAL.**—In the case of expenditures paid or incurred during the taxable year for the purpose of ascertaining the existence, location, extent, or quality of any deposit of ore or other

mineral, and paid or incurred prior to the beginning of the development stage of the mine or deposit, so much of such expenditures as does not exceed \$75,000. This subsection shall apply only with respect to the amount of such expenditures which, but for this subsection, would not be allowable as a deduction for the taxable year. This subsection shall not apply to expenditures for the acquisition or improvement of property of a character which is subject to the allowance for depreciation provided in section 23 (1), but allowances for depreciation shall be considered, for the purposes of this subsection, as expenditures paid or incurred. In no case shall this subsection apply with respect to amounts paid or incurred for the purpose of ascertaining the existence, location, extent, or quality of any deposit of oil or gas.

“(2) **ELECTION OF TAXPAYER.**—If the taxpayer elects, in accordance with regulations prescribed by the Secretary, to treat as deferred expenses any portion of the amount deductible for the taxable year under paragraph (1), such portion shall not be deductible under paragraph (1) but shall be deductible on a ratable basis as the units of produced ores or minerals discovered or explored by reason of such expenditures are sold. An election made under this paragraph for any taxable year shall be binding for such year.

“(3) **LIMITATION.**—This subsection shall not apply to any amounts paid or incurred in any taxable year if in any four preceding years the taxpayer, or any individual or corporation who has transferred to the taxpayer any mineral property under circumstances which make the provisions of paragraph (7), (8), (11), (13), (15), (17), (20), or (22) of section 113 (a) applicable to such transfer, has either (A) been allowed a deduction under paragraph (1) of this subsection or (B) made the election provided under paragraph (2) of this subsection.

“(4) **ADJUSTED BASIS OF MINE OR DEPOSIT.**—The amount of expenditures which are treated under paragraph (2) as deferred expenses shall be taken into account in computing the adjusted basis of the mine or deposit, but such amounts, and the adjustments to basis provided in section 113 (b) (1) (M) shall be disregarded in determining the adjusted basis of the property for the purpose of computing a deduction for depletion under section 114.”

(b) **ADJUSTED BASIS FOR DETERMINING GAIN OR LOSS UPON SALE OR EXCHANGE.**—Section 113 (b) (1) (relating to adjusted basis of property) is hereby amended by adding at the end thereof the following:

“(M) for amounts allowed as deductions as deferred expenses under section 23 (ff) (2) (relating to certain exploration expenditures) and resulting in a reduction of the taxpayer's taxes under this chapter, but not less than the amounts allowable under such section for the taxable year and prior years.”

(c) **EFFECTIVE DATE.**—The amendments made by this section shall be applicable to taxable years ending after December 31, 1950.

SEC. 343. DEFINITION OF EMPLOYEE.

(a) **AMENDMENT OF SECTION 3797 (a).**—Section 3797 (a) is amended by adding at the end thereof the following new paragraph:

“(20) **EMPLOYEE.**—For the purpose of applying the provisions of chapter 1 with respect to contributions to or under a stock bonus, pension, profit-sharing, or annuity plan, and with respect to distributions under such a plan or by a trust forming part of such a plan, the term ‘employee’ shall include a full-time life insurance salesman who is considered an employee for the purpose

of subchapter A of chapter 9, or, in the case of services performed before January 1, 1951, who would be considered an employee if his services were performed during 1951."

(b) **EFFECTIVE DATE.**—The amendment made by this section shall be applicable with respect to taxable years beginning after December 31, 1938.

SEC. 344. NONBUSINESS CASUALTY LOSSES.

(a) **REMOVAL OF LIMITATION.**—Section 122 (d) (5) (relating to net operating loss deduction) is hereby amended by inserting at the end thereof the following new sentence: "This paragraph shall not apply with respect to deductions allowable for losses sustained after December 31, 1950, in respect of property, if the losses arise from fire, storm, shipwreck, or other casualty, or from theft."

(b) **EFFECTIVE DATE.**—The amendment made by this section shall be applicable in computing the net operating loss deduction for taxable years ending after December 31, 1948.

SEC. 345. ABATEMENT OF TAX ON CERTAIN TRUSTS FOR MEMBERS OF ARMED FORCES DYING IN SERVICE.

In the case of a trust which accumulated income for a beneficiary who died on or after December 7, 1941, and before January 1, 1948, while in active service as a member of the military or naval forces of the United States or of any of the other United Nations, there shall be allowed as a deduction in computing the net income of such trust (in addition to other deductions allowable under sections 23 and 162 of the Internal Revenue Code) income of the trust for any taxable year (before diminution for income tax) which was accumulated for such beneficiary if—

(1) the income accumulated was for a taxable year of the trust which ended with or within a taxable year (ending on or after December 7, 1941) of such beneficiary during any part of which he was a member of such military or naval forces, or, in the case of the taxable year of the trust during which such beneficiary died, the income accumulated was for the period in such taxable year prior to the death of such beneficiary; and

(2) the amount of such accumulated income was, without regard to this section, taxable to the trust, and

(3) the income for such taxable year accumulated for the beneficiary, if not distributed to him prior to his death, was payable by the trust at or after his death only to his estate, spouse, or lineal ancestors or descendants.

SEC. 346. LIFE INSURANCE DEPARTMENTS OF MUTUAL SAVINGS BANKS.

(a) **COMPUTATION OF TAX.**—Supplement A of chapter 1 is hereby amended by adding at the end thereof the following new section:

"SEC. 110. MUTUAL SAVINGS BANKS CONDUCTING LIFE INSURANCE BUSINESS.

"(a) **ALTERNATIVE TAX.**—In the case of a mutual savings bank not having capital stock represented by shares, authorized under State law to engage in the business of issuing life insurance contracts, and which conducts a life insurance business in a separate department the accounts of which are maintained separately from the other accounts of the mutual savings bank, there shall be levied, collected, and paid, in lieu of the taxes imposed by sections 13 and 15, or section 117 (c) (1), a tax consisting of the sum of the partial taxes determined under paragraphs (1) and (2):

“(1) A partial tax computed upon the net income determined without regard to any items of gross income or deductions properly allocable to the business of the life insurance department, at the rates and in the manner as if this section has not been enacted; and

“(2) a partial tax computed upon the net income (as defined in section 201 (c) (7)) of the life insurance department determined without regard to any items of gross income or deductions not properly allocable to such department, at the rates and in the manner provided in Supplement G with respect to life insurance companies.

“(b) **LIMITATIONS OF SECTION.**—The provisions of subsection (a) shall be applicable only if the life insurance department would, if it were treated as a separate corporation, qualify as a life insurance company under section 201 (b).”

(b) **TECHNICAL AMENDMENT.**—Section 13 (relating to normal tax on corporations) is hereby amended by adding at the end thereof the following new subsection:

“(f) **MUTUAL SAVINGS BANKS CONDUCTING LIFE INSURANCE BUSINESS.**—For special tax, in lieu of the taxes imposed by this section and section 15, in the case of a mutual savings bank conducting a life insurance business, see section 110.”

(c) **EFFECTIVE DATE.**—The amendments made by this section shall be applicable only with respect to taxable years beginning after December 31, 1951.

SEC. 347. PUBLISHING BUSINESS CARRIED ON BY TAX-EXEMPT ORGANIZATION.

(a) **TREATMENT AS RELATED TRADE OR BUSINESS.**—Section 422 (b) (relating to definition of unrelated trade or business) is hereby amended by adding at the end thereof the following: “If a publishing business carried on by an organization during a taxable year beginning before January 1, 1953, is, without regard to this sentence, an unrelated trade or business, but before the beginning of the third succeeding taxable year the business is carried on by it (or by a successor who acquired such business in a liquidation which would constitute a tax-free exchange under section 112 (b) (6)) in such manner that the conduct thereof is substantially related to the exercise or performance by such organization (or such successor) of its educational or other purpose or function described in section 101 (6), such publishing business shall not be considered, for the taxable year, as an unrelated trade or business.”

(b) **EFFECTIVE DATE.**—The amendment made by this section shall be applicable with respect to taxable years beginning after December 31, 1950, and prior to January 1, 1953.

SEC. 348. DEDUCTION WITH RESPECT TO CERTAIN UNRELATED BUSINESS NET INCOME.

(a) **UNRELATED BUSINESS NET INCOME.**—Section 422 (a) (relating to unrelated business net income) is hereby amended by adding at the end thereof the following: “In the case of an organization described in section 3813 (a) (2) which is a member of a partnership all of whose members are organizations described in section 3813 (a) (2), if a trade or business regularly carried on by such partnership is an unrelated trade or business with respect to such organization, such organization shall, for taxable years beginning before January 1, 1954, be allowed a deduction in an amount equal to the portion of the gross income of such partnership from such unrelated trade or business which such organization is required (by a provision of a written contract executed by

such organization prior to January 1, 1950, which provision expressly deals with the disposition of the gross income of the partnership) to pay within the taxable year in discharge of indebtedness incurred by such organization in acquiring its share of such trade or business, or to irrevocably set aside within the taxable year for the discharge of such indebtedness (to the extent that such amount has been so paid or set aside) if (i) such partnership was formed prior to January 1, 1950, for the purpose of carrying on such trade or business, and (ii) substantially all the assets used in carrying on such trade or business were acquired by it or by its members prior to such date. As used in the preceding sentence, the word 'indebtedness' does not include indebtedness incurred after January 1, 1950."

(b) **EFFECTIVE DATE.**—The amendment made by this section shall be applicable with respect to taxable years beginning after December 31, 1950, and prior to January 1, 1954.

SEC. 349. NONDISTRIBUTABLE INCOME OF PERSONAL HOLDING COMPANIES.

Effective for taxable years beginning after December 31, 1939, section 504 is hereby amended by adding at the end thereof the following new subsection:

"(e) The amount by which the undistributed subchapter A net income determined without reference to this subsection exceeds the amount which could be distributed on the last day of the taxable year as a dividend (1) without violating any action, regulation, rule, order, or proclamation taken, promulgated, made, or issued by, or pursuant to the direction of, the President or any agency that he may designate, under the Trading With the Enemy Act of October 16, 1917, as amended, or the First War Powers Act of 1941, and (2) not subject to a lien in favor of the United States."

TITLE IV—EXCISE TAXES

Part I—Tax on Admissions and Cabarets

SEC. 401. REMOVAL OF TAX ON FREE ADMISSIONS.

Section 1700 (a) (1) (relating to tax on single or season tickets) is hereby amended by striking out the second, fourth, and fifth sentences thereof.

SEC. 402. EXEMPTIONS FROM ADMISSIONS TAX.

(a) **REINSTATEMENT OF PREWAR EXEMPTIONS.**—Notwithstanding section 541 (b) of the Revenue Act of 1941, the provisions of section 1701 (relating to exemptions from the admissions tax) shall apply to amounts paid on or after the effective date specified in section 403 of this Act for admissions on or after such date.

(b) **AMENDMENT OF SECTION 1701 (a) AND (b).**—Subsections (a) and (b) of section 1701 (relating to exemptions from admissions tax) are hereby amended to read as follows:

"(a) **CERTAIN RELIGIOUS, EDUCATIONAL, OR CHARITABLE ENTERTAINMENTS, ETC.**—

"(1) **IN GENERAL.**—Except as provided in paragraph (2), any admissions all the proceeds of which inure—

"(A) exclusively to the benefit of—

"(i) a church or a convention or association of churches;

"(ii) an educational institution which is exempt under section 101 (6) or which is an educational institution of a government or political subdivision thereof, if such organization normally maintains a regular faculty and

curriculum and normally has a regularly organized body of pupils or students in attendance at the place where its educational activities are regularly carried on;

"(iii) a corporation or any community chest, fund, or foundation organized and operated exclusively for charitable purposes, exempt under section 101 (6), if such corporation or organization is supported, in whole or in part, by funds contributed by the United States or any State or political subdivision thereof, or is primarily supported by contributions from the general public;

"(iv) a society or organization conducted for the sole purpose of maintaining symphony orchestras or operas and receiving substantial support from voluntary contributions;

"(v) an organization (organized prior to October 1, 1951) which is exempt under section 101 (6) and which is operated for the purpose of conducting an annual cha-tauqua program of educational, cultural, and religious activities at a permanent location—

if no part of the net earnings thereof inures to the benefit of any private stockholder or individual;

"(B) exclusively to the benefit of National Guard organizations, Reserve officers' associations or organizations, posts or organizations of war veterans, or auxiliary units or societies of any such posts or organizations, if such posts, organizations, units, or societies are organized in the United States or any of its possessions, and if no part of their net earnings inures to the benefit of any private stockholder or individual; or

"(C) exclusively to the benefit of a police or fire department of any city, town, village, or any municipality or exclusively to a retirement, pension, or disability fund for the sole benefit of members of such a police or fire department or to a fund for the heirs of such members.

"(2) NONEXEMPT ADMISSIONS.—The exemption provided under paragraph (1) shall not apply in the case of admissions to (A) any athletic game or exhibition unless the proceeds inure exclusively to the benefit of an elementary or secondary school or unless in the case of an athletic game between two elementary or secondary schools, the entire gross proceeds from such game inure to the benefit of a hospital for crippled children, (B) wrestling matches, prize fights, or boxing, sparring, or other pugilistic matches or exhibitions, (C) carnivals, rodeos, or circuses in which any professional performer or operator participates for compensation, or (D) any motion picture exhibition.

"(b) AGRICULTURAL FAIRS.—Any admissions to agricultural fairs if no part of the net earnings thereof inures to the benefit of any stockholders or members of the association conducting the same—if the proceeds therefrom are used exclusively for the improvement, maintenance, and operation of such agricultural fairs; or".

(c) ADMISSIONS TO MUNICIPAL SWIMMING POOLS, ETC.—Section 1701 is hereby amended by striking out the period at the end of subsection (c) and inserting in lieu thereof "; or" and by adding at the end of such section the following new subsections:

"(d) MUNICIPAL SWIMMING POOLS, ETC.—Any admissions to swimming pools, bathing beaches, skating rinks, or other places providing facilities for physical exercise, operated by any State or political subdivision thereof or by the United States or any agency or instrumentality thereof—if the proceeds therefrom inure exclusively to

the benefit of the State, political subdivision, United States, agency, or instrumentality. For the purposes of this subsection the term 'State' includes Alaska, Hawaii, and the District of Columbia; or

"(e) (1) **HOME AND GARDEN TOURS.**—Any admission to a home or garden which is temporarily opened to the general public as part of a program conducted by a society or organization to permit the inspection of historical homes and gardens—if no part of the net earnings thereof inures to the benefit of any private stockholder or individual.

"(2) **HISTORIC SITES.**—Any admissions to historic sites, houses, and shrines, and museums conducted in connection therewith, maintained and operated by a society or organization devoted to the preservation and maintenance of such historic sites, houses, shrines, and museums—if no part of the net earnings thereof inures to the benefit of any private stockholder or individual."

SEC. 403. EFFECTIVE DATE OF AMENDMENTS RELATING TO ADMISSIONS.

The amendments made by sections 401 and 402 shall be applicable with respect to amounts paid on or after the first day of the first month which begins more than ten days after the date of the enactment of this Act for admissions on or after such date.

SEC. 404. TAX ON CABARETS, ROOF GARDENS, ETC.

(a) **BALLROOMS AND DANCE HALLS.**—Section 1700 (e) (1) (relating to tax on cabarets, roof gardens, etc.) is hereby amended by inserting after the second sentence thereof the following new sentence: "In no case shall such term include any ballroom, dance hall, or other similar place where the serving or selling of food, refreshment, or merchandise is merely incidental, unless such place would be considered, without the application of the preceding sentence, as a 'roof garden, cabaret, or other similar place'."

(b) **EFFECTIVE DATE.**—The amendment made by subsection (a) shall be applicable only with respect to periods after 10 antemeridian on the first day of the first month which begins more than ten days after the date of the enactment of this Act.

Part II—Tax on Cigarettes

SEC. 421. TAX ON CIGARETTES.

(a) **INCREASE IN RATE.**—Section 2000 (c) (2) (tax on cigarettes) is hereby amended by striking out "\$3.50 per thousand" and inserting in lieu thereof "\$4 per thousand until April 1, 1954, and \$3.50 per thousand on and after April 1, 1954".

(b) **EFFECTIVE DATE.**—The amendment made by subsection (a) shall take effect on the first day of the first month which begins more than 10 days after the date of the enactment of this Act.

SEC. 422. FLOOR STOCKS TAX AND FLOOR STOCKS REFUND ON CIGARETTES.

Section 2000 (relating to tax on tobacco, etc.) is hereby amended by adding at the end thereof the following new subsections:

"(f) **1951 FLOOR STOCKS TAX.**—

"(1) **TAX.**—Upon cigarettes subject to tax under this section weighing not more than three pounds per thousand, which on the effective date of section 421 of the Revenue Act of 1951 are held by any person for sale, there shall be levied, assessed, collected, and paid a floor stocks tax at a rate equal to the increase in rate of tax made applicable to such cigarettes by the Revenue Act of 1951.

"(2) **RETURNS.**—Every person required by this subsection to pay any floor stocks tax shall, on or before the end of the month

next following the month in which section 421 (a) of the Revenue Act of 1951 takes effect, under such regulations as the Secretary shall prescribe, make a return and pay such tax, except that in the case of such cigarettes held by manufacturers and importers, the Secretary may collect the tax with respect to such cigarettes by means of stamps rather than return, and in such case may make an assessment against such manufacturer or importer having cigarette tax stamps on hand on the effective date of such section for the difference between the amount paid for such stamps and the increased rate imposed by such section.

“(3) **LAWS APPLICABLE.**—All provisions of law, including penalties, applicable in respect of the taxes imposed by section 2000, shall, insofar as applicable and not inconsistent with this subsection, be applicable with respect to the floor stocks tax imposed by this subsection.

(g) FLOOR STOCKS REFUNDS ON CIGARETTES.—

“(1) **IN GENERAL.**—With respect to cigarettes, weighing not more than three pounds per thousand, upon which the tax imposed by subsection (c) (2), or upon which floor stocks tax imposed by subsection (f), has been paid, and which, on April 1, 1954, are held by any person and intended for sale, or are in transit from foreign countries or insular possessions of the United States to any person in the United States for sale, there shall be credited or refunded to such person (without interest), subject to such regulations as may be prescribed by the Secretary, an amount equal to the difference between the tax paid on such cigarettes and the tax made applicable to such articles on April 1, 1954, if claim for such credit or refund is filed with the Secretary prior to July 1, 1954.

“(2) **LIMITATIONS ON ELIGIBILITY FOR CREDIT OR REFUND.**—No person shall be entitled to credit or refund under paragraph (1) unless (A) such person, for such period or periods both before and after April 1, 1954 (but not extending beyond one year thereafter), as the Secretary shall by regulations prescribe, makes and keeps, and files with the Secretary such records of inventories, sales, and purchases as may be prescribed in such regulations; and (B) such person establishes to the satisfaction of the Secretary, with respect to the cigarettes for which credit or refund is claimed by him under this section, that on and after April 1, 1954, and until the expiration of three months thereafter, the price at which cigarettes of such class were sold (until a number equal at least to the number on hand on April 1, 1954, were sold) reflected, in such manner as the Secretary may by regulations prescribe, the amount of the tax reduction.

“(3) **PENALTY AND ADMINISTRATIVE PROCEDURES.**—All provisions of law, including penalties, applicable in respect of internal revenue taxes on cigarettes shall, insofar as applicable and not inconsistent with this subsection, be applicable in respect of the credits and refunds provided for in this subsection to the same extent as if such credits or refunds constituted credits or refunds of such taxes.”

SEC. 423. REDUCTION OF TAX ON TOBACCO AND SNUFF.

(a) **REDUCTION IN RATE.**—Section 2000 (a) (relating to tax on tobacco and snuff) is hereby amended by striking out “18 cents per pound”, wherever it appears therein, and inserting in lieu thereof “10 cents per pound”.

(b) **EFFECTIVE DATE.**—The amendment made by subsection (a) shall take effect on the first day of the first month which begins more than ten days after the date of the enactment of this Act.

Part III—Retailers' Excise Taxes

SEC. 431. RETAILERS' EXCISE TAX ON TOILET PREPARATIONS.

(a) **BABY OILS, ETC.**—Section 2402 (a) is hereby amended by adding at the end thereof the following new sentence: "The tax imposed by this subsection shall not apply to lotion, oil, powder, or other article intended to be used or applied only in the care of babies."

(b) **SALES TO BARBER SHOPS, ETC.**—Section 2402 (b) is hereby amended to read as follows:

"(b) **BEAUTY PARLORS, ETC.**—For the purposes of subsection (a), the sale of any article described in such subsection to any person operating a barber shop, beauty parlor, or similar establishment for use in the operation thereof, or for resale, and the sale of miniature samples of any such article for demonstration use only to a house-to-house salesman by the manufacturer or distributor, shall not be considered as a sale at retail. The resale of such article at retail by such person, or the resale of such sample at retail by such house-to-house salesman, shall be subject to the provisions of subsection (a)."

SEC. 432. EFFECTIVE DATE OF PART III.

The amendments made by this part shall apply only to articles sold on or after the first day of the first month which begins more than ten days after the date of the enactment of this Act.

Part IV—Diesel Fuel

SEC. 441. DIESEL FUEL USED IN HIGHWAY VEHICLES.

(a) **IMPOSITION OF TAX.**—The Internal Revenue Code is hereby amended by adding after chapter 19 the following new chapter:

"CHAPTER 20—DIESEL FUEL

"SEC. 2450. TAX ON DIESEL FUEL

"There is hereby imposed a tax of 2 cents a gallon upon any liquid (other than any product taxable under section 3412)—

"(1) sold by any person to an owner, lessee, or other operator of a diesel-powered highway vehicle, for use as a fuel in such vehicle, or

"(2) used by any person as a fuel in a diesel-powered highway vehicle unless there was a taxable sale of such liquid under clause (1).

On and after April 1, 1954, the tax imposed by this section shall be 1½ cents a gallon in lieu of 2 cents a gallon.

"SEC. 2451. RETURNS AND PAYMENT.

"(a) **REQUIREMENT.**—Every person liable for tax under this chapter shall make returns and pay the taxes due to the collector for the district in which is located his principal place of business, or if he has no principal place of business in the United States, then to the collector at Baltimore, Maryland. Such returns shall contain such information and be made at such times and in such manner as the Secretary may by regulations prescribe.

"(b) **INTEREST.**—The tax shall, without assessment or notice, be due and payable to the collector at the time prescribed for filing the return. If the tax is not paid when due, there shall be added as part of the tax interest at the rate of 6 per centum per annum from the time when the tax became due until paid.

"SEC. 2452. CREDITS AND REFUNDS.

"(a) **NON-TAXABLE USE OR SALE BY VENDEE.**—A credit against tax under this chapter, or a refund, may be allowed or made to a person in the amount of tax paid by him under this chapter with respect to his sale of any liquid to a vendee for use as fuel in a diesel-powered highway vehicle, if such person establishes, in accordance with regulations prescribed by the Secretary, that—

"(1) the vendee used such liquid otherwise than as fuel in such a vehicle or resold such liquid, and

"(2) such person has repaid or agreed to repay the amount of such tax to such vendee, or has obtained the consent of the vendee to the allowance of the credit or refund.

No interest shall be allowed with respect to any amount of tax credited or refunded under the provisions of this subsection.

"(b) **PROOF REQUIRED IN CASE OF CERTAIN OVERPAYMENTS.**—No overpayment of tax under this chapter shall be credited or refunded (otherwise than under subsection (a)) in pursuance of a court decision or otherwise, unless the person who paid the tax establishes, in accordance with regulations prescribed by the Secretary, (1) that he has not included the tax in the price of the article with respect to which it was imposed, or collected the amount of tax from the vendee, or (2) that he has repaid the amount of the tax to the ultimate purchaser of the article, or files with the Secretary written consent of such ultimate purchaser to the allowance of the credit or refund.

"SEC. 2453. TAX-FREE SALES.

"Under regulations prescribed by the Secretary, no tax under this chapter shall be imposed with respect to the sale of any liquid for the exclusive use of any State, Territory of the United States, or any political subdivision of the foregoing, or the District of Columbia, or with respect to the use by any of the foregoing of any liquid as fuel in a diesel-powered highway vehicle.

"SEC. 2454. APPLICABILITY OF ADMINISTRATIVE PROVISIONS.

"All provisions of law (including penalties) applicable in respect of the taxes imposed by section 2700 shall, insofar as applicable and not inconsistent with this chapter, be applicable in respect of the taxes imposed by this chapter.

"SEC. 2455. RULES AND REGULATIONS.

"The Secretary shall prescribe and publish all needful rules and regulations for the enforcement of this chapter."

"(b) **EFFECTIVE DATE.**—The amendment made by subsection (a) shall take effect on the first day of the first month which begins more than ten days after the date of the enactment of this Act.

Part V—Liquor**SEC. 451. INCREASE IN TAX ON DISTILLED SPIRITS FROM \$9 TO \$10.50 PER GALLON.**

(a) **DISTILLED SPIRITS GENERALLY.**—Section 2800 (a) (1) is hereby amended by striking out "\$6" and inserting in lieu thereof "\$10.50", and by inserting after the first sentence the following new sentence: "On and after April 1, 1954, the rate of tax imposed by this paragraph shall be \$9 in lieu of \$10.50."

(b) **IMPORTED PERFUMES CONTAINING DISTILLED SPIRITS.**—Section 2800 (a) (3) is hereby amended by striking out "\$6" and inserting in lieu thereof "\$10.50", and by adding at the end thereof the following new sentence: "On and after April 1, 1954, the rate of tax imposed by this paragraph shall be \$9 in lieu of \$10.50."

(c) FLOOR STOCKS TAX.—Section 2800 is amended by inserting at the end thereof the following new subsection:

“(1) 1951 FLOOR STOCKS TAX.—

“(1) TAX.—Upon all distilled spirits upon which the internal revenue tax imposed by law has been paid, and which on the effective date of section 451 (a) of the Revenue Act of 1951, are held and intended for sale or for use in the manufacture or production of any article intended for sale, there shall be levied, assessed, collected, and paid a floor stocks tax of \$1.50 on each proof-gallon, and a proportionate tax at a like rate on all fractional parts of such proof-gallon.

“(2) RETURNS.—Under such regulations as the Secretary shall prescribe, every person required by paragraph (1) to pay any floor stocks tax shall, on or before the end of the thirtieth day following the effective date of section 451 (a) of the Revenue Act of 1951 make a return and shall, on or before the first day of the third month following such effective date, pay such tax. Payment of the tax shown to be due may be extended to a date not later than the first day of the tenth month following the effective date of such section upon the filing of a bond for payment thereof in such form and amount and with such surety or sureties as the Secretary may prescribe.

“(3) LAWS APPLICABLE.—All provisions of law, including penalties, applicable in respect of internal revenue taxes on distilled spirits shall, insofar as applicable and not inconsistent with this subsection, be applicable in respect of the floor stocks tax imposed hereunder. For the purposes of this subsection the term ‘distilled spirits’ shall include products produced in such manner that the person producing them is a rectifier within the meaning of section 3254 (g).”

SEC. 452. WINES.

(a) INCREASE IN RATE OF TAX.—

(1) STILL WINES.—So much of section 3030 (a) (1) (A) (tax on still wines, etc.) as precedes the second sentence thereof is hereby amended to read as follows:

“(A) Imposition.—Upon all still wines, including vermouth, and all artificial or imitation wines or compounds sold as still wine, produced in or imported into the United States on or after the effective date of section 452 (a) of the Revenue Act of 1951, or which on such date were on any winery premises or other bonded premises or in transit thereto or at any custom house, there shall be levied, collected, and paid taxes at rates as follows, when sold, or removed for consumption or sale:

“On wines containing not more than 14 per centum of absolute alcohol, 17 cents per wine-gallon, the per centum of alcohol under this section to be reckoned by volume and not by weight, except that on and after April 1, 1954, the rate shall be 15 cents per wine-gallon;

“On wines containing more than 14 per centum and not exceeding 21 per centum of absolute alcohol, 67 cents per wine-gallon, except that on and after April 1, 1954, the rate shall be 60 cents per wine-gallon;

“On wines containing more than 21 per centum and not exceeding 24 per centum of absolute alcohol, \$2.25 per wine-gallon, except that on and after April 1, 1954, the rate shall be \$2 per wine-gallon;

"All such wines containing more than 24 per centum of absolute alcohol by volume shall be classed as distilled spirits and shall pay tax accordingly."

(2) SPARKLING WINES, LIQUEURS, AND CORDIALS.—Section 3030

(a) (2) (tax on sparkling wines, liqueurs, and cordials) is hereby amended as follows:

(A) By striking out "after June 30, 1940, or which on July 1, 1940" and inserting in lieu thereof "on or after the effective date of section 452 (a) of the Revenue Act of 1951, or which on such date";

(B) by striking out "10 cents on each one-half pint or fraction thereof" and inserting in lieu thereof "17 cents on each one-half pint or fraction thereof, except that on and after April 1, 1954, the rate shall be 15 cents on each one-half pint or fraction thereof"; and

(C) by striking out "5 cents on each one-half pint or fraction thereof" each place that it occurs and inserting in lieu thereof "12 cents on each one-half pint or fraction thereof, except that on and after April 1, 1954, the rate shall be 10 cents on each one-half pint or fraction thereof".

(b) FLOOR STOCKS.—Subchapter F of chapter 26 is hereby amended by inserting at the end thereof the following new section:

"SEC. 3195. 1951 FLOOR STOCKS TAX ON WINES.

"(a) Upon all wines upon which the internal revenue tax imposed by law has been paid, and which on the effective date of section 452 (a) of the Revenue Act of 1951 are held and intended for sale or for use in the manufacture or production of an article intended for sale, there shall be levied, assessed, collected, and paid a floor stocks tax at rates equal to the increases in rates of tax made applicable to such articles by section 452 (a) of the Revenue Act of 1951.

"(b) RETURNS.—Under such regulations as the Secretary shall prescribe, every person required by subsection (a) to pay any floor stocks tax shall, on or before the end of the thirtieth day following the effective date of section 452 (a) of the Revenue Act of 1951 make a return and shall, on or before the first day of the third month following such effective date, pay such tax. Payment of the tax shown to be due may be extended to a date not later than the first day of the tenth month following the effective date of section 452 (a) of the Revenue Act of 1951, upon the filing of a bond for payment thereof in such form and amount and with such surety or sureties as the Secretary may prescribe.

"(c) LAWS APPLICABLE.—All provisions of law, including penalties, applicable in respect of the taxes imposed by section 3030 (a) shall, insofar as applicable and not inconsistent with this section, be applicable with respect to the floor stocks tax imposed by subsection (a)."

SEC. 453. FERMENTED MALT LIQUOR.

(a) INCREASE IN TAX ON FERMENTED MALT LIQUORS FROM \$8 TO \$9 PER BARREL.—Section 3150 (a) (tax on fermented malt liquors) is hereby amended (1) by striking out "\$7" and inserting in lieu thereof "\$9", and (2) by striking out the second sentence and inserting in lieu thereof the following: "On and after April 1, 1954, the tax imposed by the preceding sentence shall be at the rate of \$8 in lieu of \$9."

(b) FLOOR STOCKS TAX.—Section 3150 is hereby amended by inserting at the end thereof the following new subsection:

"(g) 1951 FLOOR STOCKS TAX.—

"(1) TAX.—Upon all fermented malt liquors upon which the internal revenue tax imposed by law has been paid, and which

on the effective date of section 453 (a) of the Revenue Act of 1951 are held by any person and intended for sale there shall be levied, assessed, collected, and paid a floor stocks tax at a rate of \$1 per barrel of 31 gallons.

“(2) RETURNS.—Under such regulations as the Secretary shall prescribe, every person required by paragraph (1) to pay any floor stocks tax shall, on or before the end of the thirtieth day following the effective date of section 453 (a) of the Revenue Act of 1951 make a return and shall, on or before the first day of the third month following such effective date, pay such tax. Payment of the tax shown to be due may be extended to a date not later than the first day of the tenth month following the effective date of section 453 (a) of the Revenue Act of 1951, upon the filing of a bond for payment thereof in such form and amount and with such surety or sureties as the Secretary may prescribe.

“(3) LAWS APPLICABLE.—All provisions of law, including penalties, applicable in respect of the taxes imposed by subsection (a) shall, insofar as applicable and not inconsistent with this subsection, be applicable with respect to the floor stocks tax imposed by this subsection.”

SEC. 454. FLOOR STOCKS REFUNDS.

(a) AMENDMENT OF SECTION 1656 (a).—Section 1656 (a) (relating to floor stocks refunds on distilled spirits, etc.) is amended to read as follows:

“(a) IN GENERAL.—With respect to any article upon which tax is imposed under section 2800 (a), 3030 (a), or 3150 (a), upon which internal revenue tax (including floor stocks tax) at the applicable rate prescribed by such section has been paid, and which, on April 1, 1954, is held by any person and intended for sale or for use in the manufacture or production of any article intended for sale, there shall be credited or refunded to such person (without interest), subject to such regulations as may be prescribed by the Secretary, an amount equal to the difference between the tax so paid and the rate made applicable to such articles on and after April 1, 1954, by such section, if claim for such credit or refund is filed with the Secretary prior to May 1, 1954.”

(b) AMENDMENT OF SECTION 1656 (b).—Section 1656 (b) (relating to limitations on eligibility for floor stocks refunds on distilled spirits, etc.) is amended by striking out “the rate reduction date” wherever it appears therein and inserting in lieu thereof “April 1, 1954”.

SEC. 455. CLERICAL AMENDMENT.

The table contained in section 1650 (relating to the war tax rates of certain miscellaneous taxes) is hereby amended by striking out the following:

“2800 (a) (1).....	Distilled Spirits.....	\$6 per gallon.....	\$9 per gallon.
2800 (a) (3).....	Imported Perfumes Containing Distilled Spirits.	\$6 per gallon.....	\$9 per gallon.
3030 (a) (1).....	Still Wines:		
	(1) Not over 14% of Alcohol...	10 cents per gallon....	15 cents per gallon.
	(2) Over 14% and not over 21% of Alcohol.	40 cents per gallon....	60 cents per gallon.
	(3) Over 21% and not over 24% of Alcohol.	\$1 per gallon.....	\$2 per gallon.
3030 (a) (2).....	Sparkling Wines, Liqueurs, and Cordials:		
	(1) Champagne or Sparkling Wine.	10 cents per half-pint or fraction thereof.	15 cents per half-pint or fraction thereof.
	(2) Artificially Carbonated Wine.	5 cents per half-pint or fraction thereof.	10 cents per half-pint or fraction thereof.
	(3) Liqueurs, Cordials, Etc....	5 cents per half-pint or fraction thereof.	10 cents per half-pint or fraction thereof.
3150.....	Fermented Malt Liquors.....	\$7 per barrel.....	\$8 per barrel.”

SEC. 456. EFFECTIVE DATE OF PART V.

The amendments made by this part shall take effect on the first day of the first month which begins more than 10 days after the date of the enactment of this Act.

Part VI—Occupational Taxes

SEC. 461. DEALERS IN LIQUORS.

(a) **WHOLESALE DEALERS IN LIQUORS.**—Section 3250 (a) (1) (relating to occupational tax on wholesale dealers in liquors) is hereby amended by striking out “\$110” and inserting in lieu thereof “\$200”.

(b) **RETAIL DEALERS IN LIQUORS.**—Section 3250 (b) (1) (relating to occupational tax on retail dealers in liquors) is hereby amended by striking out “\$27.50” and inserting in lieu thereof “\$50”.

(c) **WHOLESALE DEALERS IN MALT LIQUORS.**—Section 3250 (d) (1) (relating to tax on wholesale dealers in malt liquors) is hereby amended by striking out “\$55” and inserting in lieu thereof “\$100”.

SEC. 462. DRAWBACK IN THE CASE OF DISTILLED SPIRITS USED IN THE MANUFACTURE OF CERTAIN NONBEVERAGE PRODUCTS.

(a) **DRAWBACK.**—Section 3250 (1) (5) (relating to manufacturers or producers of designated nonbeverage products) is amended to read as follows:

“(5) **DRAWBACK.**—In the case of distilled spirits tax-paid and used as provided in this subsection, a drawback shall be allowed—

“(A) at the rate of \$6 on each proof gallon upon which tax is paid at a rate of \$9 per proof gallon prior to the effective date of section 462 of the Revenue Act of 1951,

“(B) at the rate of \$9.50 on each proof gallon upon which tax is paid at a rate of \$10.50 per proof gallon on and after the effective date of section 462 of the Revenue Act of 1951, and

“(C) at the rate of \$8 on each proof gallon upon which tax is paid at a rate of \$9 per proof gallon after March 31, 1954. Such drawback shall be due and payable quarterly upon filing of a proper claim with the Secretary. No claim under this subsection shall be allowed unless filed with the Secretary within the three months next succeeding the quarter for which the drawback is claimed.”

(b) **EFFECTIVE DATE.**—The amendment made by subsection (a) shall be applicable only with respect to distilled spirits used on or after the first day of the first month which begins more than ten days after the date of the enactment of this Act.

SEC. 463. TAX ON COIN-OPERATED GAMING DEVICES.

Section 3267 (a) (tax on coin-operated gaming devices) is hereby amended by striking out “\$150” wherever appearing therein and inserting in lieu thereof “\$250”.

SEC. 464. EFFECTIVE DATE OF PART VI.

The amendments made by sections 461 and 463 shall take effect on the first day of the first month which begins more than ten days after the date of the enactment of this Act. In the case of the year beginning July 1, 1951, where the trade or business on which the tax is imposed was commenced prior to the first day of the month specified in the preceding sentence, the increase in tax resulting from such amendments shall be reckoned proportionately from the first day of such month to and including the thirtieth day of June following and shall be due on, and payable on or before, the last day of the month specified in the preceding sentence.

Part VII—Wagering

SEC. 471. WAGERING TAXES.

(a) IMPOSITION OF TAXES.—Subtitle B (relating to miscellaneous taxes) is hereby amended by inserting after chapter 27 the following new chapter:

“CHAPTER 27A—WAGERING TAXES

“Subchapter A—Tax on Wagers

“SEC. 3285. TAX.

“(a) WAGERS.—There shall be imposed on wagers, as defined in subsection (b), an excise tax equal to 10 per centum of the amount thereof.

“(b) DEFINITIONS.—For the purposes of this chapter—

“(1) The term ‘wager’ means (A) any wager with respect to a sports event or a contest placed with a person engaged in the business of accepting such wagers, (B) any wager placed in a wagering pool with respect to a sports event or a contest, if such pool is conducted for profit, and (C) any wager placed in a lottery conducted for profit.

“(2) The term ‘lottery’ includes the numbers game, policy, and similar types of wagering. The term does not include (A) any game of a type in which usually (i) the wagers are placed, (ii) the winners are determined, and (iii) the distribution of prizes or other property is made, in the presence of all persons placing wagers in such game, and (B) any drawing conducted by an organization exempt from tax under section 101, if no part of the net proceeds derived from such drawing inures to the benefit of any private shareholder or individual.

“(c) AMOUNT OF WAGER.—In determining the amount of any wager for the purposes of this subchapter, all charges incident to the placing of such wager shall be included; except that if the taxpayer establishes, in accordance with regulations prescribed by the Secretary, that an amount equal to the tax imposed by this subchapter has been collected as a separate charge from the person placing such wager, the amount so collected shall be excluded.

“(d) PERSONS LIABLE FOR TAX.—Each person who is engaged in the business of accepting wagers shall be liable for and shall pay the tax under this subchapter on all wagers placed with him. Each person who conducts any wagering pool or lottery shall be liable for and shall pay the tax under this subchapter on all wagers placed in such pool or lottery.

“(e) EXCLUSIONS FROM TAX.—No tax shall be imposed by this subchapter (1) on any wager placed with, or on any wager placed in a wagering pool conducted by, a parimutuel wagering enterprise licensed under State law, and (2) on any wager placed in a coin-operated device with respect to which an occupational tax is imposed by section 3267.

“(f) TERRITORIAL EXTENT.—The tax imposed by this subchapter shall apply only to wagers (1) accepted in the United States, or (2) placed by a person who is in the United States (A) with a person who is a citizen or resident of the United States, or (B) in a wagering pool or lottery conducted by a person who is a citizen or resident of the United States.

“SEC. 3286. CREDITS AND REFUNDS.

“(a) No overpayment of tax under this subchapter shall be credited or refunded (otherwise than under subsection (b)), in pursuance of a court decision or otherwise, unless the person who paid the tax

establishes, in accordance with regulations prescribed by the Secretary, (1) that he has not collected (whether as a separate charge or otherwise) the amount of the tax from the person who placed the wager on which the tax was imposed, or (2) that he has repaid the amount of the tax to the person who placed such wager, or unless he files with the Secretary written consent of the person who placed such wager to the allowance of the credit or the making of the refund. In the case of any laid-off wager, no overpayment of tax under this subchapter shall be so credited or refunded to the person with whom such laid-off wager was placed unless he establishes, in accordance with regulations prescribed by the Secretary, that the provisions of the preceding sentence have been complied with both with respect to the person who placed the laid-off wager with him and with respect to the person who placed the original wager.

“(b) Where any taxpayer lays off part or all of a wager with another person who is liable for tax under this subchapter on the amount so laid off, a credit against the tax imposed by this subchapter shall be allowed, or a refund shall be made to, the taxpayer laying off such amount. Such credit or refund shall be in an amount which bears the same ratio to the amount of tax which such taxpayer paid under this subchapter on the original wager as the amount so laid off bears to the amount of the original wager. Credit or refund under this subsection shall be allowed or made only in accordance with regulations prescribed by the Secretary; and no interest shall be allowed with respect to any amount so credited or refunded.

“SEC. 3287. CERTAIN PROVISIONS MADE APPLICABLE.

“All provisions of law, including penalties, applicable with respect to any tax imposed by section 2700 shall, insofar as applicable and not inconsistent with the provisions of this subchapter, be applicable with respect to the tax imposed by this subchapter. In addition to all other records required pursuant to section 2709, each person liable for tax under this subchapter shall keep a daily record showing the gross amount of all wagers on which he is so liable.

“Subchapter B—Occupational Tax

“SEC. 3290. TAX.

“A special tax of \$50 per year shall be paid by each person who is liable for tax under subchapter A or who is engaged in receiving wagers for or on behalf of any person so liable.

“SEC. 3291. REGISTRATION.

“(a) Each person required to pay a special tax under this subchapter shall register with the collector of the district—

“(1) his name and place of residence;

“(2) if he is liable for tax under subchapter A, each place of business where the activity which makes him so liable is carried on, and the name and place of residence of each person who is engaged in receiving wagers for him or on his behalf; and

“(3) if he is engaged in receiving wagers for or on behalf of any person liable for tax under subchapter A, the name and place of residence of each such person.

“(b) Where subsection (a) requires the name and place of residence of a firm or company to be registered, the names and places of residence of the several persons constituting the firm or company shall be registered.

“(c) In accordance with regulations prescribed by the Secretary, the collector may require from time to time such supplemental informa-

tion from any person required to register under this section as may be needful to the enforcement of this chapter.

"SEC. 3292. CERTAIN PROVISIONS MADE APPLICABLE.

"Sections 3271, 3273 (a), 3275, 3276, 3277, 3279, and 3280 shall extend to and apply to the special tax imposed by this subchapter and to the persons upon whom it is imposed, and for that purpose any activity which makes a person liable for special tax under this subchapter shall be considered to be a business or occupation described in chapter 27. No other provision of subchapter B of chapter 27 shall so extend or apply.

"SEC. 3293. POSTING.

"Every person liable for special tax under this subchapter shall place and keep conspicuously in his principal place of business the stamp denoting the payment of such special tax; except that if he has no such place of business, he shall keep such stamp on his person, and exhibit it, upon request; to any officer or employee of the Bureau of Internal Revenue.

"SEC. 3294. PENALTIES.

"(a) **FAILURE TO PAY TAX.**—Any person who does any act which makes him liable for special tax under this subchapter, without having paid such tax, shall, besides being liable to the payment of the tax, be fined not less than \$1,000 and not more than \$5,000.

"(b) **FAILURE TO POST OR EXHIBIT STAMP.**—Any person who, through negligence, fails to comply with section 3293, shall be liable to a penalty of \$50, and the cost of prosecution. Any person who, through willful neglect or refusal, fails to comply with section 3293, shall be liable to a penalty of \$100, and the cost of prosecution.

"(c) **WILLFUL VIOLATIONS.**—The penalties prescribed by section 2707 with respect to the tax imposed by section 2700 shall apply with respect to the tax imposed by this subchapter.

"Subchapter C—Miscellaneous Provisions

"SEC. 3297. APPLICABILITY OF FEDERAL AND STATE LAWS.

"The payment of any tax imposed by this chapter with respect to any activity shall not exempt any person from any penalty provided by a law of the United States or of any State for engaging in the same activity, nor shall the payment of any such tax prohibit any State from placing a tax on the same activity for State or other purposes.

"SEC. 3298. INSPECTION OF BOOKS.

"Notwithstanding section 3631, the books of account of any person liable for tax under this chapter may be examined and inspected as frequently as may be needful to the enforcement of this chapter."

(b) **TECHNICAL AMENDMENT.**—Section 3310 (f) (relating to discretion allowed the Commissioner with respect to returns and payment of tax) is hereby amended by inserting after "subchapter A of chapter 25," the following: "subchapter A of chapter 27A,".

SEC. 472. EFFECTIVE DATE OF PART VII.

The tax imposed by subchapter A of chapter 27A, as added by section 471, shall apply only with respect to wagers placed on or after the first day of the first month which begins more than 10 days after the date of enactment of this Act. No tax shall be payable under subchapter B of chapter 27A, as added by section 471, with respect to any period prior to the first day of the first month which begins more than 10 days after the date of enactment of this Act. In the case of

any person who is liable for tax under subchapter A of chapter 27A, as added by section 471, or who is engaged in receiving wagers for or on behalf of any person so liable, and who commenced the activity which makes him subject to such tax, or who was engaged in receiving such wagers, prior to the first day of the first month specified in the preceding sentence, the tax under subchapter B of chapter 27A, as added by section 471, shall be reckoned proportionately from the first day of such month to and including the thirtieth day of June following and shall be due on, and payable on or before, the last day of the month specified in the preceding sentence.

Part VIII—Manufacturers' Excise Taxes

SEC. 481. AUTOMOBILES, TRUCKS, AND PARTS OR ACCESSORIES.

(a) **INCREASE IN TAX ON TRUCKS.**—Section 3403 (a) (tax on trucks, busses, etc.) is hereby amended by striking out "5 per centum" and inserting in lieu thereof "8 per centum, except that on and after April 1, 1954, the rate shall be 5 per centum".

(b) **INCREASE IN TAX ON PASSENGER AUTOMOBILES AND MOTORCYCLES.**—Section 3403 (b) (tax on automobile chassis and bodies, etc.) is hereby amended to read as follows:

"(b) **OTHER CHASSIS AND BODIES, ETC.**—Other automobile chassis and bodies, chassis and bodies for trailers and semitrailers (other than house trailers) suitable for use in connection with passenger automobiles, and motorcycles (including in each case parts or accessories therefor sold on or in connection therewith or with the sale thereof), except tractors, 10 per centum, except that on and after April 1, 1954, the rate shall be 7 per centum. A sale of an automobile, trailer, or semitrailer shall, for the purposes of this subsection, be considered to be a sale of the chassis and of the body."

(c) **INCREASE IN TAX ON PARTS OR ACCESSORIES.**—Section 3403 (c) (tax on parts or accessories for automobiles, etc.) is hereby amended by striking out "5 per centum" and inserting in lieu thereof "8 per centum, except that on and after April 1, 1954, the rate shall be 5 per centum".

(d) **REBUILT PARTS OR ACCESSORIES.**—Section 3403 (c) (tax on parts or accessories) is hereby amended by adding at the end thereof the following: "In determining the sale price of a rebuilt automobile part or accessory there shall be excluded from the price, in accordance with regulations prescribed by the Secretary, the value of a like part or accessory accepted in exchange."

(e) **TECHNICAL AMENDMENT.**—Section 3403 (e) (relating to certain credits against the tax imposed by section 3403) is hereby amended by striking out "in the case of an article taxable under subsection (a), 5 per centum, and in the case of an article taxable under subsection (b), 7 per centum" and inserting in lieu thereof "in the case of an article taxable under subsection (a) or subsection (b), the applicable percentage rate of tax provided in such subsections".

(f) **PARTS OR ACCESSORIES FOR FARM EQUIPMENT.**—Section 3443 (a) (3) (A) is hereby amended by striking out the period at the end of clause (v) and inserting in lieu thereof a semicolon, and by inserting after clause (v) the following:

"(vi) in the case of articles taxable under section 3403 (c) (other than spark plugs, storage batteries, leaf springs, coils, timers, and tire chains), used or resold for use as repair or replacement parts or accessories for farm equipment (other than equipment taxable under subsection (a) or (b) of section 3403);".

(g) **EFFECTIVE DATE OF SUBSECTION (f).**—The amendment made by subsection (f) shall be effective with respect to articles purchased (by

the user thereof) on or after the first day of the first month which begins more than ten days after the date of the enactment of this Act.

(h) **REMOVAL OF TAX ON TIRES FOR TOYS, ETC.**—Paragraph (1) of section 3400 (a) (relating to tax on tires) is hereby amended by adding at the end thereof the following: "The tax imposed by this paragraph shall not apply to (A) tires which are not more than 20 inches in diameter and not more than one and three-fourths inches in cross-section, if such tires are of all-rubber construction (whether hollow center or solid) without fabric or metal reinforcement, or (B) tires of extruded tiring with internal wire fastening agent."

SEC. 482. NAVIGATION RECEIVERS SOLD TO THE UNITED STATES.

(a) **EXEMPTION ON SALES TO UNITED STATES OF CERTAIN RADIO SETS.**—Section 3404 (a) (relating to manufacturers' excise tax on radio receiving sets, etc.) is hereby amended by adding at the end thereof the following new sentence: "No tax shall be imposed under this subsection with respect to the sale to the United States for its exclusive use of a communication, detection, or navigation receiver of the type used in commercial, military, or marine installations."

(b) **TAX-FREE SALES OF RADIO PARTS.**—Section 3404 (b) (relating to manufacturers' excise tax on component parts of radio receiving sets, etc.) is hereby amended by adding at the end thereof the following new sentence: "Under regulations prescribed by the Secretary, no tax shall be imposed under this subsection with respect to the sale of any article for use by the vendee as material in the manufacture or production of, or as a component part of, communication, detection, or navigation receivers of the type used in commercial, military, or marine installations if such receivers are to be sold by the vendee to the United States for its exclusive use. If any article sold tax-free to such vendee is not so used by him, or being so used the receiver is not so sold, the vendee shall be considered as the manufacturer or producer of such article."

(c) **REFUND IN CASE OF USE OF PARTS.**—Section 3443 (a) (1) (relating to credits and refunds) is hereby amended to read as follows:

"(1) to a manufacturer or producer, in the amount of any tax under this chapter which has been paid with respect to the sale of—

"(A) any article (other than a tire, inner tube, or automobile radio or television receiving set taxable under section 3404) purchased by him and used by him as material in the manufacture or production of, or as a component part of, an article with respect to which tax under this chapter has been paid, or which has been sold free of tax by virtue of section 3442, relating to tax-free sales;

"(B) any article described in section 3404 (b) purchased by him and used by him as material in the manufacture or production of, or as a component part of, communication, detection, or navigation receivers of the type used in commercial, military, or marine installations if such receivers have been sold by him to the United States for its exclusive use."

(d) **REFUND IN CASE OF RESALE TO UNITED STATES.**—Section 3443 (a) (3) (A) is hereby amended by adding at the end thereof the following:

"(vii) in the case of a communication, detection, or navigation receiver of the type used in commercial, military, or marine installations, resold to the United States for its exclusive use."

(e) **USE BY MANUFACTURER OF TAXABLE PARTS.**—Section 3444 (b) (relating to tax on use by manufacturer of taxable articles) is hereby amended to read as follows:

“(b) This section shall not apply with respect to the use by the manufacturer, producer, or importer of articles described in section 3404 (b) if such articles are used by him as material in the manufacture or production of, or as a component part of, communication, detection, or navigation receivers of the type used in commercial, military, or marine installations if such receivers are to be sold to the United States for its exclusive use.”

(f) **EFFECTIVE DATES.**—The amendments made by subsections (a) and (b) shall take effect as provided in section 490. The amendments made by subsections (c) and (e) shall be applicable with respect to articles used in receivers sold to the United States on or after the first day of the first month which begins more than ten days after the date of the enactment of this Act, and the amendment made by subsection (d) shall be applicable with respect to articles resold to the United States on or after such first day.

SEC. 483. TAX-FREE SALES OF REFRIGERATOR COMPONENTS TO WHOLESALEERS FOR RESALE TO MANUFACTURERS.

Section 3405 (b) is hereby amended by inserting “(hereinafter referred to as ‘refrigerating equipment’)” before the period at the end of the first sentence and by striking out the second and third sentences and inserting in lieu thereof the following: “Under regulations prescribed by the Secretary, the tax under this subsection shall not apply in the case of sales of any such refrigerator components by the manufacturer, producer, or importer to (1) a manufacturer or producer of refrigerating equipment, or (2) a vendee for resale to a manufacturer or producer of refrigerating equipment if such components are in due course so resold. If any such refrigerator components are resold by the manufacturer or producer to whom sold or resold otherwise than on or in connection with, or with the sale of, complete refrigerating equipment manufactured or produced by him, then for the purposes of this section such manufacturer or producer shall be considered the manufacturer or producer of the refrigerator components so resold by him.”

SEC. 484. SPORTING GOODS.

Section 3406 (a) (1) (relating to manufacturers’ excise tax on sporting goods) is hereby amended to read as follows:

“(1) **SPORTING GOODS.**—Badminton nets; badminton rackets (measuring 22 inches over all or more in length); badminton racket frames (measuring 22 inches over all or more in length); badminton racket string; badminton shuttlecocks; badminton standards; billiard and pool tables (measuring 45 inches over all or more in length); billiard and pool balls and cues for such tables; bowling balls and pins; clay pigeons and traps for throwing clay pigeons; cricket balls; cricket bats; croquet balls and mallets; curling stones; deck tennis rings, nets, and posts; golf bags (measuring 26 inches or more in length); golf balls; golf clubs (measuring 30 inches or more in length); lacrosse balls; lacrosse sticks; polo balls; polo mallets; skis; ski poles; snowshoes; snow toboggans and sleds (measuring more than 60 inches over all in length); squash balls; squash rackets (measuring 22 inches over all or more in length); squash racket frames (measuring 22 inches over all or more in length); squash racket string; table tennis tables, balls, nets, and paddles; tennis balls; tennis nets; tennis rackets (measuring 22 inches over all or more in length); tennis

racket frames (measuring 22 inches over all or more in length); tennis racket string; 15 per centum, except that on and after April 1, 1954, the rate shall be 10 per centum; fishing rods, creels, reels, and artificial lures, baits, and flies; 10 per centum."

SEC. 485. ELECTRIC, GAS, AND OIL APPLIANCES.

Section 3406 (a) (3) (relating to manufacturers' excise tax on electric, gas, and oil appliances) is hereby amended (1) by striking out "Electric direct motor-driven fans and air circulators;" and inserting in lieu thereof "Electric direct motor-driven fans and air circulators (not of the industrial type); and the following appliances of the household type:"; (2) by striking out "electric heating pads and blankets" and inserting in lieu thereof "electric blankets, sheets, and spreads", and (3) by inserting after "juicers;" the following: "electric belt-driven fans; electric exhaust blowers; electric or gas clothes driers; electric door chimes; electric dehumidifiers; electric dishwashers; electric floor polishers and waxers; electric food choppers and grinders; electric hedge trimmers; electric ice cream freezers; electric mangles; electric motion or still picture projectors; electric pants pressers; electric garbage disposal units; and power lawn mowers;".

SEC. 486. ADJUSTMENTS OF TAX RATES ON PHOTOGRAPHIC APPARATUS AND FILM; REPEAL OF TAX ON CERTAIN ITEMS.

(a) **ITEMS SUBJECT TO TAX.**—Section 3406 (a) (4) (relating to the manufacturers' excise tax on photographic apparatus) is hereby amended to read as follows:

"(4) **PHOTOGRAPHIC APPARATUS.**—Cameras and camera lenses, and unexposed photographic film in rolls (including motion picture film), 20 per centum. The tax imposed under this paragraph shall not apply to X-ray cameras, to cameras weighing more than four pounds exclusive of lens and accessories, to still camera lenses having a focal length of more than one hundred and twenty millimeters, to motion picture camera lenses having a focal length of more than thirty millimeters, to X-ray film, to film more than one hundred and fifty feet in length, or to film more than twenty-five feet in length and more than thirty millimeters in width. Any person who acquires unexposed photographic film not subject to tax under this paragraph and sells such unexposed film in form and dimensions subject to tax hereunder (or in connection with a sale cuts such film to form and dimensions subject to tax hereunder) shall for the purposes of this subsection be considered the manufacturer of the film so sold by him."

(b) **FLOOR STOCKS REFUNDS ON BULBS.**—

(1) With respect to any photo-flash or other bulb upon which the tax imposed under section 3406 (a) (4) of the Internal Revenue Code has been paid, and which on the effective date specified in section 489 of this Act is held by any person and intended for sale, or for use in the manufacture or production of any article intended for sale, there shall be credited or refunded to the manufacturer or producer of such bulb (without interest), subject to such regulations as may be prescribed by the Secretary, an amount equal to so much of the tax so paid as has been paid by such manufacturer or producer to such person as reimbursement for the elimination on such effective date of the tax on such bulb, if claim for such credit or refund is filed with the Secretary prior to the expiration of three months after such effective date. No credit or refund shall be allowable under this paragraph for any bulb held by any person for sale which was purchased by such person as a component part of any other article.

(2) No person shall be entitled to credit or refund under paragraph (1) unless he has in his possession such evidence of the inventories with respect to which he has made the reimbursements described in paragraph (1) as the regulations under paragraph (1) shall prescribe.

(3) All provisions of law, including penalties, applicable with respect to the tax imposed under section 3406 (a) (4) of the Internal Revenue Code shall, insofar as applicable and not inconsistent with this subsection, be applicable in respect of the credits and refunds provided for in this subsection to the same extent as if such credits or refunds constituted credits or refunds of such taxes.

SEC. 487. IMPOSITION OF TAX ON MECHANICAL PENCILS, FOUNTAIN AND BALL POINT PENS, AND MECHANICAL LIGHTERS FOR CIGARETTES, CIGARS, AND PIPES.

Chapter 29 (relating to manufacturers' excise and import taxes) is hereby amended by adding after section 3407 the following new section:

"SEC. 3408. TAX ON MECHANICAL PENCILS, FOUNTAIN AND BALL POINT PENS, AND MECHANICAL LIGHTERS FOR CIGARETTES, CIGARS, AND PIPES.

"(a) IMPOSITION OF TAX.—There shall be imposed on the following articles, sold by the manufacturer, producer, or importer, a tax equal to 15 per centum of the price for which so sold: Mechanical pencils, fountain pens, and ball point pens; mechanical lighters for cigarettes, cigars, and pipes.

"(b) EXEMPTION IF ARTICLE TAXABLE AS JEWELRY.—No tax shall be imposed under this section on any article taxable under section 2400 (relating to jewelry tax). If any article, on the sale of which tax has been paid under this section, is further manufactured or processed resulting in an article taxable under section 2400, the person who sells such article at retail shall, in the computation of the retailers' excise tax due on such sale, be entitled to a credit or refund in an amount equal to the tax paid under this section."

SEC. 488. REPEAL OF TAX ON ELECTRICAL ENERGY.

(a) **REPEAL OF TAX.**—Section 3411 (relating to tax on electrical energy for domestic or commercial consumption), and sections 3441 (d) and 3447 (c) (related provisions), are hereby repealed.

(b) **EFFECTIVE DATE.**—

(1) Except as provided in paragraph (2), the provisions of subsection (a) shall apply to electrical energy sold on or after the first day of the first month which begins more than ten days after the date of the enactment of this Act.

(2) In the case of electrical energy sold which is billed to the customer for a period beginning before the effective date specified in paragraph (1) and ending on or after such date, the provisions of subsection (a) shall apply to that portion of the amount billed for the electrical energy sold during such period which the number of days in such period on and after such effective date bears to the total number of days in such period. This section shall not apply to electrical energy sold before such effective date for which a bill was rendered prior to such date.

SEC. 489. TAX ON GASOLINE.

(a) **INCREASE IN RATE.**—Section 3412 (a) is hereby amended by striking out "1½ cents" and inserting in lieu thereof "2 cents" and by adding at the end thereof the following new sentence: "On and

after April 1, 1954, the tax imposed by this section shall be 1½ cents a gallon in lieu of 2 cents a gallon."

(b) **FLOOR STOCKS TAX AND REFUND.**—Section 3412 is hereby amended by adding at the end thereof the following new subsections:

"(f) **1951 FLOOR STOCKS TAX.**—On gasoline subject to tax under this section which, on the effective date of section 489 (a) of the Revenue Act of 1951, is held and intended for sale, there shall be levied, assessed, collected, and paid a floor stocks tax at the rate of ½ cent per gallon. The tax shall not apply to gasoline in retail stocks held at the place where intended to be sold at retail, nor to gasoline held for sale by a producer or importer of gasoline. The provisions of section 3443 shall be applicable to the floor stocks tax imposed by this subsection so as to entitle, subject to all the provisions of such section, (1) any manufacturer or producer to a refund or credit of such tax under subsection (a) (1) of such section, and (2) any person paying such floor stocks tax to a refund or credit thereof where gasoline is by such person or any other person used or resold for any of the purposes specified in subparagraphs (A) (i), (ii), and (iii) of subsection (a) (3) of such section.

"(g) **FLOOR STOCKS REFUNDS ON GASOLINE.**—

"(1) **IN GENERAL.**—With respect to any gasoline taxable under this section, upon which tax (including floor stocks tax) at the applicable rate has been paid, and which, on April 1, 1954, is held and intended for sale by any person, there shall be credited or refunded (without interest) to the producer or importer who paid the tax, subject to such regulations as may be prescribed by the Secretary, an amount equal to so much of the difference between the tax so paid and the amount of tax made applicable to such gasoline on and after April 1, 1954, as has been paid by such producer or importer to such person as reimbursement for the tax reduction on such gasoline, if claim for such credit or refund is filed with the Secretary prior to July 1, 1954. No credit or refund shall be allowable under this subsection with respect to gasoline in retail stocks held at the place where intended to be sold at retail, nor with respect to gasoline held for sale by a producer or importer of gasoline.

"(2) **LIMITATION ON ELIGIBILITY FOR CREDIT OR REFUND.**—No producer or importer shall be entitled to a credit or refund under paragraph (1) unless he has in his possession satisfactory evidence of the inventories with respect to which he has made the reimbursements described in such paragraph, and establishes to the satisfaction of the Secretary with respect to the quantity of gasoline as to which credit or refund is claimed under such paragraph, that on or after April 1, 1954, such quantity of gasoline was sold to the ultimate consumer at a price which reflected the amount of the tax reduction.

"(3) **PENALTY AND ADMINISTRATIVE PROCEDURES.**—All provisions of law, including penalties, applicable in respect of the tax imposed under this section shall, insofar as applicable and not inconsistent with this subsection, be applicable in respect of the credits and refunds provided for in this subsection to the same extent as if such credits or refunds constituted credits or refunds of such taxes."

SEC. 490. EFFECTIVE DATE OF PART VIII.

Except as otherwise expressly provided in this part, the amendments made by this part shall take effect on the first day of the first month which begins more than 10 days after the date of the enactment of this Act.

Part IX—Miscellaneous Excise Tax Amendments

SEC. 491. REDUCTION OF TAX ON TELEGRAPH DISPATCHES.

(a) **REDUCTION OF TAX.**—The table contained in section 1650 (relating to the war tax rates of certain miscellaneous taxes) is hereby amended by striking out the following:

"3465 (a) (1) (B) (insofar as it relates to domestic telegraph, cable, and radio dispatches).	Domestic Telegraph, Cable, or Radio Dispatches.	15 per centum.....	25 per centum."
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(b) **EFFECTIVE DATE.**—Subject to the provisions of subsection (c), the amendments made by this section shall apply with respect to amounts paid on or after the rate reduction date (as defined in subsection (d)) for services rendered on or after such date.

(c) **AMOUNTS PAID PURSUANT TO BILLS RENDERED.**—The amendments made by this section shall not apply with respect to amounts paid pursuant to bills rendered prior to the rate reduction date. In the case of amounts paid pursuant to bills rendered on or after the rate reduction date for services for which no previous bill was rendered, the amendments made by this section shall apply except with respect to such services as were rendered more than 2 months before such date. In the case of services rendered more than 2 months before such date the provisions of sections 1650 and 3465 of the Internal Revenue Code in effect at the time such services were rendered shall be applicable to the amounts paid for such services.

(d) **RATE REDUCTION DATE.**—For the purposes of this section the term "rate reduction date" means the first day of the first month which begins more than 10 days after the date of the enactment of this Act.

SEC. 492. EXEMPTION OF CERTAIN OVERSEAS TELEPHONE CALLS FROM THE TAX ON TELEPHONE FACILITIES.

(a) **TELEPHONE CALLS FROM MEMBERS OF ARMED FORCES IN COMBAT ZONES.**—Section 3466 is amended by redesignating subsection (c) thereof as subsection "(d)" and by inserting after subsection (b) the following new subsection:

"(c) No tax shall be imposed under section 3465 (a) (1) (A) upon any payment received for any telephone or radio telephone message which originates within a combat zone, as defined in section 22 (b) (13), from a member of the Armed Forces of the United States performing service in such combat zone, as determined under such section, provided a certificate, setting forth such facts as the Secretary may by regulations prescribe, is furnished to the person receiving such payment."

(b) **EFFECTIVE DATE.**—The amendment made by subsection (a) shall apply to amounts paid on or after the first day of the first month which begins more than 10 days after the date of enactment of this Act for telephone or radio telephone messages made on or after such date.

SEC. 493. EXEMPTION OF FISHING TRIPS FROM TAX ON TRANSPORTATION.

(a) **EXEMPTION.**—Section 3469 (b) (relating to exemption of certain trips from the tax of transportation of persons) is hereby amended by striking out "or to amounts" and inserting in lieu thereof "to amounts", and by inserting after the words "one month or less" the following "or to amounts paid for transportation by boat for the purpose of fishing from such boat".

(b) **EFFECTIVE DATE.**—The amendment made by subsection (a) shall apply to amounts paid on or after the first day of the first month which begins more than 10 days after the date of the enactment of this Act for transportation on or after such first day.

SEC. 494. TAX ON TRANSPORTATION OF PERSONS.

(a) **EXEMPTION OF CERTAIN FOREIGN TRAVEL.**—Section 3469 (a) of the Internal Revenue Code (relating to tax on transportation of persons) is hereby amended by striking out the third sentence and inserting in lieu of such sentence the following: "In the case of transportation by water on a vessel which makes one or more intermediate stops at ports within the United States, Canada, or Mexico on a voyage which begins or ends in the United States and ends or begins outside the northern portion of the Western Hemisphere, no part of such transportation shall be considered for the purposes of the preceding sentence to be from any port within the United States, Canada, or Mexico to any other such port if the vessel in stopping at any such intermediate port is not authorized both to discharge and to take on passengers. A port or station within Newfoundland shall not, for the purposes of the preceding two sentences, be considered as a port or station within Canada."

(b) **EFFECTIVE DATE.**—The amendment made by subsection (a) shall apply to amounts paid on or after the first day of the first month which begins more than ten days after the date of the enactment of this Act for transportation on or after such first day.

SEC. 495. TRANSPORTATION OF MATERIAL EXCAVATED IN THE COURSE OF CONSTRUCTION WORK.

(a) **AMENDMENT OF SECTION 3475.**—Section 3475 (relating to tax on transportation of property) is hereby amended by adding at the end thereof the following: "The tax imposed by this section shall not apply to the transportation of earth, rock, or other material excavated within the boundaries of, and in the course of, a construction project and transported to any place within, or adjacent to, the boundaries of such project." The determination as to the applicability of the tax imposed by section 3475 in the case of the transportation of any excavated material, other than transportation to which the amendment made by this subsection applies, shall be made as if this subsection had not been enacted and without inferences drawn from the fact that the amendment made by this subsection is not expressly applicable to the transportation of such other excavated material.

(b) **EFFECTIVE DATE.**—The amendment made by subsection (a) shall apply to amounts paid on or after the first day of the first month which begins more than ten days after the date of enactment of this Act for transportation on or after such first day.

SEC. 496. ARTICLES FROM FOREIGN TRADE ZONES.

(a) **IMPORTED ARTICLES.**—Upon all articles specified in section 2000 (c) (2), 2800 (a), 3030 (a), or 3150 (a) of the Internal Revenue Code on which the internal revenue taxes imposed by law have been determined, pursuant to section 3 of the Act of June 18, 1934, as amended (U. S. C., title 19, sec. 81c), prior to the effective date of the rates of tax imposed on such articles by this Act, and which on or after such effective date are brought from foreign trade zones into customs territory of the United States, there shall be levied, assessed, collected, and paid on such articles, in addition to the tax so determined, an additional tax at rates equal to the increases in rates of tax made applicable to such articles by this Act. The tax imposed by this subsection shall be collected, paid, and accounted for at the same time and in the same manner as tax on such article is collected, paid, and accounted for when brought from the foreign trade zone into the customs territory.

(b) **PREVIOUSLY TAXPAID ARTICLES.**—Upon all taxpaid articles specified in section 2000 (c) (2), 2800 (a), 3030 (a), or 3150 (a) of the Internal Revenue Code which have been taken into foreign trade

zones from the customs territory of the United States and placed under the supervision of the collector of customs, pursuant to the second proviso of section 3 of the Act of June 18, 1934, as amended (U. S. C., title 19, sec. 81c), prior to the effective date of the rates of tax imposed on such articles by this Act, and which on or after such effective date are (without loss of identity) returned from foreign trade zones to customs territory of the United States, there shall be levied, assessed, collected, and paid on such articles an additional tax at rates equal to the increases in rates of tax made applicable to such articles by this Act. The tax imposed by this subsection on any article shall be collected, paid, and accounted for at the same time and in the same manner as if such article had been taken into the foreign trade zone free of tax.

SEC. 497. REFUNDS ON ARTICLES FROM FOREIGN TRADE ZONES.

(a) **IMPORTED ARTICLES.**—With respect to any article specified in section 2000 (c) (2), 2800 (a), 3030 (a), or 3150 (a) of the Internal Revenue Code on which internal revenue tax at the applicable rate prescribed in such section has been determined pursuant to section 3 of the Act of June 18, 1934, as amended (U. S. C., title 19, sec. 81c), prior to April 1, 1954, and which on or after such date is brought from a foreign trade zone into customs territory of the United States and the tax so determined thereon paid, there shall be credited or refunded (without interest) to the taxpayer, subject to such regulations as may be prescribed by the Secretary, an amount equal to the difference between the tax so paid and the amount of tax made applicable to such articles on and after April 1, 1954, if claim for such credit or refund is filed with the Secretary within thirty days after payment of the tax.

(b) **PREVIOUSLY TAXPAID ARTICLES.**—With respect to any article specified in section 2000 (c) (2), 2800 (a), 3030 (a), or 3150 (a) of the Internal Revenue Code, upon which internal revenue tax (including floor stocks tax) at the applicable rate prescribed in such section has been paid, and which was taken into a foreign trade zone from the customs territory of the United States and placed under the supervision of the collector of customs, pursuant to the second proviso of section 3 of the Act of June 18, 1934, as amended (U. S. C., title 19, sec. 81c), prior to April 1, 1954, and which on or after such date is (without loss of identity) returned from a foreign trade zone to customs territory of the United States, there shall be credited or refunded (without interest) to the person so returning such article, subject to such regulations as may be prescribed by the Secretary, an amount equal to the difference between the tax so paid and the amount of tax made applicable to such articles on and after April 1, 1954, if claim for such credit or refund is filed with the Secretary within thirty days after the return of the article to customs territory.

SEC. 498. TAX REFUNDS ON SPIRITS LOST IN FLOODS OF 1951.

(a) **AUTHORIZATION.**—The Secretary of the Treasury is authorized and directed to make refund, or allow credit in the case of a distiller or rectifier if he so elects, in the amount of the internal-revenue tax and customs duties paid on spirits previously withdrawn, and lost, or rendered unmarketable, by reason of the floods of 1951 while such spirits were in the possession of (1) the person originally paying such tax or such tax and duty on such spirits, (2) a rectifier for rectification or for bottling, or which have been used in the process of rectification, under Government supervision as provided by law and regulations, or (3) a wholesale or retail liquor dealer, all hereafter referred to as the possessor or possessors. The refunds and credits authorized by this section may be made to (1) any of the possessors, except a retail liquor

dealer, or (2) to any distiller, rectifier, importer, or wholesale liquor dealer who replaced for the possessor the full equivalent of the distilled spirits so destroyed or rendered unmarketable, without compensation, remuneration, payment, or credit of any kind in respect of the tax, or tax and duty on such distilled spirits. A claim for the amount of such tax, or such tax and duty, shall be filed with the Secretary of the Treasury within ninety days from the date of enactment of this Act. The claimant shall furnish proof to the Secretary's satisfaction that (1) the internal-revenue tax on such spirits, or the tax and duty if imported, was fully paid, (2) such spirits were lost, or rendered unmarketable, by reason of damage sustained as the result of the aforesaid flood conditions, (3) claimant was not indemnified by any valid claim of insurance or otherwise against loss of the tax (or tax and duty if imported) paid on the spirits, and (4) in those cases where applicable, that the claimant has replaced for the possessor the full equivalent of the distilled spirits so destroyed or rendered unmarketable, without compensation, remuneration, payment, or credit of any kind in respect of the tax, or tax and duty, on such distilled spirits.

(b) **DESTRUCTION OF SPIRITS.**—When the Secretary, pursuant to this section, makes refund, or allows credit, in the amount of the tax, or tax and duty, on spirits rendered unmarketable, such spirits shall be destroyed under the supervision of the Secretary.

(c) **CREDIT.**—Where credit is allowed to a distiller or rectifier for the internal-revenue tax previously paid as aforesaid, the Secretary is authorized and directed to provide for the issuance of stamps to cover the tax on spirits subsequently withdrawn or rectified to the extent of the credit so allowed.

(d) **REGULATIONS.**—The Secretary is authorized to make such rules and regulations as may be necessary to carry out the provisions of this section.

TITLE V—EXCESS PROFITS TAX

SEC. 501. MAXIMUM TAX FOR NEW CORPORATIONS.

Section 430 (relating to imposition of tax) is hereby amended as follows:

(1) By adding at the end of subsection (a) thereof, as amended by section 121 of this Act, the following:

“(3) in the case of a corporation for which an amount is determined for the taxable year under subsection (e), the amount determined under such subsection.”

(2) By redesignating subsection (e) as subsection (f); and

(3) By inserting after subsection (d) the following new subsection:

“(e) **NEW CORPORATIONS.**—

“(1) **ALTERNATIVE AMOUNT.**—In the case of a taxpayer which commenced business after July 1, 1945, and whose fifth taxable year ends after June 30, 1950, the amount referred to in subsection

(a) (3) shall be—

“(A) If the taxable year is the first or second taxable year of the taxpayer, an amount equal to 5 per centum of the excess profits net income for the taxable year, except that if the excess profits net income exceeds \$300,000, the amount shall be the sum of \$15,000 plus the amount determined under subparagraph (E) of this paragraph.

“(B) If the taxable year is the third taxable year of the taxpayer, an amount equal to 8 per centum of the excess profits net income for the taxable year, except that if the excess profits net income exceeds \$300,000, the amount shall

be the sum of \$24,000 plus the amount determined under subparagraph (E) of this paragraph.

“(C) If the taxable year is the fourth taxable year of the taxpayer, an amount equal to 11 per centum of the excess profits net income for the taxable year, except that if the excess profits net income exceeds \$300,000, the amount shall be the sum of \$33,000 plus the amount determined under subparagraph (E) of this paragraph.

“(D) If the taxable year is the fifth taxable year of the taxpayer, an amount equal to 14 per centum of the excess profits net income for the taxable year, except that if the excess profits net income exceeds \$300,000, the amount shall be the sum of \$42,000 plus the amount determined under subparagraph (E) of this paragraph.

“(E) The amount determined under this subparagraph shall be—

“(i) if the taxable year ends before April 1, 1951, an amount equal to 15 per centum of the excess of the excess profits net income for the taxable year over \$300,000.

“(ii) if the taxable year begins on January 1, 1951, and ends on December 31, 1951, an amount equal to 17½ per centum of the excess of the excess profits net income for the taxable year over \$300,000.

“(iii) if the taxable year (other than a taxable year described in clause (ii)) ends after March 31, 1951, an amount equal to 18 per centum of the excess of the excess profits net income for the taxable year over \$300,000.

“(2) FIRST FIVE TAXABLE YEARS.—For the purpose of this subsection—

“(A) The taxable year in which the taxpayer commenced business and the first, second, third, and fourth succeeding taxable years shall be considered its first, second, third, fourth, and fifth taxable years, respectively.

“(B) The taxpayer shall be considered to have been in existence and to have had taxable years for any period during which it or any corporation described in any clause of this subparagraph was in existence, and the taxpayer shall be considered to have commenced business on the earliest date on which it or any such corporation commenced business:

“(i) Any corporation which during or prior to the taxable year was a party with the taxpayer to a transaction described in section 445 (g) (2) (A), (B), or (C), determined as if the date ‘July 1, 1945’ were substituted for the date ‘December 1, 1950’ in section 445 (g) (2) (C).

“(ii) Any corporation if a group of not more than four persons who control the taxpayer at any time during the taxable year also controlled such corporation at any time during the period beginning twelve months preceding their acquisition of control of the taxpayer and ending with the close of the taxable year; but only if at any time during such period (and while such persons controlled such corporation) such corporation was engaged in a trade or business substantially similar to the trade or business of the taxpayer during the taxable year. For the purpose of this clause, the term ‘control’ means the ownership of more than 50 per centum of the total combined voting power of all classes of stock entitled to vote, or more than 50 per centum of the total value of shares of all classes of stock. A person shall not be considered a

member of the group referred to in this clause unless during the period referred to in this clause he owns stock in such corporation at a time when the members of the group control such corporation and he owns stock in the taxpayer at a time when the members of the group control the taxpayer. For the purpose of this clause, the ownership of stock shall be determined in accordance with the provisions of section 503, except that constructive ownership under section 503 (a) (2) shall be determined only with respect to the individual's spouse and minor children.

"(iii) In case the taxpayer during or prior to the taxable year was a purchasing corporation (as defined in part IV); the selling corporation (as defined in such part) whose properties were acquired in the part IV transaction; but this clause shall not apply unless for the taxable year or for any preceding taxable year the conditions of paragraphs (1), (2), and (3) of section 474 (c) were satisfied with respect to such transaction.

"(iv) Any corporation which, under regulations prescribed by the Secretary, is determined by one or more additional applications of clauses (i) to (iii) to stand indirectly in the same relation to the taxpayer as though such corporation were described in any such clause.

If as of the beginning of December 1, 1950, the adjusted basis for determining gain upon sale or exchange of the aggregate assets theretofore acquired by the taxpayer in transactions described in clauses (i) and (iii) (or acquired in the ordinary course of business in replacement of such assets) and held by it at such time constituted less than 20 per centum of the adjusted basis for determining gain upon sale or exchange of its total assets held at such time, then transactions described in such clauses occurring prior to such date shall be disregarded in determining the date as of which the taxpayer shall be considered to have commenced business.

"(3) LIMITATION.—The provisions of paragraph (1) of this subsection shall not apply to a taxpayer which derives more than 50 per centum of its gross income (determined without regard to dividends and without regard to gains from sales or exchanges of capital assets) for the taxable year from contracts and subcontracts to which the provisions of title I of the Renegotiation Act of 1951 (or the provisions of any prior renegotiation act) are applicable."

SEC. 502. PAYMENTS FROM FOREIGN SOURCES FOR TECHNICAL ASSISTANCE, ETC.

(a) AMENDMENT OF SECTION 433 (a) (1).—Section 433 (a) (1) (relating to excess profits net income for taxable years ending after June 30, 1950) is hereby amended by adding at the end thereof the following new subparagraph:

"(R) Payments From Foreign Sources for Technical Assistance, Etc.—In the case of a domestic corporation which renders to a related foreign corporation technical assistance, engineering services, scientific assistance, or similar services (such services or assistance being related to the production or improvement of products of the type manufactured by such domestic corporation), there shall be excluded the remuneration for such services or assistance if such remuneration constitutes income derived from sources without the United

States. Any deductions in connection with or properly allocable to the rendering of such services or assistance shall not be allowed. For the purpose of this subparagraph, a foreign corporation shall be considered to be a 'related foreign corporation' if the domestic corporation at the time it renders such services or assistance owns 10 per centum or more of the outstanding stock of such foreign corporation."

(b) AMENDMENT OF SECTION 433 (b).—Section 433 (b) (relating to taxable years in base period) is hereby amended by adding at the end thereof the following new paragraph:

"(16) PAYMENTS FROM FOREIGN SOURCES FOR TECHNICAL ASSISTANCE, ETC.—In the case of a domestic corporation which rendered to a related foreign corporation technical assistance, engineering services, scientific assistance, or similar services (such services or assistance being related to the production or improvement of products of the type manufactured by such domestic corporation), there shall be excluded the remuneration for such services or assistance if such remuneration constituted income derived from sources without the United States. Any deductions in connection with or properly allocable to the rendering of such services or assistance shall not be allowed. For the purpose of this paragraph, a foreign corporation shall be considered to be a 'related foreign corporation' if the domestic corporation at the time it rendered such services or assistance owned 10 per centum or more of the outstanding stock of such foreign corporation."

SEC. 503. AVERAGE BASE PERIOD NET INCOME IN CASE OF CERTAIN FISCAL YEAR TAXPAYERS.

Section 435 (d) (relating to the general average method for the computation of average base period net income) is hereby amended by adding at the end thereof the following: "For the purpose of the computations under this subsection in the case of a taxpayer whose first taxable year under this subchapter is a taxable year which either began before January 1, 1950, or was preceded by a taxable year beginning before January 1, 1950, and ending after March 31, 1950, there shall be substituted for the base period of the taxpayer the period of 48 consecutive months ending March 31, 1950, if such substitution produces a lesser tax under this subchapter for the taxable year for which the tax is being computed. In computing the average base period net income for such substituted period, the excess profits net income for January, February, and March of 1950 shall be computed by use of the 'weighted excess profits net income', as defined in section 435 (e) (2) (E), for the taxable year in which such months fall."

SEC. 504. AVERAGE BASE PERIOD NET INCOME—ALTERNATIVE BASED ON GROWTH IN CASE OF NEW CORPORATIONS.

(a) GENERAL RULE.—Section 435 (e) (1) (relating to the alternative based on growth) is hereby amended by striking out the phrase "the beginning of its base period" and inserting in lieu thereof the following: "the end of its base period."

(b) AMENDMENT OF PART II.—Section 462 (c) (relating to the use by an acquiring corporation in a Part II transaction of an alternative average base period net income based on growth) is hereby amended as follows:

(1) By amending paragraph (1) thereof to read as follows:

"(1) In the case of a transaction described in section 461 (a), other than a transaction described in section 461 (a) (1) (E),—

"(A) The acquiring corporation shall not be denied the right to determine whether it is eligible for the benefits of section 435 (e) without reference to the recomputation of its

excess profits net income provided for in section 462 (b) where the transaction occurred on or after July 1, 1950, but it shall be denied such right where the transaction occurred prior to July 1, 1950.

“(B) Where, immediately prior to the date of the transaction, the acquiring corporation and all the component corporations (other than a corporation created incident to such transaction) met the requirements of section 435 (e) (1) (A) (i), and, in case the transaction occurred on or after July 1, 1950, had commenced business prior to the beginning of its base period (determined without reference to section 461 (d)), the acquiring corporation shall be entitled to compute its average base period net income under section 435 (e) with reference to the recomputation of its excess profits net income provided for in section 462 (b) if the tests of section 435 (e) are satisfied. For that purpose, the acquiring corporation shall combine with its total payroll and its total gross receipts for that portion of its base period which preceded such transaction the total payroll and total gross receipts of such component corporations for that portion of such period and it shall combine with its net sales for that portion of the period prior to January 1, 1951, which preceded such transaction the net sales of such component corporations for that portion of such period. The allocation of payroll and gross receipts amounts of a component corporation to any such portion of such period shall be made in accordance with the rules provided in section 435 (e) (4) and (5). For purposes of qualifying under section 435 (e) (1) (A) (i) (relating to total assets of the taxpayer), such acquiring corporation shall combine its total assets on the date specified in section 435 (e) (1) (A) (i) with the total assets of each component corporation on such date. The Secretary shall prescribe by regulations such rules as may be necessary to insure that such combined total gross receipts do not reflect a duplication for purposes of this section.

“(C) Where, immediately prior to the date of the transaction, either the acquiring corporation or one or more component corporations (other than a corporation created incident to such transaction) did not meet the requirements of section 435 (e) (1) (A) (i), or, in case the transaction occurred on or after July 1, 1950, had not commenced business prior to the beginning of its base period (determined without reference to section 461 (d)), the acquiring corporation shall not be entitled to compute its average base period net income under section 435 (e) with reference to the recomputation of its excess profits net income provided for in section 462 (b). In any such case, where the transaction occurred on or after July 1, 1950, the monthly excess profits net income of the corporation entitled to the benefits of section 435 (e) for any month of the acquiring corporation's base period shall be, for purposes of the recomputation provided for in section 462 (b), one-twelfth of the average base period net income to which such corporation was entitled under section 435 (e), and such monthly excess profits net income shall be in lieu of the monthly excess profits net income determined under paragraphs (1) and (2) of section 462 (b).”

(2) By striking from the second sentence of paragraph (2) thereof the words: “had commenced business prior to the begin-

ning of its base period (determined without reference to section 461 (d)) and”.

(3) By striking from paragraph (3) thereof the words “which had commenced business prior to the beginning of its base period” and by inserting in lieu thereof the following: “which had commenced business prior to the end of its base period”.

SEC. 505. AVERAGE BASE PERIOD NET INCOME—ALTERNATIVE BASED ON GROWTH.

Section 435 (e) (2) (G) (relating to the alternative based on growth) is hereby amended by striking out the word “only”.

SEC. 506. ADJUSTMENTS FOR CHANGES IN INADMISSIBLE ASSETS IN CASE OF BANKS.

(a) **AMENDMENT OF SECTION 435 (g).**—Section 435 (g) (relating to net capital addition or reduction) is hereby amended by redesignating paragraph (8) as paragraph (11) and by adding after paragraph (7) the following new paragraph:

“(8) **ADJUSTMENTS FOR CHANGES IN INADMISSIBLE ASSETS IN CASE OF BANKS.**—In the case of a bank (as defined in section 104)—

“(A) If the increase in total assets for the taxable year exceeds the net capital addition computed without regard to the adjustment under paragraph (1) for an increase in inadmissible assets, then the net capital addition for the taxable year shall not be less than the excess of—

“(i) the amount determined under the first sentence of paragraph (1) over

“(ii) an amount which bears the same ratio to the increase in inadmissible assets for the taxable year, determined under paragraph (5), as the amount computed under such first sentence bears to the increase in total assets for the taxable year.

“(B) If the decrease in total assets for the taxable year exceeds the net capital reduction computed without regard to the adjustment under paragraph (2) for a decrease in inadmissible assets, then the net capital reduction for the taxable year shall not be less than the excess of—

“(i) the amount determined under the first sentence of paragraph (2) over

“(ii) an amount which bears the same ratio to the decrease in inadmissible assets for the taxable year, determined under paragraph (5), as the amount computed under such first sentence bears to the decrease in total assets for the taxable year.

For the purpose of this paragraph, the increase or decrease in total assets for the taxable year shall be computed in the same manner as the increase or decrease in inadmissible assets for the taxable year is computed under paragraph (5), except that such computations shall be made with respect to all assets, whether admissible or inadmissible assets as defined in section 440.”

(b) **AMENDMENT OF SECTION 438.**—Section 438 (relating to new capital credit changes) is hereby amended by adding after subsection (f) the following new subsection:

“(g) **ADJUSTMENTS FOR INADMISSIBLE ASSETS IN CASE OF BANKS.**—In the case of a bank (as defined in section 104), if the increase in total assets for the taxable year (determined in the manner provided in the last sentence of section 435 (g) (8)) exceeds the net new capital addition computed without regard to the adjustment under subsection (b)

for an increase in inadmissible assets, then the net new capital addition for the taxable year shall not be less than the excess of the amount determined under the first sentence of subsection (b) over an amount which bears the same ratio to the increase in inadmissible assets for the taxable year, determined under section 435 (g) (5), as the amount computed under such first sentence bears to such increase in total assets for the taxable year."

(c) AMENDMENT OF SECTION 435 (f).—Section 435 (f) (relating to capital additions in base period) is hereby amended as follows:

(1) By inserting immediately after the word "reduced" in paragraph (1) thereof the following: "(but not below zero)".

(2) By adding at the end of paragraph (1) thereof the following:

"For special rule in the case of banks, see paragraph (6)."

(3) By renumbering paragraph (6) as paragraph (7), and by adding immediately after paragraph (5) the following new paragraph:

"(6) YEARLY BASE PERIOD CAPITAL OF BANKS.—In the case of a bank (as defined in section 104), the yearly base period capital for any taxable year shall be determined as follows:

"(A) A tentative yearly base period capital shall be computed under paragraph (1) without regard to paragraph (1) (A).

"(B) The tentative yearly base period capital so determined shall be reduced by the amount determined under section 440 (b) (relating to inadmissible assets). For the purpose of this subparagraph, the computation under section 440 (b) shall include only the daily amounts (described in such section) for the first day of such taxable year."

(d) EFFECTIVE DATE OF SUBSECTION (c) (3).—The amendment made by subsection (c) (3) (adding a new paragraph (6) to section 435 (f)) shall be applicable with respect to taxable years beginning on or after the date of the enactment of this Act, and, at the election of the taxpayer made in accordance with regulations prescribed by the Secretary, shall be applicable to all taxable years ending after June 30, 1950.

SEC. 507. DECREASE IN INADMISSIBLE ASSETS.

Section 435 (g) (relating to net capital addition or reduction) is hereby amended as follows:

(a) By adding at the end of paragraph (1) thereof the following:

"For further adjustment with respect to the amount determined under the preceding provisions of this paragraph, see paragraph (9)."

(b) By adding immediately after paragraph (8), as added by section 506 of this Act, the following new paragraphs:

"(9) DECREASE IN INADMISSIBLE ASSETS.—

"(A) Except as otherwise provided in subparagraph (B) (relating to banks), the excess of the amount computed under paragraph (2) (A) or (B), whichever is applicable to the taxpayer (whether or not any amount is determined under the first sentence of paragraph (2)), over the amount, if any, computed under the first sentence of paragraph (2) shall be considered the net capital addition for the taxable year or shall be added to the net capital addition otherwise determined under paragraph (1), as the case may be. The amount of the excess so determined shall be subject to the exceptions and limitations provided in paragraph (10).

“(B) In the case of a bank (as defined in section 104), the computation under subparagraph (A) shall be made by substituting for the amount computed under paragraph (2) (A) or (B) whichever of the following amounts is the lesser:

“(i) An amount which bears the same ratio to the decrease in inadmissible assets as the sum of the equity capital (as defined in section 437 (c)) and the daily borrowed capital (as defined in section 439 (b)), each determined as of the first day of the first taxable year ending after June 30, 1950, bears to the total assets as of the beginning of such day;

“(ii) If paragraph (8) (B) is applicable, the amount computed under paragraph (8) (B) (ii).

“(10) EXCEPTIONS AND LIMITATIONS FOR THE PURPOSE OF PARAGRAPH (9).—For the purpose of paragraph (9)—

“(A) The adjustment to the decrease in inadmissible assets required under subparagraph (B) of paragraph (2) shall not be greater than 25 per centum of the excess of the net capital reduction computed under the first sentence of paragraph (2) (and computed without regard to the percentage limitations in paragraph (4) (C) and (E)) over the net capital reduction computed under such sentence without regard to paragraph (4) (C) and (E).

“(B) The amount determined under paragraph (9) shall not be greater than the excess of the increase in operating assets for the taxable year over the net capital addition (determined without regard to paragraph (9) and determined without regard to the limitation to 75 per centum provided in paragraph (3) (C) and paragraph (4) (C) and (E)). For the purpose of the preceding sentence, the increase in operating assets for the taxable year shall be determined in the same manner as the increase in inadmissible assets for the taxable year is determined under paragraph (5). For the purpose of such determination, the term ‘operating assets’ means—

“(i) property used in the taxpayer’s trade or business within the meaning of section 117 (j) (1) except that such property need not be held more than six months, and

“(ii) stock in trade or other property of a kind which would properly be includible in the inventory of the taxpayer if owned at the close of the taxable year, and property held by the taxpayer primarily for sale to customers in the ordinary course of the taxpayer’s trade or business,

except any such assets which constitute inadmissible assets, stock, securities, or intangible property (such intangible property not being limited to the property described in section 441 (i)).

“(C) The amount determined under paragraph (9) shall be subject to reduction to the extent that the Secretary determines that the increase in operating assets is a result, directly or indirectly, of an increase in indebtedness of the taxpayer (other than indebtedness which constitutes borrowed capital).”

SEC. 508. ELECTION WITH RESPECT TO CERTAIN INADMISSIBLE ASSETS.

(a) **AMENDMENT OF SECTION 440.**—Section 440 (relating to admissible and inadmissible assets) is hereby amended by adding at the end thereof the following new subsection:

“(c) **TREATMENT OF GOVERNMENT OBLIGATIONS AS ADMISSIBLE ASSETS.**—If the taxpayer elects for any taxable year, in accordance with regulations prescribed by the Secretary, to increase its excess profits net income by an amount equal to the amount by which the interest received or accrued during the taxable year on Government obligations exceeds the sum of—

“(1) the amount of interest paid or accrued during such year which is not allowed as a deduction under section 23 (b), and

“(2) the amount of the adjustments required for the taxable year under section 22 (o) (relating to adjustment for certain bond premiums), but not in excess of the amount of interest received or accrued during the taxable year on Government obligations to which such section is applicable,

then for the taxable year for which the election is made the term ‘admissible assets’ shall include Government obligations, and the term ‘inadmissible assets’ shall not include Government obligations. For the purpose of applying section 435 to the taxable year for which the election is made, Government obligations shall not be considered ‘inadmissible assets’ in determining original inadmissible assets or yearly base period capital. As used in this subsection the term ‘Government obligations’ means obligations described in section 22 (b) (4) any part of the interest from which is excludible from gross income or allowable as a credit against net income; but such term shall include only such obligations as in the hands of the taxpayer are properly described in section 117 (a) (1) (A). For the purpose of determining the excess profits credit for a taxable year for which the election is made, the excess profits net income under section 433 (b) for any taxable year shall include the amount by which the interest received or accrued during such taxable year on Government obligations exceeds the amount of interest paid or accrued during such year which is not allowed as a deduction under section 23 (b) and, if the taxable year ends after June 30, 1950, the amount with respect to such year described in paragraph (2).”

(b) **AMENDMENT OF SECTION 433 (a) (1).**—Section 433 (a) (relating to adjustments in excess profits net income for the taxable year) is hereby amended by adding the following new subparagraph at the end thereof:

“(S) **Interest on Certain Government Obligations.**—For adjustment in the case of a taxpayer making an election provided in section 440 (c), relating to dealers in certain Government obligations, see section 440 (c).”

(c) **AMENDMENT OF SECTION 433 (b).**—Section 433 (b) (relating to adjustments in excess profits net income for taxable years in base period) is hereby amended by adding at the end thereof the following new paragraph:

“(17) **INTEREST ON CERTAIN GOVERNMENT OBLIGATIONS.**—For adjustment in the case of a taxpayer making an election provided in section 440 (c), relating to dealers in certain Government obligations, see section 440 (c).”

***SEC. 509. ALTERNATIVE AVERAGE BASE PERIOD NET INCOME.**

(a) **AMENDMENT OF SECTION 442.**—Section 442 (relating to abnormalities during the base period) is hereby amended as follows:

(1) By inserting at the end of subsection (a) thereof the following:

"If such taxpayer is also entitled to the benefits of subsection (h), the taxpayer's average base period net income determined under this section shall be the amount computed under subsection (c) or (d), whichever is applicable to the taxpayer, or the amount computed under subsection (h), whichever results in the lesser tax under this subchapter for the taxable year. In the case of any other taxpayer entitled to the benefits of subsection (h), the taxpayer's average base period net income determined under this section shall be the amount computed under subsection (h)."

(2) By striking out "determined under this section" in subsections (c) and (d) thereof each place it occurs and inserting in lieu thereof the following: "computed under this subsection".

(3) By inserting after "subsection (c) (2)" in subsection (e) (1) thereof the following: "and subsection (h)".

(4) By redesignating subsections (h) and (i) thereof as (i) and (j), respectively, and by inserting after subsection (g) thereof the following new subsection:

"(h) **ALTERNATIVE AVERAGE BASE PERIOD NET INCOME.—**

"(1) **ELIGIBILITY REQUIREMENTS.—**A taxpayer which commenced business on or before the first day of its base period shall be entitled to the benefits of this subsection if—

"(A) the aggregate excess profits net income (if any) for the 12 months selected under paragraph (2) (B) is less than 35 per centum of one-half of the aggregate excess profits net income for the 24 months remaining under such paragraph; and

"(B) normal production, output, or operation was interrupted or diminished because of the occurrence, within 12 months preceding (i) the first day of the 12-month period selected under paragraph (2) (B) (i), or (ii) the first day of any period of 6 or more consecutive months selected under paragraph (2) (B) (ii), of events unusual or peculiar in the experience of such taxpayer.

This subsection shall have no application unless the taxpayer has an aggregate excess profits net income for the 24 months remaining under paragraph (2) (B).

"(2) **COMPUTATION.—**If the taxpayer is entitled to the benefits of this subsection, its average base period net income computed under this subsection shall be computed as follows:

"(A) By determining under subsection (b) the period subject to adjustment under this section. For the purposes of subparagraph (B) but not for the purposes of paragraph (1) (B) such period shall be considered a period of 36 consecutive months.

"(B) By selecting from such period whichever of the following 12 months results in the higher remaining aggregate excess profits net income—

"(i) the 12 consecutive months the elimination of which produces the highest remaining aggregate excess profits net income, or

"(ii) the 12 months which remain after retaining the 24 consecutive months which produce the highest remaining aggregate excess profits net income.

"(C) By computing for each of the 12 months selected under subparagraph (B) a substitute excess profits net income computed under subsection (e).

“(D) By computing the sum of—

“(i) the aggregate of the substitute excess profits net income, as determined under subparagraph (C), for the 12 months selected under subparagraph (B), but the amount computed under this clause shall not exceed one-half of the aggregate excess profits net income for the 24 months remaining under subparagraph (B), and

“(ii) the aggregate of the excess profits net income for each of the 24 months remaining under subparagraph (B), computed in the manner provided by the second sentence of section 435 (d) (1).

“(E) By dividing by three the amount ascertained under subparagraph (D).

“(3) **AGGREGATE EXCESS PROFITS NET INCOME.**—The ‘aggregate excess profits net income’ for any period shall be computed for the purposes of this subsection in the same manner as under subsection (b).”

(b) **TECHNICAL AMENDMENTS.**—

(1) Section 435 (f) (3) (relating to capital addition in the base period) is hereby amended by inserting immediately after the words “under section 442 (c) (1)”, wherever appearing therein, the following: “or under section 442 (h)”.

(2) Section 461 (relating to definitions for purposes of part II) is hereby amended by inserting at the end thereof the following new subsection:

“(g) **APPLICATION OF SECTION 442 (h).**—For the purpose of this part, the reference to section 442 (c) in any section in this part shall be deemed a reference to section 442 (c) or (h).”

SEC. 510. DEFINITION OF TOTAL ASSETS FOR PURPOSES OF SECTIONS 442-446.

The first sentence of section 442 (f) (relating to definition of total assets) is hereby amended to read as follows: “For the purposes of this section, the taxpayer’s total assets for any day shall be determined as of the end of such day and shall be an amount equal to the excess of—

“(1) the sum of the cash and the property (other than cash, inadmissible assets, and loans to members of a controlled group as defined in section 435 (f) (4)) held by the taxpayer in good faith for the purposes of the business, over

“(2) the amount of any indebtedness (other than borrowed capital as defined in section 439 (b) (1)) to a member of a controlled group (as defined in section 435 (g) (6)) which includes the taxpayer.”

SEC. 511. AVERAGE BASE PERIOD NET INCOME—CHANGE IN PRODUCTS OR SERVICES.

Section 443 (f) (relating to change in products or services) is hereby amended to read as follows:

“(f) **RULES FOR APPLICATION OF SECTION.**—

“(1) The benefits of this section shall not be allowed unless the taxpayer makes application therefor in accordance with section 447 (e).

“(2) If after the end of the base period of the taxpayer there was a substantial change in the products produced by the taxpayer, such change shall, for the purpose of subsection (a) (1), be considered to have occurred on the last day of its base period if the taxpayer prior to July 1, 1950, commenced the construction of the facilities for the production of such new product, and if

such construction and the production of such new product is in furtherance of a course of action to which the taxpayer (or a corporation with which the taxpayer has the privilege under section 141 of filing a consolidated return for its first taxable year under this subchapter) was committed prior to the close of the base period by contract with another person, which contract granted a license, franchise, or similar right essential for the production of such new product."

SEC. 512. AVERAGE BASE PERIOD NET INCOME—NEW CORPORATION.

Section 445 (c) (relating to total assets for first three years of new corporation) is hereby amended by adding at the end thereof the following new sentence: "For the purpose of this subsection, the net capital addition or reduction shall be computed without regard to the limitation to 75 per centum provided in section 435 (g) (3) (C) and section 435 (g) (4) (C) and (E)."

SEC. 513. EXCESS PROFITS CREDIT—REGULATED PUBLIC UTILITIES.

Section 448 (c) (3) (relating to regulated public utilities) is hereby amended to read as follows:

"(3) 6 per centum in the case of a corporation engaged as a common carrier (A) in the furnishing or sale of transportation by railroad, if subject to the jurisdiction of the Interstate Commerce Commission, or (B) in the furnishing or sale of transportation of oil or other petroleum products (including shale oil) by pipe line, if subject to the jurisdiction of the Interstate Commerce Commission or if the rates for such furnishing or sale are subject to the jurisdiction of a public service or public utility commission or other similar body of the District of Columbia or of any State."

SEC. 514. CONSOLIDATED RETURNS OF REGULATED PUBLIC UTILITIES.

Section 448 (e) (relating to consolidated returns of regulated public utilities) is hereby amended by adding at the end thereof the following new sentence: "For purposes of filing a consolidated return with its railroad lessee corporation, a railroad lessor corporation described in section 434 (d) (without regard to the requirement of payment of the lessor's taxes by the lessee) shall be considered a corporation described in subsection (c) (3)."

SEC. 515. NONTAXABLE INCOME FROM CERTAIN MINING PROPERTIES.

Section 453 (relating to nontaxable income from exempt excess output) is hereby amended as follows:

(a) By amending the first sentence of subsection (a) (13) thereof to read as follows: "The term 'unit net income' means the amount ascertained by dividing the net income (computed with the allowance for depletion) from the coal, ore, sulphur, potash, metallurgical grade limestone, chemical grade limestone, or timber recovered from the mineral property, or timber block, as the case may be, during the taxable year by the number of units of such mineral or timber recovered from such property in such year."

(b) By inserting immediately after the words "coal mining property" in subsection (b) (2) thereof the following: ", or of a sulphur, potash, metallurgical grade limestone, or chemical grade limestone mineral property,".

(c) By striking out so much of subsection (b) (4) as precedes the second sentence and inserting in lieu thereof the following:

"(4) CERTAIN PROPERTIES NOT IN OPERATION DURING NORMAL PERIOD.—For any taxable year, the nontaxable income from exempt excess output of a metal or coal mining property, of a

sulphur, potash, metallurgical grade limestone, or chemical grade limestone mineral property, of a timber block, or of a natural gas property, which was not in operation during the normal period, shall be an amount equal to one-third of the net income for such taxable year (computed with the allowance for depletion) from such property or timber block, as the case may be."

SEC. 516. TRANSITION FROM WAR PRODUCTION AND INCREASE IN PEACETIME CAPACITY.

(a) **IN GENERAL.**—Part I of subchapter D of chapter 1 is hereby amended by adding at the end thereof a new section to read as follows:

"SEC. 459. MISCELLANEOUS PROVISIONS.

"(a) AVERAGE BASE PERIOD NET INCOME—TRANSITION FROM WAR PRODUCTION AND INCREASE IN PEACETIME CAPACITY.—In the case of a taxpayer which commenced business before January 1, 1940, and since such date has engaged primarily in manufacturing, the taxpayer's average base period net income determined under this subsection shall be the amount computed under section 435 (e) (2) (G) (i) and (ii) if—

"(1) The adjusted basis of the taxpayer's total facilities (as defined in section 444 (d)) as of the beginning of its base period (when added to the total facilities at such time of all corporations with which the taxpayer has the privilege under section 141 of filing a consolidated return for its first taxable year under this subchapter) did not exceed \$10,000,000;

"(2) The basis (unadjusted) of the taxpayer's total facilities (as defined in section 444 (d)) at the close of its base period was 250 per centum or more of the basis (unadjusted) of its total facilities at the beginning of its base period;

"(3) The percentage of the taxpayer's aggregate gross income which was from contracts with the United States and related subcontracts was (A) at least 70 per centum for the period comprising all taxable years beginning after December 31, 1941, and ending before January 1, 1946, (B) less than 20 per centum for the period comprising all taxable years ending after December 31, 1945, and before January 1, 1950, and (C) less than 20 per centum for the period comprising all taxable years ending after December 31, 1949, and beginning before July 1, 1950; and

"(4) The average monthly excess profits net income of the taxpayer (computed in the manner provided in section 443 (e)) for—

"(A) the period comprising all taxable years ending with or within the last 24 months of its base period, and

"(B) the last taxable year ending before the first day of its base period,

are each 300 per centum or more of the average monthly excess profits net income (so computed) of the taxpayer for the period comprising all taxable years ending with or within the first 24 months of its base period."

(b) **TECHNICAL AMENDMENTS.**—Section 435 (c) (relating to determination of average base period net income) is hereby amended as follows:

(1) By inserting immediately after "445 or 446," the following: "or any subsection of section 459,".

(2) By inserting immediately after "or under such section" the following: "or subsection".

SEC. 517. BASE PERIOD CATASTROPHE.

Section 459, as added by section 516 of this Act, is hereby amended by adding after subsection (a) thereof the following new subsection:

“(b) **BASE PERIOD CATASTROPHE.**—

“(1) **ELIGIBILITY REQUIREMENTS.**—A taxpayer shall be entitled to the benefits of this subsection only if it was engaged throughout its base period primarily in manufacturing and if—

“(A) the taxpayer suffered during the last thirty-six months of its base period a catastrophe by fire, storm, explosion, or other casualty which destroyed or rendered inoperative a production facility constituting a complete plant or plants having in the hands of the taxpayer immediately prior to the catastrophe an adjusted basis equal to 15 per centum or more of the adjusted basis of all the taxpayer’s production facilities at such time;

“(B) as a result of such catastrophe the taxpayer’s normal production or operation was substantially interrupted for a period of more than twelve consecutive months; and

“(C) the taxpayer, prior to the end of its base period, replaced such production facility with a production facility which at the end of its base period had in its hands an adjusted basis not less than the adjusted basis immediately prior to the catastrophe of the production facility destroyed or rendered inoperative.

“(2) **COMPUTATION.**—The taxpayer’s base period net income determined under this subsection shall be the amount computed under subparagraph (A) or the amount computed under subparagraph (B), whichever results in the lesser tax under this subchapter for the taxable year for which the tax is being computed:

“(A) The amount computed under section 435 (d) by substituting for the excess profits net income for each month in the taxable year in which the catastrophe described in paragraph (1) occurred an amount equal to the aggregate, divided by the number of months in the base period preceding such taxable year, of the excess profits net income for each month (computed under section 435 (d) (1)) in the base period preceding such taxable year. The average base period net income computed under this subparagraph shall, for the purpose of section 435 (a) (1) (B), be considered an average base period net income determined under section 435 (d).

“(B) The amount computed under section 435 (e) (2) (G) (i) and (ii).”

SEC. 518. CONSOLIDATION OF NEWSPAPERS.

Section 459, as added by section 516 and 517 of this Act, is hereby amended by adding after subsection (b) thereof the following new subsection:

“(c) **CONSOLIDATION OF NEWSPAPER OPERATIONS.**—In the case of a taxpayer engaged primarily in the newspaper publishing business in its last taxable year ending before July 1, 1950, if—

“(1) After the close of the first half of the base period of the taxpayer and prior to July 1, 1950, the taxpayer consolidated its mechanical, circulation, advertising, and accounting operations in connection with its newspaper publishing business with such operations of another corporation engaged in the newspaper publishing business in the same area; and

“(2) The taxpayer establishes to the satisfaction of the Secretary that, during the period beginning with the consolidation

and ending with the close of the first taxable year beginning after the consolidation, such consolidation resulted in substantial reductions in the amounts which would otherwise have been paid or incurred as expenses in the conduct of the operations described in paragraph (1); and either

“(3) The total deductions of the taxpayer under section 23, computed without regard to section 23 (s) and (bb), for the first taxable year beginning after such consolidation were not in excess of 80 per centum of the average of such deductions for the two taxable years of the taxpayer next preceding the taxable year in which such operations were consolidated; or

“(4) The excess profits net income of the taxpayer, computed as provided in section 433 (b), for the first taxable year of the taxpayer beginning after such consolidation was 125 per centum or more of the amount determined under section 435 (d) (4);

the taxpayer's average base period net income determined under this subsection shall be an amount computed under section 435 (d) plus an amount equal to the excess of the average of the amounts paid or incurred as expenses in the conduct of the operations described in paragraph (1) during the two taxable years of the taxpayer next preceding the taxable year in which such operations were consolidated over such amounts paid or incurred during the first taxable year of the taxpayer beginning after such consolidation. In determining such excess amount proper adjustment shall be made for increase in labor costs and newsprint following such consolidation. Proper adjustment shall also be made for any case in which a taxable year referred to in this subsection is a period of less than twelve months. This subsection shall not be applicable to any taxable year of the taxpayer unless the consolidation described in paragraph (1) was continued throughout such taxable year.”

SEC. 519. TELEVISION BROADCASTING COMPANIES.

Section 459, as added by sections 516 to 518 of this Act, is hereby amended by adding after subsection (c) thereof the following new subsections:

“(d) TELEVISION BROADCASTING COMPANIES.—

“(1) IN GENERAL.—In the case of a taxpayer engaged in the business of television broadcasting throughout a period beginning before January 1, 1951, and ending with the close of the taxable year, the taxpayer's average base period net income determined under this subsection shall be the amount computed under paragraph (2) or (3), whichever is applicable.

“(2) IF ENGAGED IN TELEVISION BROADCASTING AT CLOSE OF BASE PERIOD.—If the taxpayer was engaged in the business of television broadcasting at the close of its base period, the average base period net income computed under this paragraph shall be computed as follows:

“(A) If the taxpayer was engaged during its base period in any business or businesses other than television broadcasting, by computing the average base period net income under section 435 (d) for such other business or businesses (determined without regard to income, deductions, losses, or other items attributable to the television broadcasting business).

“(B) By multiplying such part of its total assets (as defined in section 442 (f)), for the last day of its base period, as was attributable to the television broadcasting business by—

"(i) the base period rate of return determined under section 447 (c) for the industry classification which includes radio broadcasting, or

"(ii) if the taxpayer was engaged during its base period in the business of radio broadcasting, its individual rate of return computed under paragraph (4), whichever rate of return produces the greater average base period net income under this subsection. If the amount computed under this subparagraph is computed by the use of the rate of return specified in clause (i), the amount so computed shall be reduced by an amount equal to such portion of the total interest paid or incurred by the taxpayer, for the period of 12 months following the close of its base period, as is attributable to its television broadcasting business.

"(C) By adding the amount computed under subparagraph (B) to the amount, if any, computed under subparagraph (A).

"(3) COMMENCING TELEVISION BROADCASTING AFTER BASE PERIOD AND BEFORE 1951.—If the taxpayer acquires its television broadcasting business after the close of its base period and before January 1, 1951, the average base period net income computed under this paragraph shall be computed as provided in paragraph (2), except that—

"(A) the applicable rate of return under paragraph (2) (B) shall be multiplied by such part of its total assets (as defined in section 442 (f)), for the last day of the calendar month in which it first engaged in such business, as was attributable to such business, and

"(B) the reduction specified in the last sentence of paragraph (2) (B) shall, if applicable, be equal to such portion of the total interest paid or incurred by the taxpayer, for the period of 12 months following the month in which it first engaged in such business, as is attributable to such business.

"(4) INDIVIDUAL RATE OF RETURN.—The individual rate of return shall be computed as follows:

"(A) By determining the amount of the taxpayer's total assets (as defined in section 442 (f)) attributable to the business of radio broadcasting for the last day of each month in its base period.

"(B) By computing the aggregate of the amounts ascertained under subparagraph (A) and dividing by 48.

"(C) By computing for each month in the base period the excess profits net income of the radio broadcasting business (determined without regard to income, deductions, losses, or other items attributable to any other business), by adding such amounts for all of the months in the base period, and by dividing by 4.

"(D) By dividing the amount computed under subparagraph (C) by the amount computed under subparagraph (B).

"(5) RULES FOR APPLICATION OF SUBSECTION.—

"(A) For the purpose of section 435 (a) (1) (B), an average base period net income determined under this subsection shall be considered an average base period net income determined under section 435 (d); but, in computing the base period capital addition under section 435 (f), the computations under such section shall be adjusted, under regulations prescribed by the Secretary, so as to exclude therefrom items attributable to the television broadcasting business.

“(B) If any part of the total assets referred to in paragraph (2) (B) or paragraph (3) (A), whichever is applicable, were acquired, directly or indirectly, through the use of assets attributable at any time during the base period to a business of the taxpayer other than television broadcasting, the amount determined under paragraph (2) (A) shall be properly adjusted by eliminating from the excess profits net income (computed for the purpose of paragraph (2) (A)) for each month prior to such acquisition such portion thereof as is attributable to the assets used, directly or indirectly, for such acquisition. For the purpose of this subparagraph, the excess profits net income for any month shall be attributed to such assets on the basis of the ratio, as of the beginning of the day of the acquisition, of such assets to total assets (as defined in section 442 (f)) determined without regard to assets attributable to the television broadcasting business.

“(C) The Secretary shall by regulations prescribe rules for the application of this subsection, including rules for the computation of the taxpayer's net capital addition or reduction.

“(6) APPLICATION OF PART II.—The Secretary shall prescribe regulations for the application of Part II for the purpose of this subsection in the case of an acquiring corporation or a component corporation in a transaction described in section 461 (a) which occurred prior to January 1, 1951.

“(e) BASIS OF ASSETS.—For the purposes of this section, any reference to the adjusted basis of property or to the basis (unadjusted) of property means the adjusted basis or the basis (unadjusted), as the case may be, for determining gain upon sale or exchange.”

SEC. 520. INCREASE IN CAPACITY FOR PRODUCTION OR OPERATION.

Section 444 (f) (relating to increase in capacity for production or operation) is hereby amended to read as follows:

“(f) RULES FOR APPLICATION OF SECTION.—

“(1) The benefits of this section shall not be allowed unless the taxpayer makes application therefor in accordance with section 447 (e).

“(2) If, during its first taxable year ending after June 30, 1950, the taxpayer completed construction of (including the installation of the machinery or equipment for use in) a factory building or other manufacturing establishment, such factory building or other manufacturing establishment and such machinery or equipment shall, for the purpose of determining whether there is an increase in capacity under the provisions of subsection (b), be considered to have been added to its total facilities on the last day of its base period if—

“(A) the taxpayer, prior to the end of its base period, had completed construction work representing more than 40 per centum of the total cost of construction of such factory building or other manufacturing establishment, and

“(B) the completion of such factory building or other manufacturing establishment was in pursuance of a plan to which the taxpayer was committed prior to the end of its base period.

This paragraph shall not apply in determining the amount of the taxpayer's total assets for the purpose of subsection (c).”

SEC. 521. EXCESS PROFITS CREDIT BASED ON INCOME IN CONNECTION WITH CERTAIN TAXABLE ACQUISITIONS.

(a) GENERAL RULE.—Subchapter D (relating to the excess profits tax) of chapter 1 is hereby amended by inserting immediately following section 472 the following new part:

"Part IV—Excess Profits Credit Based on Income in Connection With Certain Taxable Acquisitions Occurring Prior to December 1, 1950.

"SEC. 474. EXCESS PROFITS CREDIT BASED ON INCOME—CERTAIN TAXABLE ACQUISITIONS.

"(a) DEFINITIONS.—For the purpose of this part—

"(1) PURCHASING CORPORATION.—The term 'purchasing corporation' means a corporation which, before December 1, 1950, acquired—

"(A) In a transaction other than a transaction described in section 461 (a), substantially all of the properties (other than cash) of another corporation, of a partnership, or of a business owned by a sole proprietorship; or

"(B) Properties of another corporation or of a partnership if (i) such properties constituted, immediately prior to the acquisition, substantially all of the properties (other than cash) of one or more separate businesses of such other corporation or such partnership, (ii) such other corporation or such partnership was engaged in one or more separate businesses other than those described in clause (i), and (iii) substantially all of the properties (other than cash) of such other corporation or such partnership were acquired, in furtherance of a single plan of complete liquidation for such other corporation or such partnership, by the purchasing corporation, and by one or more other persons, in transactions other than transactions described in section 461 (a).

"(2) SELLING CORPORATION.—The term 'selling corporation' means a corporation, a partnership, or a business owned by a sole proprietorship, as the case may be, properties of which were acquired by a purchasing corporation in a transaction described in paragraph (1).

"(3) PART IV TRANSACTION.—The term 'part IV transaction' means a transaction described in paragraph (1).

"(b) AVERAGE BASE PERIOD NET INCOME OF PURCHASING CORPORATION.—The average base period net income of a purchasing corporation, if computed with reference to this part, shall be determined under section 435 (d). The average base period net income under section 435 (d) of a purchasing corporation shall be determined by computing its excess profits net income either with or without reference to this part, whichever produces the lesser tax under this subchapter for the taxable year for which the tax is being computed. If computed with reference to this part, the excess profits net income of a purchasing corporation for any month of its base period shall be its excess profits net income (or deficit therein), computed without reference to this part, and increased or decreased, as the case may be, by the addition or reduction resulting from including—

"(1) In the case of a transaction described in subsection (a)

(1) (A), the excess profits net income (or deficit therein) for such month of the selling corporation, or

"(2) In the case of a transaction described in subsection (a)

(1) (B), the excess profits net income (or deficit therein) for such month of the selling corporation properly attributable to the business or businesses acquired by the purchasing corporation and properly allocable to such purchasing corporation.

The excess profits net income of a purchasing corporation for any month, recomputed as provided in the previous sentence, shall not be less than zero.

“(c) **LIMITATIONS.**—This part shall apply only if each of the following conditions is satisfied:

“(1) The selling corporation (A) did not, after the part IV transaction (or the last transaction described in subsection (a) (1) (B)), continue any business activities other than those incident to its complete liquidation, and (B) within a reasonable time after ceasing business activities, completely liquidated in a transaction other than a transaction described in section 461 (a), and ceased existence.

“(2) During so much of the base period of the purchasing corporation and of the period thereafter as preceded the part IV transaction, the properties acquired in the part IV transaction were substantially all of the properties (other than cash) which were used, or which in the ordinary course of business replaced properties used, by the selling corporation (or by a component corporation, as defined in section 461 (b), of such selling corporation) in the production of the excess profits net income (or deficit therein) which under subsection (b) increases or decreases the excess profits net income of the purchasing corporation. For the purpose of this paragraph, if a business in the hands of both the selling corporation and the purchasing corporation was operated under a substantially identical franchise or license, granted by the same person, such franchise or license shall be deemed acquired by the purchasing corporation from the selling corporation.

“(3) The business or businesses acquired in the part IV transaction (including the properties so acquired or properties in replacement thereof) were operated by the purchasing corporation from the date of such transaction to the end of the taxable year or were transferred during the taxable year by the purchasing corporation in a part II transaction to which the provisions of section 462 (b) (4) are applicable.

“(d) **SPECIAL RULES.**—

“(1) For the purpose of subsection (a) (1), the properties of a selling corporation shall be considered to have been acquired by a purchasing corporation only if acquired from—

“(A) such selling corporation, or

“(B) persons who received the properties upon the liquidation of such selling corporation and who forthwith transferred such properties to the purchasing corporation in a transaction other than a transaction described in section 461 (a).

“(2) The computations required by this part in the case of a selling corporation which is a partnership or a business owned by a sole proprietorship shall be made, under regulations prescribed by the Secretary, as if such partnership or such business owned by a sole proprietorship had been a corporation.

“(3) In no case shall more than 100 per centum of the excess profits net income (or deficit therein) for any month of a selling corporation be allocated to the purchasing corporation or, in the case of transactions described in subsection (a) (1) (B), to the several persons (or to any one or more of such persons) receiving the properties of such selling corporation in such transactions.

“(e) **SUCCESSIVE TRANSACTIONS.**—

“(1) **PART IV TRANSACTION FOLLOWING PART IV TRANSACTION.**—In the case of a selling corporation which was a purchasing corporation in a previous part IV transaction, or which acquired properties of a purchasing corporation in a transaction to which section 462 (b) (4) is applicable, the computations under this part

with respect to the selling corporation shall be made without regard to the previous part IV transaction.

"(2) **PART IV TRANSACTION FOLLOWING PART II TRANSACTION.**—Subject to the provisions of paragraph (1), in the case of a selling corporation which was an acquiring corporation as defined in section 461 (a) in a previous transaction, its excess profits net income (or deficit therein) which increases or decreases the excess profits net income (or deficit therein) of the purchasing corporation under subsection (b) (1) or (2), and its capital changes which are taken into account under this part in determining the capital changes of the purchasing corporation, shall be determined with the application of the rules of part II to such selling corporation with respect to the part II transaction.

"(3) **PART II TRANSACTION FOLLOWING PART IV TRANSACTION.**—For rules applicable in the case of a part II transaction following a part IV transaction, see sections 462 (b) (4), 463 (c), and 464 (c).

"(f) **REGULATIONS.**—The Secretary shall by regulations prescribe rules for the application of this part. Such regulations shall include the following rules:

"(1) **BASE PERIOD CAPITAL ADDITION.**—Rules (consistent with the principles of section 464) for the determination of the base period capital addition of the purchasing corporation by reference to the capital changes of the selling corporation and of the purchasing corporation.

"(2) **NET CAPITAL ADDITION OR REDUCTION.**—Rules (consistent with the principles of section 463) for the determination of the net capital addition or reduction of the purchasing corporation by reference to the capital changes of the selling corporation and of the purchasing corporation.

"(3) **EXCESS PROFITS NET INCOME.**—Rules (consistent with the principles of section 462 (i)) for the determination of the amount of excess profits net income (or deficit therein) of the selling corporation attributable to the business or businesses acquired by a purchasing corporation in a transaction described in subsection (a) (1) (B) and properly allocable to such purchasing corporation.

"(4) **DUPLICATION.**—Rules for the application under this part of the principles of section 462 (j) (1) and the other provisions of part II relating to the prevention of duplication.

"(5) **EXCESS PROFITS CREDIT.**—In the event that the part IV transaction occurred in a taxable year of the purchasing corporation which ended after June 30, 1950, rules (consistent with the principles of section 462 (j) (2)) for the determination of the excess profits credit of such corporation for the year in which the transaction occurred.

Such rules shall not include the principles of section 461 (c) (relating to the excess profits credit of the component corporation), of section 462 (b) (2) (relating to constructive excess profits net income for months during which a corporation was not in existence), of section 462 (l) (relating to minimum average base period net income in the case of certain acquiring corporations), or of such other provisions of part II as relate to sections 435 (e), 442, 443, 444, 445, or 446."

(b) **TECHNICAL AMENDMENTS.**—

(1) Section 435 (a) (3) (relating to amount of excess profits credit) is hereby amended by inserting before the period at the end thereof the following: "and in the case of certain taxable acquisitions, see part IV of this subchapter".

(2) Section 461 (relating to definitions under part II) is amended by inserting at the end thereof the following new subsections:

“(g) COMPONENT CORPORATION WHICH WAS A PURCHASING CORPORATION IN A PREVIOUS TRANSACTION.—See section 462 (b) (4) for rules applicable if the component corporation was a purchasing corporation (as defined in part IV) in a previous part IV transaction, or if (as an acquiring corporation in a previous part II transaction) it was subject to the provisions of section 462 (b) (4).”

“(h) DEFINITION OF PART II TRANSACTION.—For the purpose of this subchapter, the term ‘part II transaction’ means a transaction described in section 461 (a).”

(3) Section 462 (b) (relating to the method of recomputing the excess profits net income of an acquiring corporation under part II) is hereby amended by adding at the end thereof the following new paragraph:

“(4) If the average base period net income of the acquiring corporation is determined under section 435 (d) with reference to this subsection, and if the provisions of section 474 (b) (relating to the computation of excess profits net income in the case of certain purchasing corporations) were applicable to the component corporation immediately prior to the part II transaction (or would have been applicable if such part II transaction had occurred in a taxable year of the component corporation ending after June 30, 1950), then the excess profits net income (or deficit therein) of the component corporation shall, for the purpose of this subsection, be determined with the application of the provisions of section 474 (b). For the purpose of this paragraph, if a component corporation was an acquiring corporation in a previous part II transaction and, immediately prior to the later part II transaction, the provisions of this paragraph were applicable to such component corporation, its excess profits net income (or deficit therein) shall be determined with the application of the provisions of the preceding sentence. This paragraph shall be applicable to an acquiring corporation only if—

“(A) the properties acquired by the acquiring corporation from the component corporation include substantially all of the properties (other than cash), or properties acquired in the ordinary course of business in the replacement of properties, which the component corporation acquired either from the selling corporation in the part IV transaction or from a previous component corporation subject (immediately prior to such acquisition) to the provisions of this paragraph;

“(B) the business or businesses acquired by the acquiring corporation were operated by the acquiring corporation from the date of such transaction to the end of the taxable year or were transferred during the taxable year by the acquiring corporation in a part II transaction to which the provisions of this paragraph are applicable; and

“(C) in the event that the part II transaction is one described in section 461 (a) (1) (E), the provisions of section 462 (i) (6) are satisfied.”

(4) Section 462 (i) (6) (relating to allocation rules in the case of transactions described in section 461 (a) (1) (E)) is hereby amended by adding at the end thereof the following: “Notwithstanding the provisions of paragraph (1), if an acquiring corporation in a transaction described in section 461 (a) (1) (E) determines its average base period net income under section 435

(d) by recomputing its excess profits net income under the provisions of section 462 (b) (4), the amount of the component corporation's excess profits net income for any month which shall be taken into account by the acquiring corporation shall be such portion of the component corporation's excess profits net income for such month as is determined on the basis of the earnings experience of the assets transferred and the assets retained by the component corporation."

(5) Section 463 (relating to capital changes) is amended by inserting at the end thereof the following new subsection:

"(c) COMPONENT CORPORATION WHICH WAS A PURCHASING CORPORATION IN A PREVIOUS TRANSACTION.—The Secretary shall provide by regulations for the application of this section in cases to which section 462 (b) (4) is applicable."

(6) Section 464 (relating to capital changes during the base period) is amended by inserting at the end thereof the following new subsection:

"(c) The Secretary shall provide by regulation for the application of this section in cases to which section 462 (b) (4) is applicable."

SEC. 522. STRATEGIC MINERALS.

Section 450 (b) (1) (relating to corporations engaged in mining of strategic minerals) is hereby amended by inserting after "chromite," the following: "bauxite,".

SEC. 523. EFFECTIVE DATE OF TITLE V.

Except as otherwise provided in section 506 (d), the amendments made by this title shall be applicable only with respect to taxable years ending after June 30, 1950.

TITLE VI—MISCELLANEOUS PROVISIONS AND AMENDMENTS

SEC. 601. EXEMPTION OF CERTAIN ORGANIZATIONS FROM INCOME TAX FOR PRIOR TAXABLE YEARS.

Section 302 of the Revenue Act of 1950 (relating to exemption of certain organizations for past years) is amended by adding at the end thereof the following new subsection:

"(d) PROFITS INURING TO THE BENEFIT OF CERTAIN EDUCATIONAL ORGANIZATIONS OR HOSPITALS.—For any taxable year beginning prior to January 1, 1951, an organization operated for the primary purpose of carrying on a trade or business for profit, no part of the net earnings of which inures to the benefit of any private shareholder or individual and all of the net earnings of which inure to the benefit of an educational organization which normally maintains a regular faculty and curriculum and normally has a regularly organized body of pupils or students in attendance at the place where its educational activities are regularly carried on, or to the benefit of a hospital, or an institution for the rehabilitation of physically handicapped persons, which maintains or is building for proper maintenance a hospital or institution staffed or to be staffed by qualified professional persons for the treatment of the sick and/or the rehabilitation of the physically handicapped, shall not be denied exemption from taxation under section 101 of the Internal Revenue Code on the ground that it is carrying on a trade or business for profit. The determination as to whether an organization other than one described in this subsection is exempt under section 101 of the Internal Revenue Code from taxation for any taxable year beginning before January 1, 1951, shall be made as if this

subsection and section 301 (b) of this Act had not been enacted and without inferences drawn from the fact that this subsection and the amendment made by section 301 (b) are not expressly made applicable with respect to taxable years beginning before January 1, 1951."

SEC. 602. EXCESS PROFITS CREDIT BASED ON INCOME.

(a) PERCENTAGE OF AVERAGE BASE PERIOD NET INCOME TAKEN INTO ACCOUNT.—

(1) **IN GENERAL.**—Paragraph (1) (A), and paragraph (2), of section 435 (a) (relating to excess profits credit based on income) are each amended by striking out "85 per centum" and inserting in lieu thereof "83 per centum".

(2) **TAXABLE YEARS BEGINNING BEFORE JULY 1, 1951, AND ENDING AFTER JUNE 30, 1951.**—Section 435 (a) is hereby amended by adding at the end thereof the following new paragraphs:

"(4) **CALENDAR YEAR 1951.**—In the case of a taxable year beginning on January 1, 1951, and ending on December 31, 1951, there shall be used, for the purposes of paragraph (1) (A) and paragraph (2), in lieu of 85 per centum of the average base period net income, an amount equal to 84 per centum of the average base period net income.

"(5) **TAXABLE YEARS (OTHER THAN CALENDAR YEAR 1951) BEGINNING BEFORE JULY 1, 1951, AND ENDING AFTER JUNE 30, 1951.**—In the case of any taxable year (other than a taxable year described in paragraph (4)) beginning before July 1, 1951, and ending after June 30, 1951, there shall be used, for the purposes of paragraph (1) (A) and paragraph (2), in lieu of 85 per centum of the average base period net income, an amount equal to the sum of—

"(A) that portion of an amount equal to 85 per centum of the average base period net income which the number of days in such taxable year prior to July 1, 1951, bears to the total number of days in such taxable year, plus

"(B) that portion of an amount equal to 83 per centum of the average base period net income which the number of days in such taxable year after June 30, 1951, bears to the total number of days in such taxable year."

(b) **EFFECTIVE DATE.**—The amendments made by subsection (a) shall be applicable only with respect to taxable years ending after June 30, 1951.

SEC. 603. FOREIGN ESTATE TAX CREDIT.

(a) **CREDIT AGAINST BASIC ESTATE TAX.**—Section 813 (relating to credits against estate tax) is hereby amended by adding at the end thereof the following new subsection:

"(c) **SAME—PAID TO FOREIGN COUNTRIES.**—

"(1) **IN GENERAL.**—The tax imposed by section 810 shall be credited with the amount of any estate, inheritance, legacy, or succession taxes actually paid to any foreign country in respect of any property situated within such foreign country and included in the gross estate (not including any such taxes paid with respect to the estate of a person other than the decedent). If the decedent at the time of his death was not a citizen of the United States, credit shall not be allowed under this subsection unless the foreign country of which such decedent was a citizen or subject, in imposing such taxes, allows a similar credit in the case of a citizen of the United States resident in such country. The determination of the country within which property is situated shall be made in accordance with the rules applicable under

Part III of this subchapter in determining whether property is situated within or without the United States.

"(2) **LIMITATIONS ON CREDIT.**—The credit provided in this subsection with respect to such taxes paid to any foreign country—

"(A) shall not, with respect to any such tax, exceed an amount which bears the same ratio to the amount of such tax actually paid to such foreign country as the value of property which is—

"(i) situated within such foreign country,

"(ii) subjected to such tax, and

"(iii) included in the gross estate

bears to the value of all property subjected to such tax; and

"(B) shall not, with respect to all such taxes, exceed an amount which bears the same ratio to the tax imposed by section 810 (after deducting from such tax the credits provided by subsections (a) and (b) of this section) as the value of property which is—

"(i) situated within such foreign country,

"(ii) subjected to the taxes of such foreign country, and

"(iii) included in the gross estate

bears to the value of the entire gross estate reduced by the aggregate amount of the deductions allowed under subsections (c), (d), and (e) of section 812.

"(3) **VALUATION OF PROPERTY.**—

"(A) The values referred to in the ratio stated in paragraph (2) (A) are the values determined for the purposes of the tax imposed by such foreign country.

"(B) The values referred to in the ratio stated in paragraph (2) (B) are the values determined under this chapter; but, in applying such ratio, the value of any property described in clauses (i), (ii), and (iii) thereof shall be reduced by such amount as will properly reflect, in accordance with regulations prescribed by the Secretary, the deductions allowed in respect of such property under subsections (c), (d), and (e) of section 812.

"(4) **PROOF OF CREDIT.**—The credits provided in this subsection and in section 936 (c) shall be allowed only if the taxpayer establishes to the satisfaction of the Secretary (A) the amount of taxes actually paid to the foreign country, (B) the amount and date of each payment thereof, (C) the description and value of the property in respect of which such taxes are imposed, and (D) all other information necessary for the verification and computation of the credits.

"(5) **PERIOD OF LIMITATION.**—The credits provided in this subsection and in section 936 (c) shall be allowed only for such taxes as were actually paid and credit therefor claimed within four years after the filing of the return required by section 821, except that—

"(A) If a petition for redetermination of a deficiency has been filed with The Tax Court of the United States within the time prescribed in section 871, then within such four-year period or before the expiration of 60 days after the decision of The Tax Court becomes final.

"(B) If, under section 822 (a) (2) or section 871 (h), an extension of time has been granted for payment of the tax shown on the return, or of a deficiency, then within such four-year period or before the date of the expiration of the period of the extension.

Refund based on such credits may (despite the provisions of sections 910 to 912, inclusive) be made if claim therefor is filed within the period above provided. Any such refund shall be made without interest."

(b) CREDIT AGAINST ADDITIONAL ESTATE TAX.—Section 936 (relating to credits against estate tax) is hereby amended by adding at the end thereof the following new subsection:

"(c) ESTATE, ETC., TAXES PAID TO FOREIGN COUNTRIES.—

"(1) IN GENERAL.—In the case of the estate of a citizen or resident of the United States, the tax imposed by section 935 shall be credited with the amount of any estate, inheritance, legacy, or succession taxes actually paid to any foreign country in respect of any property situated within such foreign country and included in the gross estate (not including any such taxes paid with respect to the estate of a person other than the decedent). If the decedent at the time of his death was not a citizen of the United States, credit shall not be allowed under this subsection unless the foreign country of which such decedent was a citizen or subject, in imposing such taxes, allows a similar credit in the case of a citizen of the United States resident in such country. The determination of the country within which property is situated shall be made in accordance with the rules applicable under Part III of subchapter A in determining whether property is situated within or without the United States.

"(2) LIMITATIONS ON CREDIT.—The credit provided in this subsection with respect to such taxes paid to any foreign country—

"(A) shall not exceed the amount by which such taxes paid to the foreign country exceed the amount of the credit allowed therefor under section 813 (c); and

"(B) shall not exceed an amount which bears the same ratio to the tax imposed by section 935 (after deducting from such tax the credit provided by subsection (b) of this section) as the value of property which is—

"(i) situated within such foreign country,

"(ii) subjected to the taxes of such foreign country, and

"(iii) included in the gross estate

bears to the value of the entire gross estate reduced by the aggregate amount of the deductions allowed under subsections (c), (d), and (e) of section 812.

"(3) SAME—SPECIAL RULES.—

"(A) For the purposes of paragraph (2) (A), 'such taxes paid to the foreign country' shall, with respect to any tax paid to the foreign country, be the amount computed under section 813 (c) (2) (A).

"(B) The values referred to in the ratio stated in paragraph (2) (B) are the values determined under this chapter; but, in applying such ratio, the value of any property described in clauses (i), (ii), and (iii) thereof shall be reduced by such amount as will properly reflect, in accordance with regulations prescribed by the Secretary, the deductions allowed in respect of such property under subsections (c), (d), and (e) of section 812.

"(4) PROOF OF CREDIT.—

"For provisions relating to proof of credit, see section 813 (c) (4).

"(5) PERIOD OF LIMITATION.—

"For provisions relating to period of limitation on claiming

of credit or refund based thereon and nonpayment of interest on refund, see section 813 (c) (5)."

(c) **REVERSIONARY OR REMAINDER INTEREST.**—Section 927 (relating to credit for State death taxes) is hereby amended to read as follows:

"SEC. 927. CREDIT FOR DEATH TAXES.

"Such part of any estate, inheritance, legacy, or succession taxes allowable as a credit under section 813 (b) or (c) against the tax imposed by this subchapter, or under section 936 (c) against the tax imposed by subchapter B, as is attributable to such reversionary or remainder interest may be allowed as a credit against the tax attributable to such interest, subject to the limitations on the amount of credit contained in such sections, if such part is paid, and credit therefor claimed, at any time prior to the expiration of 60 days after the termination of the precedent interest or interests in the property."

(d) **EXTENSION OF PERIOD OF LIMITATIONS, ETC., IN CASE OF RECOVERY OF TAXES CLAIMED AS CREDIT.**—Section 874 (b) (relating to exceptions to general rule as to period of limitation upon assessment and collection of estate tax) is hereby amended by inserting at the end thereof the following new paragraph:

"(3) **RECOVERY OF TAXES CLAIMED AS CREDIT.**—If any tax claimed as a credit under section 813 (b) or (c) or section 936 (c) is recovered from any foreign country, any State, any Territory or possession of the United States, or the District of Columbia, the executor, or any other person or persons recovering such amount, shall give notice of such recovery to the Secretary at such time and in such manner as may be required by regulations prescribed by him, and the Secretary shall redetermine the amount of the tax under this chapter and the amount, if any, of the tax due upon such redetermination, shall be paid by the executor or such person or persons, as the case may be, upon notice and demand."

(e) **EFFECTIVE DATE.**—The amendments made by this section shall be applicable with respect to estates of decedents dying after the date of the enactment of this Act.

SEC. 604. ESTATE AND GIFT TAX TREATMENT OF UNITED STATES BONDS HELD BY CERTAIN NONRESIDENT ALIENS.

(a) **ESTATE TAX.**—Effective with respect to estates of decedents dying after February 10, 1939, section 861 (relating to the computation of the net estate of a decedent nonresident not a citizen of the United States) is hereby amended by adding at the end thereof the following new subsection:

"(c) **UNITED STATES BONDS.**—For the purposes of subsection (a), the value of the gross estate (determined as provided in section 811) of a decedent who was not engaged in business in the United States at the time of his death—

"(1) shall not include obligations issued by the United States prior to March 1, 1941; and

"(2) shall include obligations issued by the United States on or after March 1, 1941, but only if the decedent died after the date of the enactment of the Revenue Act of 1951."

(b) **GIFT TAX.**—Effective with respect to gifts made after the date of enactment of this Act, section 1000 (b) (relating to application of gift tax) is hereby amended by adding at the end thereof the following: "In the case of such a nonresident who is not engaged in business in the United States at the time of a transfer of obligations issued by the United States, the tax shall apply in respect of any such obligations only if issued on or after March 1, 1941."

SEC. 605. ESTATE TAX EXEMPTION FOR WORKS OF ART LOANED BY NONRESIDENT ALIENS.

(a) **AMENDMENT OF SECTION 863 (c).**—Section 863 (c) (relating to exemption of works of art loaned by nonresident aliens) is hereby amended to read as follows:

“(c) **WORKS OF ART ON LOAN FOR EXHIBITION.**—Works of art owned by a nonresident not a citizen of the United States (1) imported into the United States solely for exhibition purposes, (2) loaned for such purposes to a public gallery or museum, no part of the net earnings of which inures to the benefit of any private stockholder or individual, and (3) at the time of the death of the owner, on exhibition, or en route to or from exhibition, in such a public gallery or museum.”

(b) **EFFECTIVE DATE.**—The amendment made by this section shall be applicable only with respect to estates of decedents dying after the date of the enactment of this Act.

SEC. 606. EXEMPTION FROM ADDITIONAL ESTATE TAX OF MEMBERS OF ARMED FORCES UPON DEATH.

Section 939 (relating to the estate tax treatment of certain members of the armed forces) is hereby amended as follows:

(1) By inserting before the first sentence thereof the following:

“(a) **DEATHS AFTER DECEMBER 6, 1941, AND BEFORE JANUARY 1, 1947.**—”

(2) By adding at the end thereof the following:

“(b) **DEATHS AFTER JUNE 24, 1950, AND BEFORE JANUARY 1, 1954.**—The tax imposed by section 935 shall not apply to the transfer of the net estate of a citizen or resident of the United States dying after June 24, 1950, and before January 1, 1954, while in active service as a member of the armed forces of the United States, if such decedent—

“(1) was killed in action while serving in a combat zone, as determined under section 22 (b) (13); or

“(2) died as a result of wounds, disease, or injury suffered, while serving in a combat zone (as determined under section 22 (b) (13)) and while in line of duty, by reason of a hazard to which he was subjected as an incident of such service.”

SEC. 607. TRANSFERS CONDITIONED UPON SURVIVORSHIP.

In the case of property transferred by a decedent dying after March 18, 1937, and before February 11, 1939, the determination of whether such property is to be included in his gross estate under section 302 (c) of the Revenue Act of 1926 (44 Stat. 70) as a transfer intended to take effect in possession or enjoyment at or after his death shall be made in conformity with Treasury Regulations in force at the time of his death.

SEC. 608. TRANSFERS WITH INCOME RESERVED.

Section 7 (b) of the Act entitled “An Act to amend certain provisions of the Internal Revenue Code”, approved October 25, 1949 (63 Stat. 895), is hereby amended by striking out “January 1, 1950” and inserting in lieu thereof “January 1, 1951”.

SEC. 609. TRANSFERS TAKING EFFECT AT DEATH.

Effective with respect to estates of decedents dying after February 10, 1939, section 7 (b) of the Act entitled “An Act to amend certain provisions of the Internal Revenue Code”, approved October 25, 1949 (63 Stat. 895), is hereby amended by striking out the word “sentence” and inserting in lieu thereof “two sentences” and by inserting immediately preceding the last sentence thereof the following sentence: “The provisions of section 811 (c) (1) (C) of such code shall not apply to a transfer made prior to September 8, 1916.” The

provisions of section 7 (c) of such Act, as amended, shall not apply to an overpayment resulting from the application of this section.

SEC. 610. REVERSIONARY INTERESTS IN CASE OF LIFE INSURANCE.

If refund or credit of any overpayment resulting from the application of section 503 of the Revenue Act of 1950 was prevented on October 25, 1950, by the operation of any law or rule of law (other than section 3760 of the Internal Revenue Code, relating to closing agreements, and other than section 3761 of such code, relating to compromises), refund or credit of such overpayment may, nevertheless, be made or allowed if claim therefor was filed after October 25, 1949, and on or before October 25, 1950.

SEC. 611. INCOME PURSUANT TO AWARD OF INTERSTATE COMMERCE COMMISSION.

(a) Notwithstanding section 42 of the Internal Revenue Code, amounts received, pursuant to an award under the order issued under the Railway Mail Pay Act of 1916 by the Interstate Commerce Commission on December 4, 1950, as compensation for the transportation of mail during 1950 and prior years shall be deemed to be income which accrued in the taxable years in which the services to which such compensation relates were rendered. Notwithstanding section 292 of such code, no interest shall be assessed or collected for any period prior to July 1, 1951, with respect to that part of any deficiency which the Secretary determines to be attributable to the inclusion of income in a taxable year by reason of the application of this section. Any deficiency attributable to the inclusion of income in any taxable year by reason of the application of this section may be assessed at any time prior to the expiration of the period for assessment with respect to the taxable year of the taxpayer which includes December 4, 1950, notwithstanding the provisions of section 275 of the Internal Revenue Code or any other provision of law or rule of law which would otherwise prevent such assessment.

(b) Section 292 (relating to interest on deficiencies) is hereby amended by adding at the end thereof the following new subsection:

“(d) With respect to any corporation entitled to receive payment for the transportation of United States mail, if an award is retroactively received for the transportation of United States mail, and if such award is required to be treated as income in the year or years in which the mail was carried, then, notwithstanding the provisions of subsection (a) of this section, no interest shall be due, with respect to any period prior to thirty days after such award is granted, for tax deficiencies resulting from the inclusion of such additional mail payments retroactively.”

SEC. 612. CREDIT IN PRIOR TAXABLE YEARS FOR DIVIDENDS RECEIVED ON PREFERRED STOCK OF A PUBLIC UTILITY.

In the case of taxable years beginning before April 1, 1951, any reference in section 15 (a) or 26 (b) of the Internal Revenue Code to dividends received on the preferred stock of a public utility shall be construed as referring only to dividends received on the preferred stock of a public utility with respect to which the credit provided in section 26 (h) of such Code for dividends paid was allowable.

SEC. 613. CONSOLIDATED RETURNS—INCLUDIBLE CORPORATION.

If an affiliated group making a consolidated return with respect to the first taxable year of the group ending after June 30, 1950, included a corporation described in section 454 (f) of the Internal Revenue Code pursuant to the consent provided in section 141 (e) (7) of such code, such corporation may withdraw such consent at any time within

ninety days after the enactment of this Act. If such consent is withdrawn under the preceding sentence, the tax liability of the affiliated group and its several members for the taxable year shall be determined, assessed, and collected as if such corporation had never joined in the making of the consolidated return.

SEC. 614. TIME FOR PERFORMING CERTAIN ACTS POSTPONED IN CASE OF CHINA TRADE ACT CORPORATIONS.

Section 3805 (relating to postponement of income tax due dates in the case of China Trade Act corporations) is hereby amended to read as follows:

"SEC. 3805. INCOME TAX DUE DATES POSTPONED IN CASE OF CHINA TRADE ACT CORPORATIONS.

"In the case of any taxable year beginning after December 31, 1948, and ending before October 1, 1953, no Federal income tax return of, or payment of any Federal income tax by, any corporation organized under the China Trade Act of 1922 (42 Stat. 849, U. S. C., Title 15, chapter 4), as amended, shall become due until December 31, 1953, but only with respect to any such corporation and any such taxable year which the Secretary may determine reasonable under the circumstances in China pursuant to such regulations as he may prescribe. Such due date shall be subject to the power of the Secretary to extend the time for filing such return or paying such tax, as in other cases."

SEC. 615. TREATY OBLIGATIONS.

No amendment made by this Act shall apply in any case where its application would be contrary to any treaty obligation of the United States.

SEC. 616. REORGANIZATION PLAN NUMBERED 26 OF 1950.

The provisions of Reorganization Plan Numbered 26 of 1950 shall be applicable to all functions vested by this Act in any officer, employee, or agency of the Department of the Treasury.

SEC. 617. CLAIMS UNDER THE RENEGOTIATION ACT.

Subsection (a) (4) (D) of the Renegotiation Act, as amended by section 201 (c) of the Renegotiation Act of 1951, is hereby amended by striking out "June 30, 1951," and inserting in lieu thereof "October 31, 1951,".

SEC. 618. PROHIBITION UPON DENIAL OF SOCIAL SECURITY ACT FUNDS.

No State or any agency or political subdivision thereof shall be deprived of any grant-in-aid or other payment to which it otherwise is or has become entitled pursuant to title I, IV, X, or XIV of the Social Security Act, as amended, by reason of the enactment or enforcement by such State of any legislation prescribing any conditions under which public access may be had to records of the disbursement of any such funds or payments within such State, if such legislation prohibits the use of any list or names obtained through such access to such records for commercial or political purposes.

SEC. 619. REMOVAL OF TAX EXEMPTION FROM EXPENSE ALLOWANCES OF THE PRESIDENT, THE VICE PRESIDENT, THE SPEAKER, AND MEMBERS OF CONGRESS.

(a) **EXPENSE ALLOWANCE OF THE PRESIDENT.**—Section 102 of title 3 of the United States Code is amended by striking out "no tax liability shall accrue and for which no accounting shall be made by him" and inserting in lieu thereof "no accounting, other than for income tax purposes, shall be made by him".

(b) **EXPENSE ALLOWANCE OF THE VICE PRESIDENT.**—Section 111 of title 3 of the United States Code is amended by striking out “for which no tax liability shall occur or accounting be made by him” and inserting in lieu thereof “for which no accounting, other than for income tax purposes, shall be made by him”.

(c) **EXPENSE ALLOWANCE OF THE SPEAKER OF THE HOUSE OF REPRESENTATIVES.**—Subsection (e) of the first section of the Act entitled “An Act to increase rates of compensation of the President, Vice President, and the Speaker of the House of Representatives”, approved January 19, 1949 (Public Law 2, 81st Congress), is amended by striking out “for which no tax liability shall occur or accounting be made by him” and inserting in lieu thereof “for which no accounting, other than for income tax purposes, shall be made by him”.

(d) **EXPENSE ALLOWANCES OF MEMBERS OF CONGRESS.**—Section 601 (b) of the Legislative Reorganization Act of 1946 is amended by striking out “for which no tax liability shall incur, or accounting be made” and inserting in lieu thereof “for which no accounting, other than for income tax purposes, shall be made”.

(e) **EFFECTIVE DATES.**—The amendments made by subsections (a) and (b) of this section shall become effective at noon on January 20, 1953, and the amendments made by subsections (c) and (d) shall become effective at noon on January 3, 1953.

Approved October 20, 1951.

2:07 p. m., E. S. T.

SUMMARY OF THE PROVISIONS OF THE REVENUE ACT OF 1951

(H. R. 4473)

AS AGREED TO BY THE CONFEREES

PREPARED BY THE
STAFF OF THE JOINT COMMITTEE ON
INTERNAL REVENUE TAXATION

OCTOBER 1951



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REVENUE ACT OF 1951 AS AGREED TO BY THE CONFEREES

It is estimated that the Revenue Act of 1951 as agreed to by the conferees will produce approximately \$5.7 billion annually when fully effective under the business conditions anticipated for the calendar year 1951. Of this amount it is anticipated that \$2,764 million will be collected in the fiscal year 1952. Total collections in the fiscal year 1952 are estimated at \$60.9 billion under present law. As a result it is anticipated that the additional revenue realized by this bill will increase collections in the fiscal year 1952 to about \$63.7 billion.

The increase in collections in the fiscal year 1952 is smaller than the increase in tax liabilities in a full year of operation, both because the changes are not effective for the entire fiscal year 1952, and because collections tend to lag behind the incurring of liabilities. As shown in table 1, it is estimated that the bill will increase individual income-tax liabilities by \$2,280 million in a full year of operation, or by \$1,190 million in the fiscal year 1952. In the case of corporate income and excess-profits taxes, it is anticipated that the bill will increase liabilities by \$2,207 million in a full year of operation, or by \$787 million in the fiscal year 1952. Excise taxes are estimated to be increased by \$1,204 million by the bill in a full year of operation, and by \$787 million in the fiscal year 1952. These figures include not only the rate changes made by the bill, but also the structural changes as well.

The increase in excise-tax collections in the fiscal year 1952 assumes that the changes in these taxes will become effective as of November 1, 1951.

TABLE 1.—Estimated effect of the conference bill on tax liabilities in a full year of operation and on collections in the fiscal year 1952

[In millions]

	Full year effect	Fiscal year 1952 effect
Individual income tax.....	\$2, 280	\$1, 190
Corporate income and excess profits taxes.....	¹ 2, 207	¹ 787
Excise taxes.....	1, 204	² 787
Total.....	5, 691	2, 764

¹ Net increase after allowing for reduction in individual income taxes due to lower dividends.

² Assumes excise tax changes are effective Nov. 1, 1951.

NOTE.—The above estimates include structural changes in the individual and corporate taxes.

I. CHANGES IN THE INDIVIDUAL INCOME TAX

The bill contains a new rate schedule for computing the surtax of individuals which provides for an increase in tax liability of 11 percent of the present tax on the first \$2,000 (\$4,000 in the cases of married couples) of surtax net income¹ and in the case of surtax net income in excess of this amount about 11.75 percent of the tax computed under present law or 9 percent of the surtax net income remaining after the deduction of the present tax, whichever is the smaller. This increase provided by the bill applies only to the tax on ordinary income. The 25-percent alternative tax on capital gains is increased to 26 percent. The rate increases on ordinary income, in effect, are made as of November 1, 1951, the date when increased withholding becomes effective, and are to terminate as of December 31, 1953. The change in the alternative tax on capital gains is effective with respect to the calendar years 1952 and 1953.

The bill also grants to heads of households 50 percent of the benefits of income splitting now enjoyed by married persons. For calendar year taxpayers this head-of-household provision is to be effective beginning in 1952.

It is estimated that in a full year of operation the individual income tax rate changes (including capital gains) will increase liabilities by \$2,485 million and that on the same basis the head-of-household provision will decrease revenues by \$55 million. Thus, it is estimated that the combined effect of these provisions will be to increase liabilities in a full year of operation by \$2,430 million.

Since, in effect, the rate changes do not become operative until November 1, and the head-of-household provision for practically all taxpayers will not be effective until January 1, 1952, collections in the fiscal year 1952, ending June 30, 1952, will not fully reflect the increases provided. Therefore, fiscal year 1952 collections are expected to be increased by only about 58 percent of the \$2,430 million, or by \$1,414 million.

A. RATE CHANGES

For taxable years beginning after October 31, 1951, the bill increases the present individual income taxes by the lower of either about 11.75 percent of the present combined normal tax and surtax, or approximately 9 percent of the surtax net income¹ after present taxes. However, in the first \$2,000 surtax net income bracket the increase is to be 11 percent instead of 11.75 percent. These increases are incorporated in the surtax rate schedule and are to terminate as of December 31, 1953.

The combined normal tax and surtax bracket rates under present law and under the bill for 1952 and 1953 are shown in the first two columns of table 2. These are the marginal tax rates for single persons (other than heads of households) under present law and the conference bill. Because of income splitting, however, these are not the marginal rates for married couples. These marginal rates under present law and under the conference bill are shown in the third and fourth columns of table 2. The surtax bracket rates under the conference bill range from 22.2 percent on the first \$2,000 of surtax net income, to 92 percent on surtax net income of \$200,000 and over. This can be compared with rates under present law

¹ Surtax net income is income after deductions and exemptions.

ranging from 20 percent on the first \$2,000 to 91 percent on income of \$200,000 and over. The marginal rates for married couples under the bill also range from 22.2 percent to 92 percent, but as indicated by the table, the latter rate is not effective until a surtax net income level of \$400,000 is reached.

TABLE 2.—*Marginal individual income normal tax and surtax rates under present law, and the conference bill for calendar years 1952 and 1953*

Surtax net income levels (in thousands) ¹	Single persons		Married couples	
	Present law	Conference bill	Present law	Conference bill
	<i>Percent</i>	<i>Percent</i>	<i>Percent</i>	<i>Percent</i>
\$0 to \$2.....	20	22.2	20	22.2
\$2 to \$4.....	22	24.6	20	22.2
\$4 to \$6.....	26	29	22	24.6
\$6 to \$8.....	30	34	22	24.6
\$8 to \$10.....	34	38	26	29
\$10 to \$12.....	38	42	26	29
\$12 to \$14.....	43	48	30	34
\$14 to \$16.....	47	53	30	34
\$16 to \$18.....	50	56	34	38
\$18 to \$20.....	53	59	34	38
\$20 to \$22.....	56	62	38	42
\$22 to \$24.....	59	66	38	42
\$24 to \$26.....	59	66	43	48
\$26 to \$28.....	62	67	43	48
\$28 to \$32.....	62	67	47	53
\$32 to \$36.....	65	68	50	56
\$36 to \$38.....	65	68	53	59
\$38 to \$40.....	69	72	53	59
\$40 to \$44.....	69	72	56	62
\$44 to \$50.....	72	75	59	66
\$50 to \$52.....	75	77	59	66
\$52 to \$60.....	75	77	62	67
\$60 to \$64.....	78	80	62	67
\$64 to \$70.....	78	80	65	68
\$70 to \$76.....	81	83	65	68
\$76 to \$80.....	81	83	69	72
\$80 to \$88.....	84	85	69	72
\$88 to \$90.....	84	85	72	75
\$90 to \$100.....	87	88	72	75
\$100 to \$120.....	89	90	75	77
\$120 to \$140.....	89	90	78	80
\$140 to \$150.....	89	90	81	83
\$150 to \$160.....	90	91	81	83
\$160 to \$180.....	90	91	84	85
\$180 to \$200.....	90	91	87	88
\$200 to \$300.....	91	92	89	90
\$300 to \$400.....	91	92	90	91
\$400 and over.....	91	92	91	92

¹ Income after business and personal deductions and exemptions.

The bill raises the effective rate limitation, or maximum combined normal tax and surtax on total net income, from the 87 percent provided by present law to 88 percent. This effective rate limitation prevents an individual's total net income from being taxed at a rate higher than 88 percent, although the bracket rate on income in excess of \$200,000 permits a portion of an individual's income to be taxed at as high a rate as 92 percent.

The bill also provides a new surtax rate schedule for the calendar year 1951, adding to the present tax burden about one-sixth of the increase provided for 1952 and 1953. Thus, for 1951 the present tax is increased by the lower of either nearly 2 percent of the existing law tax, or by about 1½ percent of surtax net income after deducting the present tax. This is roughly the equivalent of making the full 11.75-percent or 9-percent increase effective November 1, 1951. The combined normal tax and surtax bracket rates under the bill for the

calendar year 1951 range from 20.4 percent on the first \$2,000 of taxable income to 91 percent on taxable income over \$200,000. The effective rate limitation for calendar year 1951 taxpayers is 87.2 percent.

The bill also adds a provision which makes inapplicable, for 1951, the penalties and additions to tax for willful failure to make declarations or pay estimated tax with respect to the additional tax imposed on individuals by this bill.

The bill, in effect, raises the alternative tax on capital gains of individuals from 25 percent to 26 percent. This increase is applicable to taxable years beginning after October 31, 1951, and before November 1, 1953. No increase is provided for years which do not begin in this period even though they end in it.

Under the bill new withholding tables are provided to reflect the increased taxes. The withholding in these tables is at 20 percent as contrasted to 18 percent in the tables in present law. Similar adjustments are made in the percentage method of withholding. A withholding tax rate of 20 percent collects the full amount ordinarily due on the beginning rates provided by the bill after allowance for the standard deduction.

Table 3 shows the effective rates of tax under present law and under the bill for single persons with no dependents, for married couples with no dependents, and for married couples with two dependents, at selected net income levels.² This effective rate table differs in two important respects from the marginal rates previously shown: (1) The effective rates show the accumulative rate on all income up to any specific income level and, therefore, represent the average rates at which the entire income is taxed, and (2) they are based on net income before exemptions and, therefore, show the effective exemptions on the actual tax paid. On the same basis as the effective rates, table 4 shows the amount of tax paid at selected net income levels under the conference bill and compares these taxes with those under present law.

TABLE 3.—Comparison of individual income tax effective rates under present law and the conference bill

Net income (after deductions but before exemptions)	Single person, no dependents		Married couple, no dependents		Married couple, 2 dependents	
	Present law	Conference bill	Present law	Conference bill	Present law	Conference bill
	Percent	Percent	Percent	Percent	Percent	Percent
\$800.....	5.0	5.6				
\$1,000.....	8.0	8.9				
\$1,500.....	12.0	13.3	4.0	4.4		
\$2,000.....	14.0	15.5	8.0	8.9		
\$3,000.....	16.3	18.1	12.0	13.3	4.0	4.4
\$4,000.....	17.7	19.7	14.0	15.5	8.0	8.9
\$5,000.....	18.9	21.0	15.2	16.9	10.4	11.5
\$8,000.....	22.3	24.9	17.7	19.7	14.4	16.0
\$10,000.....	24.4	27.3	18.9	21.0	15.9	17.7
\$15,000.....	29.7	33.1	21.7	24.3	19.3	21.6
\$20,000.....	34.7	38.8	24.4	27.3	22.3	25.0
\$25,000.....	39.2	43.8	26.9	30.0	25.1	28.0
\$50,000.....	52.8	56.9	39.2	43.8	37.8	42.2
\$100,000.....	66.8	69.7	52.8	56.9	51.9	56.0
\$300,000.....	82.4	84.1	74.2	76.5	73.8	76.1
\$500,000.....	85.9	87.2	80.7	82.5	80.5	82.2
\$1,000,000.....	¹ 87.0	² 88.0	85.9	87.2	85.7	87.1

¹ Maximum effective rate limitation of 87 percent.

² Maximum effective rate limitation of 88 percent.

³ Net income is income after deductions, but before exemptions.

TABLE 4.—Comparison of individual income-tax burdens under present law with those under the conference bill for 1952 and 1953

SINGLE PERSON, NO DEPENDENTS

Net income (after deductions but before exemptions)	Amount of tax		Net income (after deductions but before exemptions)	Amount of tax	
	Present law	Conference bill		Present law	Conference bill
\$800.....	\$40	\$44. 40	\$15,000.....	\$4, 448	\$4, 968. 00
\$1,000.....	80	88. 80	\$20,000.....	6, 942	7, 762. 00
\$2,000.....	280	310. 80	\$25,000.....	9, 796	10, 940. 00
\$3,000.....	488	542. 40	\$50,000.....	26, 388	28, 466. 00
\$4,000.....	708	788. 40	\$100,000.....	66, 798	69, 688. 00
\$5,000.....	944	1, 052. 00	\$300,000.....	247, 274	252, 164. 00
\$8,000.....	1, 780	1, 992. 00	\$500,000.....	429, 274	436, 164. 00
\$10,000.....	2, 436	2, 728. 00	\$1,000,000.....	1 870, 000	2 880, 000. 00

MARRIED COUPLE, NO DEPENDENTS

\$1,500.....	\$60	\$66. 60	\$20,000.....	\$4, 872	\$5, 456. 00
\$2,000.....	160	176. 60	\$25,000.....	6, 724	7, 508. 00
\$3,000.....	360	399. 60	\$50,000.....	19, 592	21, 880. 00
\$4,000.....	560	621. 60	\$100,000.....	52, 776	56, 932. 00
\$5,000.....	760	843. 60	\$300,000.....	222, 572	229, 352. 00
\$8,000.....	1, 416	1, 576. 80	\$500,000.....	403, 548	412, 328. 00
\$10,000.....	1, 888	2, 104. 00	\$1,000,000.....	858, 548	872, 328. 00
\$15,000.....	3, 260	3, 644. 00			

MARRIED COUPLE, 2 DEPENDENTS

\$3,000.....	\$120	\$133. 20	\$25,000.....	\$6, 268	\$7, 004. 00
\$4,000.....	320	355. 20	\$50,000.....	18, 884	21, 088. 00
\$5,000.....	520	577. 20	\$100,000.....	51, 912	56, 032. 00
\$8,000.....	1, 152	1, 281. 60	\$300,000.....	221, 504	228, 272. 00
\$10,000.....	1, 592	1, 773. 60	\$500,000.....	402, 456	411, 224. 00
\$15,000.....	2, 900	3, 236. 00	\$1,000,000.....	857, 456	871, 224. 00
\$20,000.....	4, 464	5, 000. 00			

¹ Maximum effective rate limitation of 87 percent.
² Maximum effective rate limitation of 88 percent.

B. HEAD-OF-HOUSEHOLD PROVISION

For a person qualifying as a “head of household” section 301 of the bill provides a new surtax table applicable for taxable years beginning after October 31, 1951. Thus, for a calendar year taxpayer, the provision will not become effective until 1952. The new surtax table is constructed to give heads of households approximately one-half of the benefits of income-splitting.

The bill defines a head of a household, for purposes of obtaining the benefits of this special provision, as an individual who is not married and who maintains a household in which lives—

(1) One of his children (including an adopted child), one of their descendants or a stepchild (but the child, descendant, or stepchild if married must be a dependent of the taxpayer and not file a joint return); or

(2) Any person (not filing a joint return with a spouse), who has a gross income of less than \$600,³ more than half of whose support is supplied by the taxpayer and who bears one of the following relationships to the taxpayer:

³ Under present law the taxpayer is allowed a dependency credit provided the dependent has a gross income of less than \$500. Sec. 310 of this bill, discussed elsewhere in this summary, raises the allowable gross income of a dependent to \$600.

- (a) A brother or sister or stepbrother or stepsister,
- (b) A parent or one of their ancestors,
- (c) A stepparent,
- (d) A nephew or niece,
- (e) An uncle or aunt, or
- (f) A son-in-law, daughter-in-law, mother-in-law, father-in-law, sister-in-law, or brother-in-law.

A taxpayer is considered as maintaining a household only if during the year he furnishes more than half the maintenance costs of such household. Moreover, the individual who makes it possible for the taxpayer to gain the benefits of the head-of-household status must actually live in the taxpayer's household during the entire taxable year unless he is temporarily absent, for example, attending school or for reasons of health. Under this definition it is immaterial how much gross income an unmarried child or grandchild living with the taxpayer may have.

Table 5 shows the amount of tax paid at selected net income levels for heads of households with one dependent, for single individuals with one dependent, and for married couples with no dependents. It also shows how much less the tax of the head of household and the tax of the married couple are than that of the single person at the same income level. This represents the benefits of income splitting, which present law grants in full to married couples and which the bill grants in part to heads of households. The last column of the table expresses the income-splitting benefits granted heads of households as percentages of the income-splitting benefits available to married couples. This shows that the bill grants about 50 percent of the benefits of income splitting to heads of households.

TABLE 5.—Comparison of individual income tax burdens for heads of households under the conference bill with those for single persons with 1 dependent and for married couples under the bill for 1952 and 1953

Selected net income levels ¹	Amount of tax			Amount of tax difference between single person with 1 dependent and—		Percent tax difference between head of household and single person is of that between married couple and single person
	Head of household with 1 dependent	Single individual with 1 exemption	Married couple filing a joint return	Head of household	Married couple	
\$1,500-----	\$66.60	\$66.60	\$66.60	-----	-----	-----
\$2,000-----	177.60	177.60	177.60	-----	-----	-----
\$3,000-----	399.60	399.60	399.60	-----	-----	-----
\$5,000-----	865.20	886.80	843.60	\$21.60	\$43.20	50.0
\$8,000-----	1,684.00	1,788.00	1,576.80	104.00	211.20	49.2
\$10,000-----	2,304.00	2,500.00	2,104.00	196.00	396.00	49.5
\$15,000-----	4,150.00	4,660.00	3,644.00	510.00	1,016.00	50.2
\$20,000-----	6,436.00	7,408.00	5,456.00	972.00	1,952.00	49.8
\$25,000-----	9,024.00	10,544.00	7,508.00	1,520.00	3,036.00	50.1
\$50,000-----	24,960.00	28,016.00	21,880.00	3,056.00	6,136.00	49.8
\$100,000-----	63,040.00	69,160.00	56,932.00	6,120.00	12,228.00	50.0
\$500,000-----	424,408.00	435,612.00	412,328.00	11,204.00	23,284.00	48.1
\$1,000,000-----	² 880,000.00	² 880,000.00	872,328.00	-----	7,672.00	-----

¹ Income after deductions but before exemptions.

² Maximum effective rate limitation of 88 percent.

C. DISTRIBUTION OF TAX BURDEN

Table 6 shows the distribution of the individual income tax burden under present law and the bill by adjusted gross income classes.⁴ It also distributes by the same classes the number of taxable returns, the adjusted gross income, the value of the exemptions and the normal tax and surtax net income.⁵

The table indicates that of \$25,885 million in total individual income tax liability under the bill, \$9,638 million will come from those with adjusted gross incomes under \$5,000 and \$16,247 million from those with adjusted gross incomes of over \$5,000.

TABLE 6.—*Estimated distribution of individual income tax returns, income exemptions and tax liability under present rates and under the conference bill when fully effective*

[Money amounts in millions of dollars]

Adjusted gross income classes	Total number of taxable returns	Adjusted gross income	Value of exemptions	Surtax net income	Total tax, present law ¹	Total tax under conference bill ¹	Tax increase, conference bill over present law ²
Under \$1,000.....	1,868,095	\$1,556	\$1,121	\$272	\$54	60	6
\$1,000 to \$2,000.....	6,991,074	10,875	5,436	4,209	842	934	93
\$2,000 to \$3,000.....	10,908,014	27,275	12,918	11,226	2,245	2,492	247
\$3,000 to \$4,000.....	9,830,797	33,462	15,496	14,315	2,871	3,187	316
\$4,000 to \$5,000.....	6,262,777	27,905	11,259	13,247	2,672	2,965	293
Total under \$5,000.....	35,860,757	101,073	46,230	43,268	8,684	9,638	954
\$5,000 to \$10,000.....	6,645,679	42,850	12,524	24,916	5,080	5,637	558
\$10,000 to \$25,000.....	1,342,865	19,470	2,637	14,742	3,488	3,879	392
\$25,000 to \$50,000.....	247,141	8,200	495	6,970	2,289	2,539	250
\$50,000 to \$100,000.....	70,115	4,675	138	3,966	1,862	2,039	177
\$100,000 to \$250,000.....	18,276	2,559	35	1,966	1,276	1,354	77
\$250,000 to \$500,000.....	1,967	647	3	438	378	391	13
\$500,000 to \$1,000,000.....	479	316	1	185	192	197	5
\$1,000,000 and over.....	189	310	(2)	178	206	210	4
Total over \$5,000.....	8,326,711	79,027	15,833	53,363	14,771	16,247	1,476
Total.....	44,187,468	180,100	62,063	96,631	23,455	25,885	2,430

PERCENTAGE DISTRIBUTIONS

Under \$1,000.....	4.23	0.86	1.81	0.28	0.23	0.23	0.25
\$1,000 to \$2,000.....	15.82	6.04	8.76	4.36	3.59	3.61	3.81
\$2,000 to \$3,000.....	24.69	15.14	20.81	11.62	9.57	9.63	10.16
\$3,000 to \$4,000.....	22.25	18.58	24.97	14.81	12.24	12.31	13.00
\$4,000 to \$5,000.....	14.17	15.49	18.14	13.71	11.39	11.45	12.05
Total under \$5,000.....	81.16	56.12	74.49	44.78	37.02	37.24	39.27
\$5,000 to \$10,000.....	15.04	23.79	20.18	25.78	21.66	21.78	22.96
\$10,000 to \$25,000.....	3.04	10.81	4.25	15.26	14.87	14.99	16.12
\$25,000 to \$50,000.....	.60	4.55	.80	7.21	9.76	9.81	10.28
\$50,000 to \$100,000.....	.16	2.60	.22	4.10	7.94	7.88	7.27
\$100,000 to \$250,000.....	.04	1.42	.06	2.03	5.44	5.23	3.19
\$250,000 to \$500,000.....	(3)	.36	(3)	.45	1.61	1.51	.54
\$500,000 to \$1,000,000.....	(3)	.18	(3)	.19	.82	.76	.21
\$1,000,000 and over.....	(2)	.17	(2)	.18	.88	.81	.17
Total over \$5,000.....	18.84	43.88	25.51	55.22	62.98	62.76	60.73
Total.....	100.00	100.00	100.00	100.00	100.00	100.00	100.00

¹ Includes normal tax, surtax, and alternative tax on net long-term capital gains and increase from rate changes, including capital gains, under the conference bill and decrease due to head of household provision.

² Less than \$500,000.

³ Less than 0.005 percent.

NOTE.—Figures are rounded and may not add to totals.

⁴ Income after business but before personal deductions and exemptions.

⁵ Income after business and personal deductions and exemptions.

II. GENERAL CORPORATE TAX CHANGES

The bill provides a corporate income tax rate of 30 percent on the first \$25,000 of each corporation's income, and a 52-percent rate on all income in excess of \$25,000. This can be compared with present law rates of 25 percent on the first \$25,000 of income, and 47 percent on all income in excess of \$25,000. Under the bill the top corporate income tax rate, taken together with the 30 percent excess profits tax rate, gives a combined rate of 82 percent applying to adjusted excess profits net income, as compared with a combined rate of 77 percent under existing law. The bill provides a ceiling rate of 18 percent for excess profits tax and consolidated return purposes, which when taken together with the maximum effective rate of about 52 percent under the corporate income tax, means that in no case will more than about 70 percent of a corporation's income be taken in income, consolidated return and excess profits taxes. Present law provides a ceiling rate on income taxes and excess profits taxes, taken together, of 62 percent. The tax rate on capital gains is increased from 25 percent to 26 percent. The bill also reduces from 85 to 83 percent the proportion of the average base period net income which may be taken into account in computing the excess profits credit. The normal tax and surtax rate changes provided by the bill are effective as of April 1, 1951, and are to terminate as of April 1, 1954. The ceiling rate change also is effective as of April 1, 1951, and will not be generally operative after June 30, 1953, the termination date for the excess profits tax. The change in the capital gains tax rate is applicable to the calendar years 1952, 1953 and 1954. The change in the percentage of average base period net income taken into account for excess profits tax purposes is effective July 1, 1951 and, like the ceiling rate, will not be operative after the termination of the excess profits tax.

It is estimated that in a full year of operation these changes in corporate rates will increase liabilities by \$2,545 million before consideration is given to the effect on individual income taxes of the smaller amounts which will be available for corporation dividend payments. Of this amount, \$2,250 million is attributable to the increases in the corporate normal tax and surtax and \$12 million is attributable to the increase in the capital gains tax. The additional \$283 million is attributable to increases in excess profits tax liabilities. It is estimated that after the decrease in individual income tax collections resulting from smaller dividend payments is taken into account, the net increase provided by the bill with respect to corporate rates will be \$2,343 million.

In the fiscal year 1952, ending June 30, 1952, it is estimated that the increases in corporate rates provided by the bill will increase revenues in this year by \$961 million.

A. NORMAL TAX, SURTAX AND CAPITAL GAINS TAX RATE CHANGES

For taxable years beginning after March 31, 1951, the bill provides a corporate normal tax rate of 30 percent as compared to a normal tax rate of 25 percent under existing law. The corporate surtax rate under both the bill and existing law is 22 percent. Changes are also provided in the bill in the credits allowed Western Hemisphere trade

corporations and the credits for dividends paid and received on preferred stock of public utilities, which retain the tax differential provided in these cases under existing law. These rate and credit changes are to terminate as of April 1, 1954.

Since corporations with incomes of \$25,000 or less are subject only to the normal tax, their rate of tax is increased from 25 percent to 30 percent under the bill. The combined normal tax and surtax on incomes in excess of \$25,000 is increased from 47 percent to 52 percent. Table 7 compares for corporations with selected net incomes the combined corporate normal tax and surtax effective rates under the bill with those under existing law and under the law in effect prior to the enactment of the Revenue Act of 1950. The table indicates that under the provisions of the bill the effective rate, or average rate on the entire taxable income, for all corporations is 5 percentage points above existing law.

Table 8 shows for corporations with selected net incomes the combined corporate normal tax and surtax liabilities under the bill, under existing law, and under the law in effect prior to the enactment of the Revenue Act of 1950. The increase in tax liabilities of the bill over existing law ranges in the cases shown from 20 percent on incomes under \$25,000, to 10.64 percent on incomes of \$100,000,000.

The bill also provides a new corporate normal tax rate for 1951 for calendar year corporations. This rate is $28\frac{3}{4}$ percent which, when combined with the 22 percent surtax rate, gives a top rate of $50\frac{3}{4}$ percent for 1951. Thus, the tax rates in 1951 of these calendar year corporations are increased by three-quarters of the increase applicable in 1952 and 1953. This is roughly the equivalent of making the full 5-percentage-point increase effective April 1, 1951. For corporations with taxable years beginning prior to July 1, 1950, and ending after March 31, 1951, the bill provides a formula for prorating the taxes due under the law in effect prior to the Revenue Act of 1950, under existing law and under the bill for years beginning after March 31, 1951. For corporations with taxable years beginning after June 30, 1950, and ending after March 31, 1951, the bill prorates the taxes due under existing law and under the bill for years beginning after March 31, 1951. In general these proration formulas provide that the tax due on the entire income is to be computed at the two or three different rates applicable. Then these taxes are multiplied by a fraction of which the numerator is the number of days in the corporation's taxable year in which the rate in question is effective, and the denominator is the total number of days in its taxable year. The sum of these fractional taxes is the corporation's final obligation. This latter procedure is also made applicable with respect to the termination of the rate increases in 1954 for corporations with taxable years beginning before and ending after April 1, 1954.

TABLE 7.—Comparison of corporate combined normal tax and surtax effective rates under present law and the conference bill

Net income subject to normal tax and surtax	Effective rates of combined normal tax and surtax (percent)			Percentage point increase of conference bill over present law
	Pre-1950	Present law	Conference bill	
\$1,000.....	21.00	25.00	30.00	5.00
\$5,000.....	21.00	25.00	30.00	5.00
\$10,000.....	22.00	25.00	30.00	5.00
\$25,000.....	23.00	25.00	30.00	5.00
\$30,000.....	28.00	28.67	33.67	5.00
\$40,000.....	34.25	33.25	38.25	5.00
\$50,000.....	38.00	36.00	41.00	5.00
\$60,000.....	38.00	37.83	42.83	5.00
\$75,000.....	38.00	39.67	44.67	5.00
\$100,000.....	38.00	41.50	46.50	5.00
\$200,000.....	38.00	44.25	49.25	5.00
\$500,000.....	38.00	45.90	50.90	5.00
\$1,000,000.....	38.00	46.45	51.45	5.00
\$10,000,000.....	38.00	46.95	51.95	5.00
\$100,000,000.....	38.00	46.99	51.99	5.00

TABLE 8.—Comparison of corporate normal tax and surtax liabilities under pre-1950 law, present law, and conference bill

Net income subject to normal tax and surtax	Combined normal tax and surtax			Increase in tax liability of conference bill over present law	
	Pre-1950	Present law	Conference bill	Amount	Percent
\$1,000.....	\$210	\$250	\$300	\$50	20.00
\$5,000.....	1,050	1,250	1,500	250	20.00
\$10,000.....	2,200	2,500	3,000	500	20.00
\$25,000.....	5,750	6,250	7,500	1,250	20.00
\$30,000.....	8,400	8,600	10,100	1,500	17.44
\$40,000.....	13,700	13,300	15,300	2,000	15.04
\$50,000.....	19,000	18,000	20,500	2,500	13.89
\$60,000.....	22,800	22,700	25,700	3,000	13.22
\$75,000.....	28,500	29,750	33,500	3,750	12.61
\$100,000.....	38,000	41,500	46,500	5,000	12.05
\$200,000.....	76,000	88,500	98,500	10,000	11.30
\$500,000.....	190,000	229,500	254,500	25,000	10.89
\$1,000,000.....	380,000	464,500	514,500	50,000	10.76
\$10,000,000.....	3,800,000	4,694,500	5,194,500	500,000	10.65
\$100,000,000.....	38,000,000	46,994,500	51,994,500	5,000,000	10.64

As in the case of the alternative tax on capital gains of individuals, the bill raises the capital gains tax for corporations from 25 percent to 26 percent. This increase is applicable to taxable years beginning after March 31, 1951, and before April 1, 1954. It does not apply to years beginning before April 1, 1951, even though they end within this period. It does not, for example, apply to the calendar year 1951.

B. CEILING RATE OR MAXIMUM RATE LIMITATION

Under existing law the normal tax, surtax, 2-percent tax on consolidated returns, and excess profits tax together may not exceed 62 percent of a corporation's excess profits net income (income determined for excess profits before deducting the excess profits credit and unused excess profits credit carry-over).⁶ Thus, for corporations with

⁶ For this purpose the excess profits net income is substituted for the normal tax net income and surtax net income in computing the various taxes involved. The 30 percent excess profits tax rate is applied to adjusted excess profits net income—that is, excess profits net income after deduction of the excess profits credit and the unused excess profits credit carry-over.

effective income tax rates of about 47 percent under present law, this means that the excess profits tax may not exceed about 15 percent of their excess profits net income.

The bill adopts a new type of ceiling rate. The ceiling rate in this bill is 18 percent of excess profits net income with respect to taxable years beginning after April 1, 1951, but applies only with respect to excess profits tax liability and the proportion of the tax liability under the consolidated returns tax which is attributable to the excess profits tax net income. For corporations with income tax effective rates of about 52 percent the 18-percent rate under the new formula is the equivalent of about a 70-percent ceiling rate on liabilities under the income taxes, consolidated return tax, and excess profits tax, taken together. However, because of the \$25,000 surtax exemption, the effective income tax rates of corporations with taxable incomes of less than \$250,000 is less than 50 percent. As a result a ceiling rate of 70 percent on their combined income and excess profits liabilities is quite different from an 18-percent ceiling on their excess profits tax liabilities. Table 9 shows, for selected income levels, the effective income tax rates under the bill, and the maximum effective rates with the 70-percent ceiling formula and the 18-percent ceiling formula. The table indicates that for corporations with incomes over \$62,500⁷ the 18-percent formula is the more generous, resulting in a maximum tax saving of about 5 percent of total income for corporations with incomes of about \$108,333.

TABLE 9.—*Corporation normal tax and surtax effective rates under the conference bill with a comparison of the maximum effective rates of income and excess-profits taxes under a 70-percent ceiling on income and excess-profits taxes with the ceiling rate under the conference bill (18 percent ceiling rate on excess-profits taxes alone)*

Current income	Effective rate of normal tax and surtax under conference bill	Maximum effective rate of income and excess-profits tax		
		70 percent income and excess-profits ceiling	18 percent excess-profits tax ceiling	Percentage point difference
	Percent	Percent	Percent	Percent
\$10,000.....	30.00	¹ 30.00	² 30.00	-----
\$25,000.....	30.00	¹ 30.00	² 30.00	-----
\$30,000.....	33.67	¹ 38.67	² 38.67	-----
\$40,000.....	38.25	¹ 49.50	² 49.50	-----
\$50,000.....	41.00	¹ 56.00	² 56.00	-----
\$60,000.....	42.83	¹ 60.33	² 60.33	-----
\$62,500.....	43.20	¹ 61.20	² 61.20	-----
\$70,000.....	44.14	¹ 63.43	62.14	1.29
\$80,000.....	45.13	¹ 65.75	63.13	2.62
\$90,000.....	45.89	¹ 67.56	63.89	3.67
\$100,000.....	46.50	¹ 69.00	64.50	4.50
\$108,333.....	46.92	70.00	64.92	5.08
\$150,000.....	48.33	70.00	66.33	3.67
\$200,000.....	49.25	70.00	67.25	2.75
\$250,000.....	49.80	70.00	67.80	2.20
\$300,000.....	50.17	70.00	68.17	1.83
\$400,000.....	50.63	70.00	68.63	1.37
\$500,000.....	50.90	70.00	68.90	1.10
\$1,000,000.....	51.45	70.00	69.45	.55
\$10,000,000.....	51.95	70.00	69.95	.05
\$100,000,000.....	51.99	70.00	69.99	.01

¹ As a result of the \$25,000 surtax exemption and the \$25,000 minimum credit, the maximum effective rate on income and excess-profits tax liabilities is always less than 70 percent for corporations with incomes below \$108,333.

² As a result of the \$25,000 minimum excess-profits tax credit, the maximum effective excess-profits tax rate for corporations with incomes below \$62,500 is always less than 18 percent.

⁷ For corporations with incomes under \$62,500 the \$25,000 minimum excess-profits tax credit prevents a higher effective rate than 18 percent under both formulas.

Under existing law the ceiling rate is 62 percent as compared with a top effective income tax rate (combined normal tax and surtax) of 47 percent. With the increase of 5 percent in the normal tax provided in the bill an equivalent ceiling rate would be 67 percent. With the new type of ceiling rate the addition under the bill to bring the over-all rate for the largest companies from 52 percent to 67 percent, would be 15 percent of excess profits net income. The increase to 18 percent is thus, in effect, an increase in excess profits tax for those corporations which are affected by the ceiling rate.

For calendar year corporations the bill provides a ceiling rate on excess profits tax liability in 1951 of 17¼ percent. This represents three-fourths of the full increase made in the ceiling rate and is roughly the equivalent of making the increase in the ceiling rate effective April 1, 1951. For other corporations with years beginning before and ending after April 1, 1951, a proration formula is provided similar to that previously discussed in connection with the corporate rate changes.

C. PERCENTAGE OF THE AVERAGE BASE PERIOD NET INCOME TAKEN INTO ACCOUNT IN COMPUTING THE EXCESS-PROFITS CREDIT

Under present law a corporation in computing its excess-profits credit on the basis of average earnings may take into account only 85 percent of its average earnings in its three best years in the period 1946-49. The bill (sec. 602) reduces this percentage to 83 percent.

This change is effective as of July 1, 1951, and becomes inoperative at the time of the termination of the excess profits tax, June 30, 1953. For calendar year corporations the credit to be used in determining the credit for 1951 will be 84 percent. For other corporations with taxable years beginning before and ending after July 1, 1951, the credit is prorated between the 85 percent and the 83 percent on a basis similar to that previously discussed in connection with the corporate income tax changes.

D. DISTRIBUTION OF THE BURDEN

Table 10 shows the combined corporate income and excess profits tax liabilities of corporations in various income classes under existing law and under the conference bill. The table indicates that of the 415,182 corporations with taxable net income, 292,491, or about 70 percent of the total, have incomes of less than \$25,000. These corporations, which have 4.8 percent of the total taxable income, bear about 4.3 percent of the increase in tax liabilities provided by the bill. The 45,022 corporations with incomes of \$100,000 and over, which constitute about 11 percent of the total number of corporations with taxable net income, have 87.25 percent of the total taxable income, and bear about 88.2 percent of the increase provided by the bill.

TABLE 10.—Estimated corporate net income, taxable returns, and tax liability under present law and under the conference bill ¹

Taxable net income classes	Number of taxable returns	Taxable net income	Income and excess profits tax liabilities		Increase present law
			Present law	Conference bill	
		Millions	Millions	Millions	Millions
Up to \$25,000.....	292, 491	\$2, 161	\$540	\$648	\$108
\$25,000 to \$50,000.....	47, 192	1, 566	520	602	82
\$50,000 to \$100,000.....	30, 477	2, 018	899	1, 009	110
\$100,000 and over.....	45, 022	39, 311	21, 426	23, 659	2, 233
Total, excluding capital gains.....	415, 182	45, 056	23, 385	25, 918	2, 533
Capital gains.....		1, 200	300	312	12
Total, including capital gains.....	415, 182	46, 256	23, 685	26, 230	2, 545

PERCENTAGE DISTRIBUTION

Up to \$25,000.....	70. 45	4. 80	2. 31	2. 50	4. 26
\$25,000 to \$50,000.....	11. 37	3. 47	2. 22	2. 32	3. 24
\$50,000 to \$100,000.....	7. 34	4. 48	3. 85	3. 89	4. 34
\$100,000 and over.....	10. 84	87. 25	91. 62	91. 29	88. 16
Total, excluding capital gains.....	100. 00	100. 00	100. 00	100. 00	100. 00

¹ Based on a level of profits before tax (Commerce basis) of \$48 billion.

III. TAX-EXEMPT ORGANIZATIONS

The bill imposes the regular corporate income tax on certain undistributed profits of the following organizations fully exempt from income tax under section 101 of the present law: Farmers' purchasing and marketing cooperatives, mutual savings banks, and State chartered savings and loan associations (including cooperative banks) as well as Federal savings and loan associations. Other provisions of the bill which deal with tax-exempt organizations include an amendment taxing the unrelated business of colleges and universities of States and local governments; an amendment specifically exempting from income tax for years prior to 1951 the "feeder" corporations of certain types of educational and charitable organizations; an amendment exempting from tax publishing businesses of educational organizations under certain conditions and for a limited period of time; and an amendment providing a deduction for a limited period of time for repayments of debts incurred under certain circumstances in the acquisition by colleges of unrelated businesses.

It is estimated that in a full year of operation the provisions referred to above will increase revenues by \$28 million.

A. COOPERATIVES (SEC. 314)

Section 101 (12) of the code exempts from income tax all farm cooperatives which meet certain specified requirements. This exemption includes not only cooperatives marketing the products of farmers but also cooperatives purchasing products and reselling them to farmers. The chief requirements which must be met by cooperatives in order to be exempt from income tax under section 101 (12) are as follows:

1. They must be farmers', fruit growers', or like associations organized and operated on a cooperative basis for the purpose of marketing products or purchasing supplies for their members.

2. Substantially all of their stock (other than preferred non-voting stock) must be owned by producers marketing products or purchasing supplies through the cooperatives.

3. The marketing of products of nonmembers may not exceed 50 percent in value of the cooperative's total marketing.

4. The purchasing for nonmembers may not exceed 50 percent of the cooperative's total purchasing, and the purchasing for persons who are neither members nor producers may not exceed 15 percent of the cooperative's total purchasing.

5. Nonmembers must not be discriminated against in the allocation of patronage dividends or refunds to the accounts of patrons.

At the present time, the advantages which are derived from exemption can be summarized as follows: First, the earnings of a cooperative which are paid out to shareholders in the form of dividends on capital stock are not taxable to an exempt cooperative but are taxable to other cooperatives. Second, any part of the net margins or profits which are retained as reserves and not allocated to the accounts of patrons are not taxable to an exempt cooperative but are taxable in the case of other cooperatives. Third, nonoperating income such as interest, dividends, rents, and capital gains and also the income from certain business done with the United States Government or its agencies, is taxable to the ordinary cooperative even when allocated to the accounts of patrons, but is tax-free to the exempt cooperative whether or not allocated.

Section 314 of the bill continues the income tax exemption provided by section 101 (12) of the code but removes from its application earnings which are placed in reserves or surplus and not allocated or credited to the accounts of patrons. In addition to being tax-free with respect to patronage dividends paid or allocated to patrons, as is generally also true in the case of other cooperatives, the cooperatives coming under section 101 (12) are also to remain exempt with respect to amounts paid as dividends on capital stock, and with respect to amounts allocated to patrons where the income involved was not derived from patronage, as in the case of interest, rents or income derived from business done with the Federal Government. Amounts which are allocated or paid to patrons, with respect to patronage, are to be deductible to the cooperative if made on or before the 15th day of the ninth month following the close of the year in which the patronage occurred. Similarly, where nonpatronage income is allocated to patrons before the middle of the ninth month of the year, it is deductible in the preceding year.

As a result of this action, all earnings or net margins of cooperatives will be taxable either to the cooperative, its patrons, or its stockholders, with the exception of net margins on patronage which are paid or allocated to patrons on the basis of purchases of personal, rather than business, expense items. With this exception, funds which are allocated to the accounts of patrons, or paid in cash or merchandise, are taxable to them. This is true in the case of either taxable or tax-exempt cooperatives. Funds which are not paid or allocated to patrons but are retained as reserves by the cooperatives will be taxable to the cooperative. This also will be true of both types of coopera-

tives. Funds paid out as dividends on ordinary capital stock in the case of the exempt cooperative will be taxable to the stockholder, while in the case of the taxable cooperative a tax is imposed at both the stockholder and the cooperative levels.

In the case of either a tax-exempt or a taxable cooperative net margins earned on patronage (but not earnings from other sources) which are paid or allocated to patrons on the basis of personal expense items have been held to have no income-tax consequences to the patrons, on the grounds that they represent a return with respect to expenditures by the patron of a personal nature, for which no income tax deduction has been taken by him.

With respect to patronage dividends, any corporation, except those exempt from tax under section 101 (10) and (11) and those taxed under supplement G, are required by the bill to make information returns giving the name and address of patrons to whom they have made allocations or cash and merchandise payments amounting to \$100 or more and the amount of such allocations. In addition, the Secretary of the Treasury is given the authority to require these information returns with respect to all patronage dividends irrespective of the size of the patronage dividends. The organizations to which this provision is not applicable include REA cooperatives, mutual ditch or irrigation companies, cooperative telephone companies, mutual casualty and fire insurance companies, and mutual life insurance companies.

The amendments made by the bill with respect to the tax treatment of cooperatives exempt under section 101 (12) of the code are applicable to taxable years beginning after December 31, 1951. The amendment requiring certain information returns with respect to patronage dividends is applicable to the calendar year 1951 and subsequent years.

B. MUTUAL FINANCIAL INSTITUTIONS

1. *Mutual savings banks (secs. 313, 346)*

The primary function of mutual savings banks is to provide safe and convenient facilities to care for savings. They also have the responsibility of investing the funds left with them so as to be able to give their depositors a return on their savings.

Most mutual savings banks were started by groups of individuals who put up guaranty funds which were repaid out of subsequent earnings. The organizers appointed boards of trustees to manage the affairs of the banks. The boards of trustees, which are generally self-perpetuating, direct the policies of the banks, subject to the limitations imposed upon them by the laws of the several States in which they operate. The depositors themselves have no voice either in the choice of trustees or in the management of the bank's affairs. However, since a mutual savings bank has no capital stock, everything that the bank earns is, in theory, held for the benefit of the depositors.

With respect to outlets for their funds, mutual savings banks are subject to limitations similar to those which apply to other banking institutions. They are not limited to making loans only to depositors or members. Table 11 shows the types of assets held by mutual savings banks as of December 30, 1950, and in the case of federally insured mutual savings banks, the types of real-estate loans as of June 30, 1950, and their earnings, expenses, and dividends for the

year ending December 30, 1950. The table indicates that United States Government obligations represent nearly 51 percent, and loans 38 percent of the total loans and investments of these banks. Table 11 also indicates in the case of federally insured mutual savings banks, for which statistics are available, that, as of June 30, 1950, about 33 percent of the real-estate loans held by these banks were either insured by the Federal Housing Administration or guaranteed by the Veterans' Administration. The total deposits of mutual savings banks as of June 27, 1951, were \$20,400 million and their capital accounts, \$2,290 million,³ indicating that they have reserves of slightly over 11 percent of their deposits.

TABLE 11.—*Types of assets held by mutual savings banks as of Dec. 30, 1950; and, for federally insured mutual savings banks, types of real estate loans held as of June 30, 1950; and earnings, expenses, and dividends in the calendar year 1950*

I. ASSETS OF ALL MUTUAL SAVINGS BANKS IN THE UNITED STATES, AS OF
DEC. 30, 1950

[Dollar amounts in millions]

Item	Amount
Total assets.....	\$22,385
Cash and funds due from banks.....	797
United States Government obligations.....	10,868
Obligations of States and subdivisions.....	88
Other securities.....	2,253
Real estate and other loans.....	8,137
Miscellaneous assets.....	242
Number of banks, 529.	

II. FEDERALLY INSURED AND CONVENTIONAL REAL ESTATE LOANS HELD BY
INSURED MUTUAL SAVINGS BANKS, JUNE 30, 1950

[Dollar amounts in millions]

Total real estate loans.....	\$5,447
Federally insured:	
Insured FHA and guaranteed VA mortgage loans on 1- to 4-family properties.....	\$1,364
Insured FHA and guaranteed VA loans on 5 or more family properties.....	415
Total.....	1,779
Conventional loans.....	3,668
Number of insured mutual savings banks, 192.	

III. EARNINGS, EXPENSES AND DIVIDENDS OF INSURED MUTUAL SAVINGS BANKS
FOR THE YEAR ENDING DEC. 30, 1950

[Dollar amounts in thousands]

Current operating earnings, total.....	\$478,695
Interest, discount, and other income on real estate loans.....	231,730
Interest on U. S. Government obligations, direct and guaranteed.....	182,457
Other current earnings.....	64,508
Current operating expenses.....	115,470
Net current operating earnings.....	363,225
Dividends (interest) paid on deposits.....	257,770
Net profits after interest and dividends.....	91,175
Number of insured mutual savings banks, Dec. 30, 1950, 194.	

Source: Annual Report of the Federal Deposit Insurance Corporation for the year ended Dec. 31, 1950, pp. 55 and 272, and Operating Insured Commercial and Mutual Savings Banks, Assets and Liabilities, June 30, 1950, Rept. No. 33, Federal Deposit Insurance Corporation.

³ These statistics are published regularly in the Federal Reserve Bulletin.

Under present law section 101 (2) of the code exempts mutual savings banks from the payment of income tax. The effect of the exemption has been to relieve mutual savings banks of income tax on the amounts retained as undivided profits and additions to surplus.

Section 313 of the bill removes the income tax exemption of mutual savings banks but permits them to deduct amounts paid or credited to the accounts of depositors and permits them to deduct certain amounts credited to a reserve for bad debts. The deduction for additions to bad debt reserves may be a "reasonable addition to a reserve for bad debts * * * determined with due regard to the amount of the taxpayer's surplus or bad debt reserves existing at the close of December 31, 1951." This addition to bad debt reserves may be determined under regulations provided by the Commissioner of Internal Revenue on a similar basis as that now used in a case of ordinary commercial banks. However, in the case of mutual savings banks the institution is to be permitted to make any additions to these reserves which it deems necessary until the reserves, plus surplus and undivided profits, equal 12 percent of its total deposits. The limitation of 12 percent of total deposits is a limitation only as to additions to reserves which the institution can make, without reference to the rules provided by the Commissioner of Internal Revenue. The latter conceivably might in some cases permit additions to reserves in excess of 12 percent of total deposits. In addition, mutual savings banks are to be allowed, as a deduction from gross income, any amount currently paid to the United States, to any Federal instrumentality exempt from Federal income taxes, or to any mutual fund established under the authority of the laws of any State, in repayment of indebtedness incurred prior to September 1, 1951. On the remaining income, mutual savings banks are to be subject to the regular corporate income tax (but not the excess profits tax). An exception is made in the case of mutual, non-stock institutions organized prior to September 1, 1951, for the purpose of providing reserve funds for, and insurance of, shares or deposits in mutual savings banks. These organizations will continue to be exempt from income tax under section 101 of the Code. This provision is effective with respect to taxable years beginning after December 31, 1951.

Section 346 of the bill also deals with mutual savings banks having life insurance departments, and provides that their life insurance departments, even though not separately incorporated, are to be treated separately for tax purposes and taxed in the same manner as life insurance companies generally, if the accounts of these departments are segregated from the other accounts of the bank. This provision also is effective with respect to taxable years beginning after December 31, 1951.

2. Savings and loan associations (sec. 313)

The primary function of savings and loan associations is to provide facilities for saving and to provide a means for financing the purchase of homes. These organizations, which also go under the name of building and loan associations, are typically nonstock corporations which secure their funds through deposits, which are known as "shares." Savings and loan associations may be chartered by the States or by the Home Loan Bank Board. Of the 5,980 associations which were doing business at the end of 1949, 1,505 were Federal associations and the remainder were State-chartered institutions. The former group accounted for \$7.1 billion, or nearly 50 percent, of the \$14.7 billion of total assets of all the associations.

Not all of the earnings of savings and loan associations are distributed in the form of cash or credited to the shareholders' accounts. Some earnings are set aside in various reserve accounts, and some are retained as undivided profits. At the end of 1949, the general reserves and undivided profits of all savings and loan associations in the United States amounted to \$1.1 billion. This was over 7.5 percent of the \$14.7 billion of private savings invested in these institutions.

Most of the assets of savings and loan associations take the form of mortgage loans, usually on residential properties. Thirty years ago, this type of loan accounted for over 90 percent of the assets of these institutions; today, the percentage is somewhat lower, although mortgage loans represented 80 percent of all assets held at the end of 1950. Table 12 shows for 1950 the types of assets held by savings and loan associations at the end of the year 1950, and in the case of federally insured associations, the types of mortgage loans held at the end of the year and the net income, dividends, and additions to undivided profits during the year.

TABLE 12.—*Types of assets held by savings and loan associations as of Dec. 30, 1950, and for federally insured associations, types of real-estate loans held as of Dec. 30, 1950, and income, dividends, and undivided profits and reserves in 1950*

I. ASSETS OF ALL SAVINGS AND LOAN ASSOCIATIONS AND INSURED SAVINGS AND LOAN ASSOCIATIONS AS OF DEC. 30, 1950

[Dollar amounts in millions]

Item	All savings and loan associations	Insured savings and loan associations
Total assets	¹ \$16,925	\$13,644
First-mortgage loans.....	\$13,810	\$11,153
Cash.....	\$913	\$800
U. S. Government obligations.....	\$1,491	\$1,202
Number of associations.....	5,980	2,860

II. FEDERALLY INSURED AND CONVENTIONAL FIRST-MORTGAGE LOANS HELD BY INSURED SAVINGS AND LOAN ASSOCIATIONS, DEC. 30, 1950

[Dollar amounts in millions]

Item	Amount
Total first-mortgage loans.....	² \$11,188
Federally insured:	
VA-guaranteed loans.....	733
FHA-insured loans.....	2,507
Total.....	3,241
Conventional loans.....	7,947

III. INCOME, DIVIDENDS, AND UNDIVIDED PROFITS OF INSURED SAVINGS AND LOAN ASSOCIATIONS, FOR THE YEAR ENDED DEC. 30, 1950

[Dollar amounts in thousands]

Item	Amount
Net income.....	\$411,347
Dividends.....	262,781
Undivided profits and reserves.....	148,566

¹ Preliminary.

² The difference between this figure and the comparable category shown in pt. I is due to differences in accounting methodology.

Sources: Statistical Summary, 1951, Home Loan Bank Board, pp. 8 and 14; Operational Analysis Section Home Loan Bank Board.

State-chartered savings and loan associations at present are exempt from income tax under section 101 (4) of the code. In addition, Federal savings and loan associations which are chartered by the Federal Government are exempt from income tax under the Home Owners' Loan Act of 1933 and are covered by subsection (15) of section 101 of the code providing for the exemption of United States instrumentalities.

Section 313 of the bill removes the income tax exemption of savings and loan associations, including Massachusetts cooperative banks and those chartered by the Federal Government, but allows them to deduct dividends paid to depositors and the amounts placed in bad-debt reserves. The deduction for additions to bad-debt reserves is the same as that previously described in the case of mutual savings banks. Thus, the deduction may be a "reasonable addition to reserve for bad debts" but in no case less than the institution deems necessary, until the reserves equal 12 percent of total deposits or share accounts. In addition, savings and loan associations are to be allowed as a deduction from gross income any amount currently paid to the United States, to any Federal instrumentality exempt from Federal income taxes, or to any mutual fund established under the authority of the laws of any State, in repayment of indebtedness incurred prior to September 1, 1950. On the remaining income the savings and loan associations are subject to the ordinary corporate income tax (but not excess profits tax). As in the case of mutual savings banks, mutual nonstock organizations established prior to September 1, 1951, for the purpose of providing reserve funds for, or insurance of, shares or deposits in savings and loan associations (including cooperative banks) are to continue to be exempt under section 101 of the code. This provision is effective with respect to taxable years beginning after December 31, 1951.

C. UNRELATED BUSINESS INCOME OF STATE AND LOCAL GOVERNMENT COLLEGES AND UNIVERSITIES (SEC. 339)

The Revenue Act of 1950 imposed the regular corporate income tax on certain tax-exempt organizations which are in the nature of corporations, with respect to so much of their income as arises from active business enterprises which are unrelated to the exempt purposes of the organization (including certain "lease-back" income). However, this provision does not apply to such income of universities and colleges of States and local governmental units. Section 339 of the bill extends the present tax to the unrelated business income of universities and colleges of States and of other governmental units. As a result, governmental universities and colleges will be taxable on income derived from any unrelated business activities carried on by the schools themselves (including the income derived from leases for over 5 years of property purchased with borrowed funds). Their "feeder" corporations carrying on a trade or business also will be fully taxable.

This amendment is effective with respect to taxable years beginning after December 31, 1951.

D. EDUCATIONAL "FEEDER" CORPORATIONS (SEC. 601)

The Revenue Act of 1950 included a series of provisions which, under specified conditions, resulted in the imposition of taxes on educational, charitable, and certain other tax-exempt organizations, foundations, and trusts. Among these provisions was one which for 1951 and subsequent years specifically denied exemption to "feeder" corporations, that is, corporations carrying on a trade or business for profit whose profits inure exclusively to organizations exempt under section 101 of the code. With respect to prior years the tax status of such corporations was then in litigation. With respect to these years the Revenue Act of 1950 provided that no tax would be asserted for years prior to 1947 unless a deficiency had already been asserted, or taxes had already been assessed or paid.

Section 601 of the bill amends section 302 of the Revenue Act of 1950 to provide that for years prior to 1951 exemption is not to be denied feeder corporations if their profits inure to a regularly established school, college, or university or to a regularly established hospital, or institution for the rehabilitation of physically handicapped persons. The section further provides that it is not to be construed as having any effect on the tax status of feeder corporations of other types of educational or charitable organizations for years prior to 1951.

E. PUBLISHING BUSINESS CARRIED ON BY TAX-EXEMPT ORGANIZATIONS (SEC. 347)

As pointed out in the preceding discussion, the Revenue Act of 1950 imposed the corporate income tax on the "unrelated business income" of certain tax-exempt organizations. This provision has resulted in some cases in the imposition of tax upon universities with respect to income derived from the operation of a publishing business. Section 347 of the bill provides that income from this type of activity shall continue to be exempt even though in fact unrelated to the function of the tax-exempt organization if by the end of 2 years the operation of the publishing business becomes substantially related to the exercise or performance by the organization of its educational or other purpose or function described in section 101 (6).

This amendment is applicable with respect to taxable years beginning after December 31, 1950, and prior to January 1, 1953.

F. DEDUCTION OF REPAYMENTS OF INDEBTEDNESS IN THE CASE OF EDUCATIONAL ORGANIZATIONS CARRYING ON CERTAIN TYPES OF UNRELATED TRADES OR BUSINESSES (SEC. 348)

Section 348 of the bill adds a new provision to section 422 (a) of the code which deals with the taxation of the unrelated business income of certain tax-exempt organizations. It provides that educational organizations with regular student bodies and faculties which carry on an unrelated trade or business as a partnership are to receive deductions for taxable years beginning before January 1, 1954, with respect to so much of the gross income received from the partnership as is required to repay indebtedness incurred by the organizations in acquiring the unrelated trade or business. However, the deduction

is permitted only with respect to so much of the income as is required to be used for repayment of the indebtedness by a contract entered into by the educational organization prior to January 1, 1950. In addition, the partnership must have been formed prior to January 1, 1950, substantially all of its assets must have been acquired by the educational organizations prior to the same date. Also, the deduction is limited to repayments of indebtedness incurred prior to January 1, 1950.

This provision is effective with respect to taxable years beginning after December 31, 1950, and prior to January 1, 1954.

IV. STRUCTURAL CHANGES IN THE INCOME TAXES

1. Surtax exemptions and minimum excess profits tax credits of related corporations (sec. 121)

Under existing law the \$25,000 corporate surtax exemption and the \$25,000 minimum credit under the excess-profits tax are available to any corporation whether or not it is a member of a group or chain of related corporations.

Section 121 of the bill adds a new subsection (c) to section 15 of the Internal Revenue Code, dealing with cases where, after December 31, 1950, corporations split up into two or more corporations for the purpose of obtaining one or more additional \$25,000 surtax exemptions and \$25,000 minimum excess profits credits. The new subsection provides that if a corporation transfers, after that date, all or a part of its property other than money to a newly organized corporation (or to a dormant corporation utilized for that purpose), the transferee corporation will not be allowed to have \$25,000 of its income exempt from surtax, nor be allowed a minimum excess profits credit of \$25,000, if after the transfer and during any part of the taxable year the old corporation or its stockholders, or both, own 80 percent or more of its voting stock or 80 percent of the total value of its stock, unless it can show by a clear preponderance of the evidence that the corporate split-up was not made with a major purpose of obtaining an additional surtax-exemption or minimum excess-profits credit.

Although it is provided that, in general, the transferee corporation in such cases will have no surtax exemption or minimum excess-profits credit, the Secretary is authorized to allow all or any part of the surtax exemption or the minimum excess-profits credit to the transferee corporation, or to apportion either the exemption or credit between two or more corporations, if that will not result in tax avoidance. Thus, if the original corporation is split up into two or more corporations and then liquidated, the surtax credit and the minimum excess-profits credit which the old corporation would have had may be allowed to one of the new corporations or equitably divided between them. Or if the old corporation continues to operate part of the business but has an income for any taxable year of less than \$25,000 that part of the surtax exemption or the minimum excess-profits credit which it does not need may be allocated to the new corporation.

In determining the extent of an individual's holdings of the stock of a corporation for the purpose of determining control, he is to be deemed to own stock held directly or indirectly by or for his spouse or minor children, and also that portion of the stock owned by a corporation, partnership, estate, or trust in which he holds an interest,

which reflects the extent of his interest in such corporation, partnership, estate, or trust.

This provision of the bill does not prohibit or discourage expansion of an existing business accompanied by the formation of new corporations, as distinguished from the mere split-up of an existing business nor does it prevent an individual or a group of individuals who may own the stock of a corporation from forming additional corporations to engage in a similar or a different business. A corporation wishing to expand its activities may use a part of its funds, whether or not those funds represent accumulated earnings, to form the capital of a new corporation, acquiring the stock of the new corporation in exchange for those funds. Or an individual who owns all the stock of a corporation may use any cash or property he owns to form a new corporation. In such cases the new corporation will be allowed the full surtax exemption and the minimum excess profits credit.

This provision of the bill applies only to taxable years in which the excess profits tax is in effect.

2. Additional withholding upon agreement by employer and employee (sec. 203)

At the present time withholding on wages and salaries is provided only at the first bracket rate of tax even though part of the employee's income may be subject to a higher rate of tax. Section 203 of the bill amends section 1622 of the code to provide that additional withholding may be authorized where both the employer and employee agree to it.

3. Payments to beneficiaries of deceased employees (sec. 302)

Section 22 (b) (1) of the code excludes from gross income amounts received under a life-insurance contract paid by reason of the death of the insured, whether in a single sum or otherwise. However, by its terms, this provision is limited to life-insurance payments, and the exclusion does not extend to death benefits paid by an employer by reason of the death of an employee. Section 302 of the bill excludes from gross income death benefits not in excess of \$5,000 paid by any one employer with respect to any single employee's beneficiary or beneficiaries in accordance with a preexisting contract.

This provision is effective with respect to taxable years beginning after December 31, 1950.

4. Basis of joint and survivor annuities included in the gross estate (sec. 303)

Section 113 (a) (5) of the code provides that property acquired by bequest, devise, or inheritance shall have a basis for determining gain or loss equal to its fair market value at the date of the decedent's death or, if the decedent's executor elects the optional valuation date, at a date 1 year after the decedent's death. However, all property which is included in the decedent's gross estate for estate-tax purposes does not take a new basis upon the decedent's death. A joint and survivor annuity is includible in the decedent's gross estate but is treated as a gift for basis purposes so that, for purposes of gain, it has the same basis as in the hands of the donor.

Section 303 of the bill amends sections 22 (b) (2) and 113 (a) (5) of the code to provide that where a joint and survivor annuity is included

in the decedent's gross estate, its basis is to be the value of the property included in the estate and that basis is to be the "consideration paid" for the purpose of determining that portion of the annuity which the survivor must include in gross income.

This amendment is to apply only where the decedent dies after December 31, 1950.

5. Income from discharge of indebtedness (sec. 304)

Section 22 (b) (9) of the code excludes from gross income, in the case of a corporation, the amount of income attributable to the discharge of indebtedness evidenced by a bond, debenture, note, certificate, or other evidence of indebtedness. Gain may arise from the discharge of indebtedness, for example, where a corporation buys back its own bonds at less than their face value. The provisions of this section are temporary under existing law and expire automatically on December 31, 1951. Section 304 of the bill provides for the permanent enactment of the section.

The exclusion provided by section 22 (b) (9) is to be applicable only if the corporation consents to a reduction in the basis of its properties under section 113 (b) (3) in accordance with the regulations then in effect. The reduction of basis under section 113 (b) (3) is in an amount equal to the income excluded under section 22 (b) (9). In the event an amount is excluded from gross income under these provisions, an adjustment is made for unamortized premium or unamortized discount on the discharged obligation.

Existing regulations provide that an amount equal to the excluded income is first to be applied in reduction of the basis of the specific property (other than inventory, notes, or accounts receivable) in the acquisition of which the indebtedness was incurred. The reduction of basis in such case merely reflects an adjustment in the purchase price of the property. The reduction of basis under the regulations is then successively applied to the following classes of property: (1) Property securing the indebtedness, (2) other property of the taxpayer, and finally (3) inventory and accounts and notes receivable. Within these classes, the reduction in basis is applied proportionately to the property included in the class without regard to whether the property is depreciable or nondepreciable. It is understood that the Secretary of the Treasury will require by regulations that, after adjustment of the basis of certain property acquired with the purchase money indebtedness, whatever reduction in basis of property remains to be taken under section 113 (b) (3) will be taken, in general, against depreciable property or property subject to cost depletion and only as a last resort against nondepreciable property. Thus, in general, a reduction in the basis of nondepreciable property will be made only after the exhaustion of depreciable property or property subject to cost depletion.

Section 304 of the bill makes a technical amendment to section 22 (b) (9) to allow for greater flexibility as to the time for filing the required consent to a reduction of basis. Under the present law, the taxpayer must file its consent with its return for the taxable year. The bill amends the section to provide that the consent shall be filed at such time as the Secretary of the Treasury may prescribe.

This amendment is to be effective with respect to taxable years ending after December 31, 1950.

Section 304 of the bill also extends for an additional 3-year period the exclusion provided for railroad corporations under section 22 (b) (10) of the code. Section 22 (b) (10) provides that the amount of income attributable to the discharge of any indebtedness of a railroad corporation, as defined in section 77 (m) of the National Bankruptcy Act, shall be excluded to the extent that such income is deemed to have been realized by a modification or cancellation of indebtedness pursuant to an order of the court in a receivership proceeding or a proceeding under section 77 of the National Bankruptcy Act. Under present law this section also expires automatically on December 31, 1951. Unlike section 22 (b) (9), section 22 (b) (10) does not require a reduction in the basis of the taxpayer's properties as a condition to the exclusion of the income. The extension of the expiration date of section 22 (b) (10) made by this section of the bill is to December 31, 1954.

6. Additional allowance for certain members of the Armed Forces (Sec. 305)

The Revenue Act of 1950 added a new section 22 (b) (13) to the code which excludes from taxable income the compensation of members of the Armed Forces of the United States received for active service in combat zones such as Korea. This exclusion covers all the pay of enlisted men and warrant officers and the first \$200 per month paid to commissioned officers. The present exclusion only applies to services performed after June 24, 1950, and prior to January 1, 1952.

Section 305 of the bill makes three changes in the existing provision. First, the exemption is extended for 2 years beyond the present termination date to January 1, 1954. Second, the exemption is extended to include the compensation of military personnel received while hospitalized as a result of wounds, disease, or injury incurred while serving in a combat zone. Third, June 25, 1950 (and not June 27) is to be considered the date when combat commenced.

These amendments to section 22 (b) (13) are applicable to taxable years ending after June 24, 1950.

7. LIFO method of accounting (sec. 306)

Under the present law taxpayers using the LIFO inventory method have until the end of 1952 in which to make replacements of inventories involuntarily depleted during World War II. They have until the end of 1955 to make replacements of inventories involuntarily depleted during the present emergency. However, inventory replacements are required to be attributed to the most recent liquidations not already replaced, so that a replacement before the end of 1952 must be treated as a replacement of inventory liquidated during the present emergency before any inventory increases can be treated as replacements of inventory liquidated during World War II.

Section 306 of the bill provides, in effect, that replacements made prior to 1953 are first to be deemed to be replacements of liquidations during the World War II period rather than first being deemed to be replacements of liquidations during the present emergency.

This provision is effective with respect to taxable years ending after June 30, 1950.

8. Medical expenses (sec. 307)

Sec. 23 (x) of the code permits the deduction of a taxpayer's medical expenses only to the extent that such expenses exceed 5 percent of the taxpayer's adjusted gross income.

Section 307 of the bill removes this 5-percent limitation for any taxpayer, if either the taxpayer or his spouse is age 65 or over, but only with respect to the medical expenses of such taxpayer and his spouse.

This bill does not affect the maximum limitations of present law on the amount of the deduction.

This provision of the bill is effective with respect to taxable years beginning after December 31, 1950.

9. Elections to use the standard deduction and to file joint or separate returns (secs. 308, 312)

Section 23 (aa) of the code permits an individual the use of an optional standard deduction in lieu of itemizing his deductions. The election to use either of these methods of handling deductions is binding upon the taxpayer for the taxable year with respect to which the option is exercised.

Under section 51 of the code, married taxpayers may file either separate returns or a single joint return. The election, once made, as to which type of return to file is binding with respect to the taxable year for which the return is filed.

Section 308 of the bill provides that individuals who have used the standard deduction when filing their return may substitute itemized deductions at any time within the period of the statute of limitations. Moreover, taxpayers who have itemized their deductions are also to have the option to amend their return within the same period in order to take advantage of the standard deduction. This provision is effective with respect to taxable years beginning after December 31, 1949.

Section 312 of the bill provides that married individual income taxpayers who file separate returns may exercise the right to change their election and file joint returns at any time within the period of the statute of limitations. This provision is effective with respect to taxable years beginning after December 31, 1950.

10. Expenditures in the development of mines (sec. 309)

Under existing law and regulations all expenditures made with respect to a mine prior to the time it has reached the production stage must be capitalized, except that incidental income from the production of ore while the mine is being developed is offset by development expenditures, only the excess of such expenditures over such receipts being capitalized. Amounts so capitalized are deductible for income-tax purposes only through depletion allowances.

Included in the expenditures which must be so capitalized are the costs of shafts, tunnels, galleries, etc., which are necessary to make the ore or other mineral accessible. Such expenditures are required to be capitalized only until the mine reaches the production stage, which occurs when the major portion of the mineral production is obtained from workings other than those opened for the purpose of development, or when the principal activity of the mine becomes the production of developed ore rather than the development of additional ores for mining.

After a mine reaches this production stage, continued expenditures must be made to extend tunnels, galleries, etc., as the working face of the ore or other mineral recedes. Such expenditures are generally deductible currently. However, if they are extraordinary in scope they are treated as prepaid expenses to be deducted ratably as the ore benefited by the expenditure is produced and sold.

Section 309 of the bill provides that the taxpayer, with respect to expenditures paid or incurred after December 31, 1950, in the development of a mine or other natural deposit may elect either to deduct development expenditures, whether incurred before or after the production stage has been reached, in the year when they are incurred, or to treat development expenditures incurred before the production stage has been reached as deferred expenses, to be deducted ratably as the ore or mineral is sold. Such an election may be made for each year, but must be for the total amount of net development expenditure made in that year with respect to the mine.

This provision applies only when the expenditures are made after the existence of ores or minerals in commercially marketable quantities has been determined and the development stage has begun. It does not apply to oil or gas wells.

Expenditures made for the purchase of depreciable property are not to be counted as development expenditures for this purpose but the depreciation charges which appear as the result of the use of such property for development purposes may qualify for such treatment as development costs.

If the taxpayer elects to defer them, expenditures made for development will continue to increase the adjusted basis of the mine for computing gain or loss as under existing law; however, this basis will then be reduced as the deductions allowable under this provision of the bill occur. Although thus included in the adjusted basis for the purpose of computing a gain or loss from a sale, in order to prevent duplication of tax benefits, such development expenditures are not to be taken into account in determining the adjusted basis of the property for the purpose of computing depletion based upon costs.

The bill also provides that if the taxpayer elects to defer the deduction of development expenditures incurred during the development stage, the amount to be so deferred in any year will be the excess of the development expenditures in that year over the net receipts during that year from the ores or minerals produced.

This provision of the bill is effective with respect to taxable years beginning after December 31, 1950.

11. Earnings of dependents (sec. 310)

Section 25 (b) (1) (D) of the code allows a taxpayer, as a credit against net income, an exemption of \$600 for each dependent whose gross income in the year is less than \$500.

Section 310 of the bill amends section 25 (b) (1) (D) to permit the exemption for dependents whose gross income are less than \$600.

This amendment applies to taxable years beginning after December 31, 1950.

12. Application of the intercorporate dividends-received credit in the case of resident foreign corporations (sec. 311)

Under present law foreign corporations engaged in trade or business within the United States are subject to the regular corporate income taxes with respect to that portion of their income which is derived

from sources within the United States. However, where such corporations pay dividends to a United States domestic corporation, no dividends-received credit is allowed the latter, although such credit would be allowed if the domestic corporation were receiving dividends from another domestic corporation. Thus, two full corporate taxes are paid with respect to dividend income received from foreign corporations engaged in trade or business within the United States (to the extent that the dividends are paid out of income derived from sources within the United States), while as a result of the intercorporate dividends-received credit, dividends paid by one domestic corporation to another are subject only to a little more than one full corporate income tax.

Section 311 of the bill amends section 26 (b) of the code, relating to the dividends-received credit, to provide that under certain conditions dividends received from foreign corporations engaged in trade or business within the United States are to be eligible for the 85-percent intercorporate dividends-received credit. The credit is to be made available only if the foreign corporation has been engaged in trade or business within the United States, and has derived 50 percent or more of its gross income from sources within the United States, during an uninterrupted period of 36 months or more including the taxable year in which the dividends are paid. If the corporation has been in existence less than 36 months, these conditions must be met during the entire period of its existence. The credit to be allowed is an amount equal to 85 percent of the dividends received out of the foreign corporation's earnings during the current year, but not in excess of that part of the 85 percent which is proportionate to the ratio of the gross income during the current year from sources within the United States to its total gross income for that year. With respect to any distributions not out of the current year's earnings, the credit is to be allowed with respect to an additional amount equal to 85 percent of the dividends received out of the foreign corporation's earnings during the uninterrupted period (but not including the current year), but not in excess of that part of the 85 percent which is proportionate to the ratio of the corporation's gross income from sources within the United States during the uninterrupted period (but not including the current year) to its total gross income during the same period.

This provision of the bill is effective with respect to taxable years beginning after December 31, 1950.

13. Capital gains of corporations improperly accumulating surplus (sec. 102 of code) (sec. 315)

Section 102 of the code imposes an additional tax on corporations improperly accumulating surplus to avoid payment of surtax by stockholders. This additional tax is imposed on the undistributed "section 102 net income", which is, in general, net income minus the normal tax, surtax, and excess profits tax of the corporation. Under present law, the section 102 tax applies to the long-term capital gains of the corporation as well as to its ordinary income.

Section 315 of the bill amends section 102 in order to exclude net long term capital gains from the undistributed income subject to the section 102 tax. The amendment also provides, in effect, that the capital gain tax is not to be allowed as a deduction in computing income subject to the section 102 tax.

This provision is effective with respect to taxable years beginning after December 31, 1950.

14. Liquidation of corporations (sec. 316)

Under the Revenue Act of 1950, domestic corporations, including personal holding companies, may be liquidated under section 112 (b) (7) of the code for a limited period without payment of capital gain tax by the stockholders on the appreciation in value of assets held by the companies. In general, in the case of gain on stock held by individuals only that portion of the distribution to the shareholders which represents accumulated earnings is to be taxed, to the extent of the gain, as ordinary income. So much of the remainder, to the extent of the balance of the gain as consists of money, or of stock, or of securities acquired by the corporation after a basic date (August 15, 1950) is to be treated as a capital gain.

Under section 112 (b) (7) in its pre-1950 form, a similar election was available when the plan of liquidation was adopted after the date of enactment of the Revenue Act of 1943 and put into effect during the calendar year 1944. Under the amendment made by the Revenue Act of 1950, this election was restored for plans of liquidation adopted after December 31, 1950, and effected during any one calendar month in 1951.

Section 316 of the bill extends the application of section 112 (b) (7) so that taxpayers may exercise a similar election to cover liquidations of corporations during 1952.

This provision is effective with respect to taxable years ending after December 31, 1951.

15. Corporate reorganizations (spin-offs) (sec. 317)

Section 317 of the bill adds a new section 112 (b) (11) to the code to provide for the nonrecognition of gain from the receipt of stock in corporate exchanges carrying out transactions known as spin-offs. A spin-off occurs when a part of the assets of a corporation is transferred to a new corporation and the stock in the latter is distributed to the shareholders of the original corporation without a surrender by the shareholders of stock in the distributing corporation.

The benefits of the provision are limited to reorganizations in which the new corporation as well as the old corporation is intended to carry on a business after the reorganization and where only stock (other than preferred) is distributed. Nonrecognition of gain also is to be denied in cases where the reorganization was principally a device for the distribution of the earnings and profits of the corporations which are parties to the reorganization.

Section 317 of the bill also adds a new section 113 (a) (23) to the code providing that, in the case of stock distributed in a spin-off, the basis of the new stock, and the old stock, respectively, in the shareholder's hands, is to be determined by allocating between the old stock and the new stock the adjusted basis of the old stock.

These provisions are to be effective with respect to taxable years ending after the date of the enactment of this bill, but are to apply only to distributions of stock made after that date.

16. Gain from sale or exchange of the taxpayer's residence (sec. 318)

Section 318 of the bill amends the present provisions relating to a gain on the sale of a taxpayer's principal residence. Existing law provides that when a personal residence is sold at a gain the difference

between its adjusted basis and the amount received for its sale is taxable as a capital gain.

The bill provides that when the sale of the taxpayer's principal residence is followed within a period of 1 year by the purchase of a substitute, or when the substitute is purchased within a year prior to the sale of the taxpayer's principal residence, gain is to be recognized only to the extent that the selling price of the old residence exceeds the cost of the new one. Thus, if a dwelling purchased in 1940 for \$10,000 is sold in 1951 for \$15,000, there would ordinarily be a taxable gain of \$5,000 under existing law. Under the bill no portion of the gain is to be taxable provided a substitute "principal residence" is purchased by the taxpayer within the stated period of time for a price of \$15,000 or more. If the replacement cost is less than \$15,000, say \$14,000, the amount taxable as gain is to be \$1,000.

The provision applies to cases where one residence is exchanged for another, where a replacement residence is constructed by the taxpayer rather than purchased, and where the replacement is a residence which had to be reconstructed in order to permit its occupancy by the taxpayer. The bill provides that in the case of the construction of a new house the new house must be used as the taxpayer's principal residence within 18 months after the sale of the old house. In other cases the new house must be used as the principal residence within a year after the sale of the former residence.

In cases where the replacement is built or reconstructed, only so much of the cost is to be counted as an offset against the selling price of the old residence as is properly chargeable against capital account within a period beginning 1 year prior to the date of the sale of the old residence, and ending 18 months after such date in the case of construction of a new house, or 12 months after such date in the case of reconstruction of an existing house.

This special treatment is not limited to the "involuntary conversion" type of case, where the taxpayer is forced to sell his home because the place of his employment is changed.

The adjusted basis of the new residence is to be reduced by the amount of gain not recognized upon the sale of the old residence. Thus, if the replacement is purchased for \$19,000, the old residence cost \$10,000 and was sold for \$15,000, the adjusted basis of the new residence is to be \$19,000 minus \$5,000, or \$14,000. This is equal to the cost of the old residence plus the additional funds invested at the time the new residence is purchased. If the second residence had been purchased for \$14,000, so that \$1,000 gain on the sale of the old residence would be recognized, its basis would be \$14,000 minus \$4,000, or \$10,000.

For the purpose of qualifying a gain as a long-term capital gain the holding period of the residence acquired as a replacement in a set of transactions which qualify under the terms of the amendment is to be the combined period of ownership of the successive principal residences of the taxpayer.

The new provision extends to cases in which similar treatment is available under existing law under the involuntary-conversion provisions of section 112 (f). Such cases arise when a home is destroyed by fire or is lost by seizure or by the exercise of the powers of requisition or condemnation and the proceeds are invested in a replacement. In such cases the new provision, and not section 112 (f), is to apply.

The latter requires the tracing of the expenditure of the funds obtained as a result of the loss of the previous residence. Also, no relief is available under section 112 (f) in cases where the replacement is acquired before the actual condemnation or requisition of the previous residence.

The taxpayer is not required to have actually been occupying his old residence on the date of its sale. Relief is to be available even though the taxpayer moved into his new residence and rented the old one temporarily before its sale. Similarly, he may obtain relief even though he rents out his new residence temporarily before occupying it, if he occupies it within 1 year or 18 months, as the case may be, after the sale of his former residence.

The special treatment is to be available only with respect to one sale or exchange per year, except when the taxpayer's new residence is involuntarily converted, in which case he is to be treated as though a year had elapsed since the time of the previous sale of an old residence.

The ownership of stock in a cooperative apartment corporation is to be treated as the equivalent of ownership of a residence, provided the purchaser or seller of such stock uses the apartment which it entitles him to occupy as his principal residence.

Regulations are to be issued under which the taxpayer and his spouse acting singly or jointly may obtain the benefits of the bill even though the spouse who sold the old residence was not the same as the one who purchased the new one, or the rights of the spouses in the new residence are not distributed in the same manner as their rights in the old residence. These regulations are to apply only if the spouses consent to their application and both old and new residence are used by the taxpayer and his spouse as their principal residence.

Where the taxpayer's residence is part of a property also used for business purposes, as in the case of an apartment over a store building or a home on a farm, and the entire property is sold, the provision applies only to that part of the property used as a residence, including the environs and outbuildings relating to the dwelling but not those relating to the business operations.

These provisions apply to a trailer or houseboat if it is actually used as the taxpayer's principal residence.

In cases where there is an unreported taxable gain on the sale of the taxpayer's residence, either because he did not carry out his intention to buy a new residence or because some of the technical requirements were not met, the period for the assessment of a deficiency is extended to 3 years after the taxpayer has notified the Commissioner either that he has purchased a new residence, or that he has not acquired or does not intend to acquire a new residence within the prescribed period of time.

The benefits of the bill will apply to the sale of a taxpayer's principal residence made after December 31, 1950.

17. Percentage depletion (sec. 319)

Under existing law depletion based on cost is available to all mining industries and in addition percentage depletion is available to oil, gas, sulfur, metal mines, and certain nonmetallic minerals. The allowable rate of percentage depletion is 5 percent in the case of coal, and 15 percent in the case of the other nonmetallic minerals except sulfur which is allowed 23 percent.

Section 319 of the bill sets up a new group of minerals to which percentage depletion is available at the rate of 5 percent. This rate is extended to the following substances none of which are presently entitled to percentage depletion: sand, gravel, slate, stone (including pumice and scoria), brick and tile clay, shale, oyster shell, clam shell, granite, marble, sodium chloride, and, if from brine wells, calcium chloride, magnesium chloride, and bromine.

Coal is increased from its present 5-percent rate to 10 percent.

The bill adds a 10-percent rate for wollastonite, asbestos, calcium carbonates other than marble and oyster and clam shell, perlite, and the magnesium compounds dolomite, brucite, and magnesite or magnesium carbonate.

The bill adds to the list of nonmetallic minerals for which percentage depletion is available at a 15-percent rate the following substances not now receiving percentage depletion: borax, fuller's earth, tripoli, refractory and fire clay, quartzite, aplite, garnet, diatomaceous earth, and metallurgical and chemical grade limestones.

The bill makes a technical revision in the 15-percent depletion provisions of present law. The latter includes at the 15-percent rate "thenardite (from brines or mixtures of brine)." The bill eliminates the parenthetical limitation.

The amendments made by this section of the bill apply to taxable years beginning after December 31, 1950.

18. Redemption of stock to pay death taxes (sec. 320)

The Revenue Act of 1950 amended section 115 (g) of the code to provide that the redemption of stock in a decedent's estate in an amount not in excess of the estate, inheritance and succession taxes (including interest) on the estate is, in certain cases, not to be treated as a taxable dividend. Among other requirements, this provision is limited at present to cases where the value of the stock in the corporation comprises more than 50 percent of the value of the net estate of the decedent.

Section 320 of the bill makes the benefits of section 115 (g) applicable to cases where the stock comprises more than 35 percent of the value of the decedent's gross estate.

This amendment will be applicable only to amounts distributed on or after the date of enactment of the bill.

19. Individuals earning income abroad (sec. 321)

Section 116 (a) of the code exempts from income tax citizens of the United States who are bona fide residents of a foreign country with respect to income earned outside the United States, and disallows deductions chargeable against this income.

The exclusion is allowed only with respect to an "entire taxable year" with respect to which the individual is a bona fide resident of the foreign country. Thus, exemption is denied an individual in his first year abroad unless he becomes a bona fide resident of the foreign country as of January 1. Section 321 of the bill changes this by granting an additional exclusion with respect to "an uninterrupted period which includes an entire taxable year" with respect to which an individual was a bona fide resident of a foreign country.

In addition, the term "bona fide resident" abroad has been construed quite strictly with the result that many persons who have gone abroad to work even for a relatively long period of time have been un-

able to meet the test of a "bona fide resident" of a foreign country. The bill adds a paragraph to section 116 (a) of the code providing that income earned abroad by a citizen of the United States who is present in a foreign country or countries for 17 out of 18 consecutive months is to be excluded from income, and that deductions chargeable to such income is to be disallowed in computing his Federal income tax.

These two changes made by the bill are effective with respect to taxable years beginning after December 31, 1950.

The bill also amends section 1621 (a) (8) (A) of the code to provide that there is to be no withholding by the United States where it is reasonable to believe that the income is paid to a person who will qualify for the exclusion on the basis of presence in a foreign country for 17 out of 18 consecutive months or on the basis of bona fide foreign residence. In addition, it provides that there is to be no withholding of income taxes for the United States upon an amount earned for services performed in foreign country if withholding on that amount is required for a foreign country. These changes in the bill are effective as of January 1, 1952, with respect to wages paid on or after that date.

20. Offset of short- and long-term capital gains and losses (sec. 322)

Section 322 of the bill amends the treatment of the capital gains and losses of individuals provided by existing law. Present law excludes 50 percent of a long-term capital gain or loss from the computation of net capital gain, net capital loss and net income, but includes 100 percent of a short-term capital loss in such computations. As a result a \$1 short-term loss can wipe out a \$2 long-term gain.

Under the bill, long-term gains are included in gross income at 100 percent and a deduction from gross income is allowed equal to 50 percent of the amount by which the taxpayer's net long-term gain exceeds his net short-term loss. Thus, if a taxpayer has a net long-term gain of \$1,000 and a net short-term loss of like amount, no deduction is to be allowable. If the net long-term gain is \$2,000 and the net short-term loss is \$1,000, the deduction against gross income will be 50 percent of the excess of \$2,000 over \$1,000, or \$500. Hence the amount actually taxed as a long-term capital gain will be \$500. Under existing law the \$1,000 of short-term loss offsets the portion of the long-term gain included in the calculation of net income, and no tax liability exists.

Long-term losses, like long-term gains, are to be taken into account in full. Long-term losses will therefore offset short-term gains on a dollar-for-dollar basis, just as short-term losses will offset long-term gains. If the net long-term loss exceeds the net short-term gain, the unreduced excess will be offset against other income up to \$1,000. The net loss which is not absorbed in this manner will be carried forward as a short-term capital loss, whether arising out of short- or long-term operations.

The amendment applies only to taxable years beginning on or after the date of enactment of this act.

21. Sales of land with unharvested crops (sec. 323)

Section 117 (j) of the code provides, in effect, that a net gain from sales (including exchanges and involuntary conversions) of properties "used in the trade or business" of the taxpayer, including "real property" so used, if held more than 6 months is to be treated as a

capital gain. In the case of a net loss, it is treated as an ordinary loss. Where unharvested crops are sold with the land, or unripe fruit is sold together with the land and the trees, question has arisen as to the proper application of the present law to the unharvested crops or the unripe fruit.

Section 323 of the bill adopts the principle that sales (including exchanges and involuntary conversions) of land, together with growing crops, are not such transactions as occur in the ordinary course of business and provides that the gain from the sale of the crop in such cases is to be treated as a capital gain rather than ordinary income, while a loss from such a sale is to be treated as an ordinary loss. This is accomplished by applying section 117 (j) in the case of these sales. However, the bill provides that no deduction shall be allowed which is attributable to the production of such crops or fruit, but that the deductions so disallowed shall be included in the basis of the property for the purpose of computing the gain or loss from the sale.

The provisions of this section are applicable to sales or other dispositions occurring in taxable years beginning after December 31, 1950, except that deductions in years beginning prior to January 1, 1951, will be disallowed if they relate to sales or other dispositions made in taxable years beginning after that date.

22. Gains from sales of livestock (sec. 324)

Section 117 (j) of the code provides, in effect, that a net gain from sales (including exchanges and involuntary conversions) of "property used in the trade or business" of a taxpayer and held for more than 6 months is to be treated as a capital gain. In the case of a loss, it is to be treated as an ordinary loss. However, section 117 (j) states that this treatment is not to apply to "property of a kind which would be properly includible in the inventory of the taxpayer if on hand at the close of the taxable year, or property held by the taxpayer primarily for sale to customers in the ordinary course of his trade or business." In the case of farmers there has been considerable doubt as to whether all livestock held for draft, dairy, or breeding purposes is "property used in the trade or business," or whether in some cases the livestock should be deemed held "primarily for sale to customers in the ordinary course of his trade or business."

Section 324 of the bill amends section 117 (j) (1) to provide that the term "property used in the trade or business" includes livestock, regardless of age, held by the taxpayer for draft, breeding, or dairy purposes, and held by him for 12 months or more from the date of acquisition. Under the bill, the term "livestock" does not include poultry. Thus section 117 (j) will apply to livestock used for draft, breeding, or dairy purposes, whether old or young; and the holding period will start with the date of acquisition, not with the date the animal is put to such use.

The bill makes the amendment applicable with respect to taxable years beginning after December 31, 1941, except that the extension of the holding period from 6 to 12 months applies only in the case of taxable years beginning after December 31, 1950.

23. Coal royalties (sec. 325)

Section 325 of the bill extends to the recipients of coal royalties the capital gains treatment now available to timber under section 117 (k)

(2) of the code. Percentage depletion is not to be available in the case of these coal royalties. It is provided that the lessor's holding period is to run to the time the coal is mined.

The bill provides that these provisions shall be inapplicable to "income realized by the owner as a coadventurer, partner, or principal in the mining of such coal."

It is also made clear that the term "coal" includes lignite.

Because treatment of coal royalties as capital gains will automatically exclude such income from income subject to excess-profits tax, the bill provides conforming amendments to the excess profits tax law. Where the taxpayer corporation computes its excess profits credit by the income method, these royalties are to be excluded from the taxpayer's base period income. Similarly, for the purposes of computing the invested capital credit and computing capital changes, the lessor's interest in the coal property from which the royalties are derived is to be treated as an inadmissible asset.

It is also provided that in the case of the special surtaxes for personal holding companies (sec. 500 of the code) and the special surtaxes for corporations improperly accumulating surplus (sec. 102 of the code), coal royalties are to continue to be treated as under present law and not as capital gains.

Section 325 applies to taxable years ending after December 31, 1950, but only with respect to amounts received or accrued after that date.

24. Collapsible corporations (326)

Section 326 of the bill amends section 117 (m) of the code, which denies capital-gains treatment to the sale, exchange, or retirement of stock in a "collapsible corporation." It extends the application of this section to cases where the corporation is used to convert inventory profits into capital gains. Section 117 (m) was added to the code by the Revenue Act of 1950. The reports on the bill which became the Revenue Act of 1950 illustrated the intent of the provision by the case of a corporation organized for the production of a single motion picture. Upon the completion of the film, but prior to the realization by the corporation of any income therefrom, the corporation would be liquidated and its assets distributed. No tax would be paid by the corporation because it had realized no income. Each former shareholder would pay a tax upon the difference between the cost of his stock and the fair market value of his portion of the fair market value of the motion picture and any other assets so distributed. Prior to the Revenue Act of 1950 this gain might have been taxed as a long-term capital gain with a maximum effective rate of 25 percent; under the law as amended by that act the gain is now taxed as ordinary income. Section 117 (m) was drafted so as to apply only when a corporation was "formed or availed of principally for the manufacture, construction, or production of property."

Section 326 of this bill extends the application of section 117 (m) to corporations formed or availed of principally for the purchase of property which is inventory or stock in trade in the hands of the corporation. Thus it prevents the use of collapsible corporations as a means of converting into capital gains the profits on inventory and stock in trade. The procedure used is to transfer a commodity to a new or dormant corporation, the stock of which is then sold to the prospective purchaser of the commodity who thereupon liquidates

the corporation. In this manner the accretion in the value of the commodity, which in most of the actual cases has been whisky, is converted into a gain realized on the sale of stock of a corporation, thus giving rise to the possibility that it might be taxed as a long-term capital gain.

This amendment applies with respect to taxable years ending after August 31, 1951, but will only apply to gains realized after that date. The determination of the tax treatment of gains realized in taxable years beginning prior to September 1, 1951, will be made as if this section had not been enacted and without inferences drawn from the fact that the amendment made in this bill is not specifically retroactive and without inferences drawn from the limitations contained in section 117 (m) as amended by section 326 of the bill.

25. Dealers in securities (327)

Under existing law, dealers in securities are permitted to hold some securities as a personal investment. Gains or losses on those securities which are held by the taxpayer in his capacity as a dealer are treated as ordinary income. Capital gain or loss treatment is accorded the results of the sale of securities which the taxpayer holds as an investor. Existing law also permits the transfer of securities from such a taxpayer's investment account to his inventory account and vice versa with corresponding changes in tax liabilities.

Section 327 of the bill provides that in the case of a dealer in securities capital gains treatment is to be available only under certain specific conditions. The security in question must have been clearly identified in the dealer's records as "a security held for investment" within a period of 30 days after the date of its acquisition or after the date of enactment of the Revenue Act of 1951, whichever is later, and must not at any time thereafter have been held by the taxpayer "primarily for sale to customers in the ordinary course of his trade or business." Unless these terms are complied with, the gain on the sale of the security is to be taxed as ordinary income.

Ordinary loss treatment is not to apply where the security sold was, at any time after this section becomes applicable, clearly identified in the dealer's records as "a security held for investment."

This amendment will not affect the application of section 117 (i) of the code which provides, in the case of banks, that, if losses from the sale of all securities during a year exceed the gains, then the net loss shall be treated as an ordinary loss.

The amendment applies to sales or exchanges made more than 30 days after the date of enactment of this act.

26. Sale of property between spouses and between an individual and a controlled corporation (sec. 328)

Section 328 of the bill denies tax benefits available under existing law in certain cases where depreciable assets are sold by a taxpayer to his spouse or to a corporation controlled by him. The following is an example of the tax benefits in the case of the sale of depreciable property by a taxpayer to a controlled corporation: Assume that a taxpayer owns and operates a corporation engaged in retail trade, that he also owns as an individual the building used by this corporation and that the current value of the building is well in excess of its adjusted basis. If the building is sold to the corporation, a capital-gains tax will ordinarily be paid, but the building then has, in the hands of the

corporation, an adjusted basis which is greater than the basis in the hands of the individual shareholder by the amount of the gain realized on the sale to the corporation. The property being depreciable the corporation will then be able to write off the increase in the adjusted basis over the remaining life of the building. The resulting additional depreciation charges are an offset to ordinary income. Thus, in effect, the immediate payment of a capital-gains tax has been substituted for the elimination, over a period of years, of the corporate income taxes on an equivalent amount. The differential between the capital-gains rate and the ordinary rates makes such a substitution advantageous when the sale may be carried out without loss of control over the asset because the corporation to which the asset is sold is controlled by the individual who made the sale.

A similar advantage is possible where such a sale is made between husband and wife.

Section 328 of this bill eliminates the tax advantage from such transactions by denying capital-gains treatment to the transferor with respect to sales or exchanges of depreciable property between a husband and wife, or between an individual and a corporation more than 80 percent of the outstanding stock of which is owned by the individual, his spouse and his minor children or minor grandchildren.

This provision is applicable to taxable years ending after April 30, 1951, but only with respect to sales or exchanges made after May 3, 1951.

27. Termination payments to employees (sec. 329)

Some employment contracts provide for payments to the employee, after the employment period, based on a share of future profits or a percentage of future gross receipts. Such payments when received are taxed under present law as ordinary income, since they are held to be in the nature of payments of additional compensation. However, if the employee chooses to receive a lump-sum payment in lieu of the contract rights upon termination of his employment, the entire lump sum is included in one year's income.

Section 329 of the bill provides, with certain restrictions, for capital-gain treatment of amounts received by an employee, upon termination of his employment, in exchange for his release of all of his rights to receive a percentage of future profits or receipts. This provision is limited to cases where the taxpayer has been employed for more than 20 years, has held such rights to future profits for at least 12 years during his term of employment and has the right to receive a percentage of future profits for life or for a period of 5 years or more after the termination of his employment. It is not necessary that the contract specify that the payments be for life or for more than 5 years. It is only necessary that the effect of the contract is to give the taxpayer the report to such future profits for life or for a period or more than 5 years.

This provision is effective with respect to taxable years beginning after December 31, 1950.

28. Net operating loss deductions (sec. 330)

The Revenue Act of 1950 provided that the net operating loss for a year may be carried back to offset income of the preceding year and may be carried forward to offset income of the 5 succeeding years. This provision was made effective for losses in 1950 and later years.

Losses in years prior to 1950 under present law may be carried back 2 years and carried forward 2 years. The effect of the change in the 1950 act was to permit losses in 1950 and subsequent years to be applied to offset possible income in six other years, whereas losses in 1949 and earlier years could be applied to offset possible income in four other years.

Section 330 of the bill permits net operating losses in 1948 and 1949 to be carried forward 3 years. The effect of this change is to permit losses in these 3 years to be applied to offset income in five other years—two prior years and three subsequent years.

Section 330 applies only to taxable years beginning after December 31, 1947, and before January 1, 1950. Thus a taxpayer with a fiscal year ending November 30, 1948, would not be entitled to the benefits of this section for a net operating loss incurred in such fiscal year. In the case of a fiscal year ending November 30, the 2 years of operating losses to which the section will apply are the fiscal years ending November 30, 1949, and November 30, 1950. The relief is extended to both individual's and corporations. In the case of a corporation commencing business after December 31, 1945, a 3-year carry-over is also allowed for a taxable year beginning after December 31, 1946, and before January 1, 1948.

29. Restricted stock options (sec. 331)

The Revenue Act of 1950 added a new section 130A to the code, which provides that the granting to employees of certain types of stock options is not to give rise to taxable income to the recipient. To be excluded under this provision the option must fall within a defined category of "restricted stock options."

Section 130A requires that to qualify as a "restricted stock option" the option price at the time of the granting must be 85 percent or more of the fair market value of the stock. In many cases, the granting of stock options is subject to ratification by the corporation's stockholders. Thus, at the time of the action by a corporation's board of directors the option may be fully qualified as to the 85-percent limitation, but because of the delays incident to action by a corporation's shareholders, the fair market price may have so changed by the time of their ratification that the option no longer qualifies under the statute.

Section 331 of the bill provides that the date of the granting of a restricted stock option which is subject to stockholder ratification shall, if approved by the stockholders, be deemed to have been granted as of the date of action by the board of directors.

This amendment is to be effective as if it had been enacted as part of the stock option provision of the Revenue Act of 1950.

30. Foreign tax credit for taxes paid by a foreign corporation (sec. 332)

Existing law permits a domestic corporation, owning the majority of the voting stock of a foreign corporation, to claim a foreign tax credit for income taxes paid by the foreign corporation to a foreign government with respect to the proportion of its profits which are paid as dividends to the domestic corporation. Section 332 of the bill amends section 131 (f) (1) of the code to provide that the foreign tax credit is to be allowed if the American corporation owns 10 percent or more of the voting stock of the foreign corporation.

This provision is effective with respect to dividends received during taxable years beginning after December 31, 1950.

Under present law if a foreign subsidiary of an American corporation owns all of the voting stock of another foreign corporation, the dividends received by the American parent with respect to the earnings of the second subsidiary are eligible for a foreign tax credit, assuming the first subsidiary meets the tests previously discussed. Section 332 of the bill extends the foreign tax credit to apply in the case of dividends received by an American parent corporation from a foreign corporation (if holding 10 percent of the stock of this corporation) out of earnings which that foreign corporation has in turn received from another foreign corporation in which it owns 50 percent or more of the voting stock.

This provision is effective with respect to dividends received by a foreign corporation from another foreign corporation during taxable years beginning after December 31, 1950.

31. Information at source on payments of interest (sec. 333)

Under present law the furnishing of information at the source is required on all payments of interest of \$600 or more. Section 333 of the bill removes this \$600 requirement with respect to interest and gives the Secretary of the Treasury the discretion to require information returns on interest payments of any amount. No change is made in the provisions of present law which authorize that payments of dividends in any amount be reported at the discretion of the Secretary.

32. Abatement of income taxes for certain members of the Armed Forces dying in combat zones or as a result of injuries received in such zones (sec. 334)

Individuals dying while in active service during World War II as members of the military or naval forces of the United States or other United Nations were forgiven their income tax with respect to the year of death and the prior year. They also were relieved of unpaid income taxes at the time of their death.

Section 334 of the bill provides similar treatment for members of the Armed Forces of the United States dying while serving in combat zones or while hospitalized as a result of wounds, disease, or injuries incurred while serving in combat zones.

The bill provides for the forgiving of income tax for the year of death of such individuals and for prior taxable years ending after the commencement of hostilities in Korea. Also, such individuals are relieved of any income taxes (including interest and additions to tax) for any other year which were unpaid at the date of their death. The provision is effective with respect to individuals dying after June 24, 1950 and prior to January 1, 1954.

33. Stock distributions of profit-sharing plans (sec. 335)

Section 165 (b) of the code provides for the taxation of distributions to employees from exempt pension and profit-sharing funds. As a rule both the employee and the employer contribute to such funds. The amounts so contributed are then invested, frequently in the stock of the employer company. If the total distributions payable with respect to any employee are paid to him within one taxable year on account of his separation from service, the employee is taxable at capital gain rates upon the excess of the total distributions over the

total of amounts contributed by him. The value of the distribution for tax purposes under present law is the sum of the cash received and the market price of any stock or other securities at the time of distribution.

Section 335 of the bill provides that in the case of such distributions consisting of stock in the employer corporation the appreciation in the value of the stock which occurred since the stock was deposited in the fund is not to be subject to capital-gain tax until the employee sells the stock, rather than at the time it is distributed to him as under present law. This amendment makes no change in the present tax treatment of that portion of the value of such stock which does not represent appreciation in value.

This amendment applies to distributions made after December 31, 1950.

34. Life-insurance companies (sec. 336)

In section 401 of the Revenue Act of 1950, the formula used for computing the net income of life-insurance companies was amended, the action being effective only for 1949 and 1950. Under this stopgap formula, as used for 1949 and 1950, the taxable income of each life-insurance company relating to its life-insurance business is determined by deducting from its net investment income a percentage of that income. To that amount is added $3\frac{1}{4}$ percent of the unearned premiums and unpaid losses resulting from any accident and health business. Appropriate adjustments are made with respect to exempt interest and the credit for dividends received. The normal tax is obtained by applying the ordinary corporation normal tax rate to that entire amount, and the surtax is obtained by applying the ordinary surtax rate to that portion in excess of \$25,000. The percentage to be deducted in arriving at the taxable income is the same for all life-insurance companies, and is determined and proclaimed for each year by the Secretary of the Treasury, by comparing the aggregate amount needed in the previous year by all life-insurance companies to meet their life-insurance policy obligations, and any other interest on indebtedness, with the aggregate net investment income of all life-insurance companies less $3\frac{1}{4}$ percent of the unearned premiums and unpaid losses of those companies which had health and accident insurance. For 1950 this percentage, based on 1949 data, was slightly more than 90 percent; for 1951, based on 1950 data, it would probably be between 87 and 88 percent.

Section 336 of the bill substitutes a different formula for the taxation of life insurance companies in 1951. Under it the income tax is in general to be $3\frac{3}{4}$ percent of so much of the net investment income of each company as is not in excess of \$200,000, and $6\frac{1}{2}$ percent of the amount over \$200,000. It will be noted that $3\frac{3}{4}$ percent of \$200,000 is approximately the same as 27 percent of \$25,000; and that $6\frac{1}{2}$ percent of net investment income is approximately the same as 52 percent of 12 to 13 percent (100 percent less 88 or 87 percent) of the entire net income. For those companies with accident and health insurance an appropriate adjustment is made so that the tax computed at the $3\frac{3}{4}$ - and $6\frac{1}{2}$ -percent rates is approximately the same as a tax at the ordinary 27- and 52-percent rates on the income (determined as before) from that part of their business. As under the present stopgap formula, appropriate adjustments are made for exempt interest and the credit for dividends received.

It is expected that in 1951 a number of companies, mostly small, will not earn their interest requirements, or will earn an amount only slightly in excess of their requirements. Under the stopgap formula these companies would have paid ordinary corporation normal taxes and surtaxes on the same percentage of their net investment incomes as the other companies whose net investment income materially exceeded their policy requirements. Under the bill a measure of relief is accorded such companies: those with net investment incomes which are less than their policy requirements will, in general, pay a tax at $3\frac{3}{4}$ or $6\frac{1}{2}$ percent on only 50 percent of their net investment incomes, while those with net investment incomes of from 100 to 105 percent of their policy requirements will pay a tax at the rate of $3\frac{3}{4}$ or $6\frac{1}{2}$ percent on amounts varying from 50 to 100 percent of their net investment incomes. With respect to companies which also do an accident and health insurance business, in determining whether or not their net investment income is less than that required to meet their life-insurance-policy requirements, or not more than 105 percent of that amount, the total net investment income is reduced by one-half of $3\frac{3}{4}$ percent of their unearned premiums and unpaid losses on the accident and health policies.

The application of the new formula is limited to taxable years beginning in 1951.

35. Venture capital companies (sec. 337)

Section 337 of the bill will permit certain so-called venture capital companies to qualify as regulated investment companies. Under Supplement Q of the code, regulated investment companies which distribute currently at least 90 percent of their income, and meet certain other tests set out in section 361 (b) of the code, are not taxed upon amounts distributed to shareholders. One of these tests is that the company must not invest more than 50 percent of its assets in companies in which it holds more than 10 percent of the value of the voting securities. This rule has the effect of denying special treatment to companies which undertake to control the enterprises in which the bulk of their funds are placed. It clearly excludes a holding company in the ordinary sense of the word.

Section 337 of the bill amends section 361 of the code to permit venture capital companies to qualify as regulated investment companies. This is accomplished by waiving, under certain conditions, the 10 percent limitation as to certain types of holdings. To qualify for this exception the investment company must obtain a certification from the Securities and Exchange Commission which states that the investment company is a registered management investment company as defined in the Investment Company Act of 1940 and that its principal business is the furnishing of capital to companies principally engaged in the development or exploitation of inventions, technological improvements, new processes or products not previously generally available. This certification will be made under regulations to be issued by the Securities and Exchange Commission.

The bill also provides that the 10 percent rule shall not be waived in the case of an investment company which has more than 25 percent of its funds invested in companies, in which it has an interest of more than 10 percent and the securities of which it has held for more than 10 years.

All the other limitations on regulated investment companies now imposed under Supplement Q are retained.

Section 337 is effective with respect to taxable years beginning after December 31, 1950.

36. Exchanges and distributions under SEC orders (sec. 338)

Supplement R of chapter 1 of the Code provides, in general, that gain shall not be recognized to a corporation transferring property to another corporation which is a member of the same system group if the transfer is under order of the Securities and Exchange Commission. A "system group" is there defined as a chain of corporations connected with a common parent through 90-percent ownership of each class of stock other than stock preferred both as to dividends and assets.

Section 338 of the bill amends supplement R to provide that, in addition to the present definition of a system group, corporations be permitted to qualify as a system group if the parent owns 90 percent of each class of stock other than preferred stock and other than stock which is preferred as to dividends but not as to assets if the value of such stock is less than 1 percent of the aggregate value of all classes of nonpreferred stock.

This amendment is effective with respect to taxable years affected by an exchange or distribution made after December 31, 1947.

37. Family partnerships (sec. 340)

Section 340 of the bill deals with the tax treatment of the so-called family partnership. It adds to the definition of partner in section 3797 (a) of the code a new sentence providing that for Federal income tax purposes a person is to be recognized as a partner if he owns a capital interest in a partnership in which capital is a material income producing factor, whether or not this capital interest was acquired by purchase or gift from any other person. Thus a gift of a family partnership interest is to be respected regardless of the motives which actuated the transfer. The amendment leaves the Commissioner and the courts free to inquire in any case whether the donee or purchaser actually owns the interest in the partnership which the transferor purports to have given or sold him.

The provision also adds a new section 191 to the code, dealing with the allocation of partnership income for income-tax purposes. This provides that in the case of any partnership interest created by gift the allocation of income, according to the terms of the partnership agreement, is to be controlling for income-tax purposes except when the shares are allocated without proper allowance of reasonable compensation for services rendered to the partnership by the donor, and except to the extent that the allocation to the donated capital is proportionately greater than that attributable to the donor's capital. In such cases a reasonable allowance will be made for the services rendered by the partners, and the balance of the income will be allocated according to the amount of capital which the several partners have invested. However, the distributive share of a partner in the earnings of the partnership will not be diminished because of absence due to military service.

When more than one member of a family is a member of a partnership, all interests purchased by one member of the family from another will be treated as though the transfer were made by gift. For this

purpose the family of an individual includes his spouse, ancestors, lineal descendants, and any trust for the primary benefit of such persons.

The amendment made by the bill is applicable to taxable years beginning after December 31, 1950, with the express intention that no inferences with respect to taxable years beginning prior to January 1, 1951, are to be drawn from the enactment of the amendment. If the taxable year of any family partner is different from that of the partnership the amendment will apply to a fiscal year of the partnership beginning in 1950 if it ends within fiscal years of all the family partners which begin in 1951, but it will not apply if it ends within a fiscal year of any family partner which began in 1950.

38. War losses (sec. 341)

Section 127 of the code, in general, authorizes war loss deductions for properties in enemy hands when the United States entered World War II in 1941, for properties which later came under enemy control, and for properties destroyed or seized in the course of military or naval operations. This deduction is limited to the taxpayer's depreciated cost or other basis of the property. Section 127 also provides that if any of the property was recovered, the fair market value of the recovered property, not the amount deducted, is to be taxed as ordinary income to the extent that the deduction resulted in a reduction of tax.

Where only one property is involved, if the fair market value of the recovered property exceeds the amount of the deduction, the value of the recovered property is includible in income only to the extent that the deduction resulted in a reduction in tax. Where the war loss embraces more than one property where war loss deductions have been taken for two or more properties and only one of these properties is recovered, and if the recovered property has appreciated in value, the deduction previously taken not only with respect to this property but also with respect to the property not recovered is taken into consideration in determining how much of the fair market value of the property recovered represents a previous reduction in tax.

Section 341 of the bill amends section 127 of the code to provide that, at the election of the taxpayer, in the case of war loss recoveries the value of the recovered property will not be included in gross income for the year of the recovery; however, in such cases the tax for the year in which the deduction was taken (or the tax for another year affected by a carry-over or carry-back) is to be recomputed by reducing the deduction by the amount of the recovered property, taken at its depreciated cost or other basis on the date of the loss or its fair market value on the date of the recovery, whichever the taxpayer chooses, and the increase, if any, in the tax so resulting is to be added to the tax for the year of the recovery.

Cases have also arisen where war losses have been deductible but no deduction was claimed. In such cases, if other war losses were deducted with a tax benefit, section 127 of the code operates to require the fair market value of the property on the date of the recovery to be included in income in the year of the recovery to the extent not in excess of the beneficial deductions for other war losses. Under section 341 of the bill there would be no tax in the year of the recovery with

respect to property for which no deduction was claimed in the year of the loss, if the taxpayer elects the new procedure.

If the taxpayer elects to have the new procedure apply to one of several recoveries it must be applied to all other recoveries, past or future, even though a refund or deficiency for a prior year would otherwise be barred. If, as the result of this election, the basis of property recovered in any year is changed the effects of that change in depreciation, base period income, etc., in subsequent years must be reflected in changed tax liabilities, even though those years are otherwise closed.

No interest is to be paid or assessed on refunds or deficiencies arising from this provision.

In general, the election to use the new procedure must be made before January 1, 1953, except that it may be made after December 31, 1952, if there is a recovery after that date.

This provision is applicable to taxable years beginning after December 31, 1941.

39. Mine exploration expenditures (sec. 342)

Under present law, expenditures for ascertaining the location, extent, and quality of mineral deposits cannot be deducted (unless such expenditures produce no useful results, in which case they can be deducted as in the case of any other loss), but must be capitalized. Amounts so capitalized can be recovered for tax purposes only through depletion allowances. If the depletion allowance is based upon a percentage of gross income from the property, this deduction is the same whether a large or a small sum was spent for exploration.

Section 342 of the bill provides that with respect to expenditures made to ascertain the existence, location, extent, or quality of any deposit of ore or other mineral (other than oil and gas), prior to the development stage of a mine, the taxpayer (whether exploring for one or more mines) may elect to deduct in any taxable year any amount up to \$75,000 paid or incurred in that year; or he may defer any amount up to \$75,000 not deducted in the current year, and deduct that amount ratably as the minerals discovered or explored as the result of the expenditure are sold. Any taxpayer may treat such expenditures made in any 4 years, up to \$75,000 per year, as deductible in either of these ways; after he has done this for 4 years, additional expenditures for exploration must be capitalized as under present law. Amounts so deducted will be a substitute for cost depletion based on such expenditures, but the allowances for depletion based upon a percentage of gross profit will not be affected.

The amendments made by this section of the bill is to apply to taxable years ending after December 30, 1950.

40. Pensions of life insurance agents (sec. 343)

Under section 165 of the code, payments made from an employees' retirement fund are taxable to the recipient as received. Full time life insurance agents have been denied the benefits of this section because of a ruling that they are not technically "employees" for the purposes of the provision. As a result the entire lump-sum value of the pension in excess of any amount contributed to the fund by the employee is taxable as income of the agent in the year he retires, when his right

to his share of the company's contributions becomes nonforfeitable. Section 343 of the bill amends section 3797 (a) of the code to extend the benefits of section 165 to full time life insurance agents who are employees for social security purposes.

This amendment is effective with respect to taxable years beginning after December 31, 1938.

41. Nonbusiness casualty losses (sec. 344)

Under existing law the "net operating loss" which an individual may carry backward or forward to offset the income of another taxable year is limited to a net loss from the operation of his trade or business; net losses with respect to his nonbusiness properties are not included. Section 344 of the bill provides that all losses arising from fires, floods, storms, and other casualties, or from theft, may be considered in computing the net operating loss, whether or not the property destroyed or damaged was used in the individual's trade or business. The provisions apply to such losses sustained after December 31, 1950.

42. Abatement of tax on certain irrevocable trusts (sec. 345)

In the case of a member of the military or naval forces of the United States or of one of the other United Nations who died while in active service after December 6, 1941, and before January 1, 1948, it was provided under prior law that any income tax for the year of his death, or any income tax for any prior year which was unpaid at the time of his death, should be abated. Section 345 of the bill deals with cases where such individuals were not receiving certain income directly, and so were not liable for income tax on that income, but were nevertheless beneficiaries of trusts which were accumulating income intended to be for their ultimate benefit, or for the benefit of their estates or close relatives. The bill provides that in such a case the trust shall be allowed to deduct income so accumulated if it was earned by the trust during the time the beneficiary was in active service. The effect is that any tax which the trust has not yet paid, or which, if paid, may still be refunded, on income which was accumulated for the benefit of the deceased individual during the period when he was in active service, will be abated or refunded.

43. Nondistributable income of personal holding companies (sec. 349)

Under subchapter (A) of chapter 2 of the code, personal holding companies are subject to a special surtax of 85 percent of their "undistributed subchapter (A) net income" (75 percent on the first \$2,000). Section 504 provides for certain deductions in computing the income subject to this special personal holding company tax, among which is a deduction for dividends paid out. This surtax is applicable under present law even though certain other Federal laws prevent the distribution of dividends by the holding company.

Section 349 of the bill provides, in effect, that a deduction shall be allowed in computing the undistributed subchapter (A) net income for amounts which cannot be distributed without violating the Trading With the Enemy Act of October 16, 1917, as amended, or the First War Powers Act of 1941, or amounts subject to lien in favor of the United States.

This amendment is effective for taxable years beginning after December 31, 1939.

44. Back mail pay of railroads (sec. 611)

After an application for increased mail pay made by the railroads in February 1947, the Interstate Commerce Commission in December 1947, ordered an interim increase of 25 percent in mail-pay rates effective after February 19, 1947, pending further investigation. Amounts represented by this increase were reported for tax purposes by the railroads in the years in which the services were rendered. On December 4, 1950, the ICC awarded the railroads \$312 million in back mail pay for the period from February 19, 1947, through December 31, 1950. Of this amount, about \$160 million represented the 25-percent increase previously granted on a temporary basis with respect to the services rendered in the period 1947-50, and about \$158 million represented an additional increase with respect to those same services.

Section 611 of the bill provides that the additional payments authorized by the December 4, 1950, order are to be included in income for the years in which the railroads rendered the services for which the additional payments were made. It is specifically provided that no interest shall be due with respect to any period prior to July 1, 1951, for deficiencies resulting from the inclusion of the additional payments in the back years.

The same section of the bill also provides that, if any retroactive award of air mail pay to a taxpayer is required to be included in the taxpayer's income for the year or years in which the mail was carried, no interest shall be due, with respect to any period prior to 30 days after the award is granted, for tax deficiencies resulting from the retroactive inclusion of the mail pay.

45. Preferred stock of public utilities (sec. 612)

Section 612 of the bill amends section 15 (a) of the code which permits public utilities furnishing telephone service, electrical energy, gas, or water to take a partial credit against net income for dividends paid on preferred stock originally issued before October 1, 1942. The existing credit is designed to give these public utilities a tax saving equal to 14 percent of the amount of the preferred stock dividends. The bill amends section 15 (a) with respect to taxable years beginning before April 1, 1951, to make the intercorporate dividends-received credit available in the case of dividends on preferred stock of public utilities if the special dividends paid credit for public utilities provided by section 26 (b) has not been received by the utility.

46. Postponement of due date for returns of China Trade Act corporations (sec. 614)

Under present law China Trade Act corporations are allowed a credit against their income for the net income derived from sources within China with respect to the portion of the stock of the corporation held by Chinese or American shareholders. Also, the corporation must distribute to those shareholders an amount at least equal to the amount of the income tax reduction resulting from the credit in order to receive the full credit. As a result of hostilities and unsettled conditions generally in the Far East, it is impossible in many cases for

corporations doing business in China to make a distribution of any earnings derived from China or even to know the size of such earnings. Section 614 of the bill amends present law to provide that the Secretary of the Treasury may postpone up to the end of 1953 the due date for the paying of any income tax and the filing of the return, with respect to years beginning and ending in the period January 1, 1949, to September 30, 1953, if he deems such deferment reasonable under the circumstances. Since the requirement, that in order to receive the full credit the distribution of earnings derived from China must at least equal the income tax which otherwise would have been paid, need not be met prior to the time the taxes are due and payable, the postponement of the due date also has the effect of permitting the taxpayer to postpone the distribution of earnings.

V. STRUCTURAL CHANGES IN THE EXCESS PROFITS TAX

In general, the following excess profits tax amendments are effective retroactively to the time the excess profits tax became effective.

It is estimated that the excess profits tax amendments discussed below will decrease revenues by \$107 million in a full year of operation.

1. *Special ceiling rate for new corporations (sec. 501)*

Section 501 of the bill provides a series of special ceiling rates available only to new corporations. As indicated in part II B of this summary, the bill provides a new type of ceiling rate of 18 percent with respect to excess profits tax liability for all corporations. For ordinary corporations, this rate is to apply with respect to years beginning after March 31, 1951. On a similar basis, but retroactive to include 1950, the first year the excess profits tax was in effect, the bill provides the following series of ceiling rates applicable to excess profits net income which are to be available to certain new corporations, with respect to the first \$300,000 of their excess profits tax net income:

	<i>Percent</i>
In the first year of a new corporation's business.....	5
In the second year of a new corporation's business.....	5
In the third year of a new corporation's business.....	8
In the fourth year of a new corporation's business.....	11
In the fifth year of a new corporation's business.....	14

For that part of the excess profits net income in excess of \$300,000, new corporations less than 6 years old are to be subject to a ceiling rate of 15 percent with respect to 1950, 17¼ percent with respect to the calendar year 1951, and 18 percent with respect to taxable years beginning after March 31, 1951. Other corporations are also subject to the 17¼-percent rate in the calendar year 1951 and the 18-percent rate with respect to taxable years beginning after March 31, 1951, but in their cases these rates are applied to their entire excess profits net income. In 1950 these other corporations in effect are subject to a ceiling rate on their entire excess profits net income which is at least as high as the 15-percent rate applicable to new corporations with respect to their excess profits tax net income in excess of \$300,000.

These special ceiling rates, together with the effective income tax rates, will have the effect of providing for 1952 the following maximum

effective rates of income and excess profits taxes for the excess profits net income levels shown:

Normal tax, surtax and excess profits net income (before excess profits credit and unused credit carry-over)	Normal tax and surtax effective rates under conference bill (percent)	Maximum effective rate of income and excess profits taxes				
		First and second year, 5 percent	Third year, 8 percent	Fourth year, 11 percent	Fifth year, 14 percent	Sixth and subsequent years, 18 percent
\$65,000.....	43.54	48.54	51.54	54.54	57.54	61.54
\$75,000.....	44.67	49.67	52.67	55.67	58.67	62.67
\$100,000.....	46.50	51.50	54.50	57.50	60.50	64.50
\$200,000.....	49.25	54.25	57.25	60.25	63.25	67.25
\$300,000.....	50.17	55.17	58.17	61.17	64.17	68.17

In determining how many years a new corporation has been engaged in business, the bill describes certain cases in which a new corporation is considered to be as old as the oldest of its predecessor corporations, or as old as the oldest of the other corporations with which it or its shareholders are related. In general, these cases include the following:

1. Where assets are acquired by the new corporation from another corporation in a tax-free exchange;

2. Where a substantial amount of assets are acquired by the new corporation from another corporation, if at least half the stock in both corporations is owned by the same stockholders;

3. Where a substantial part of the assets of another corporation were distributed by it and acquired by the new corporation, if at least half the stock in both corporations was owned by the same stockholders;

4. Where the same stockholders control both the new corporation and another corporation which was engaged in a similar business; and

5. Where the new corporation purchased a business of a "selling corporation" in a taxable acquisition of the type described in the new part IV of the excess profits tax subchapter.

Under the bill a new corporation is considered to be as old as any corporation with which it is indirectly related, as well as directly related, as described above. With respect to assets acquired by the new corporation prior to December 1, 1950, numbers 1, 2, 3, and 5, above, apply only if the assets acquired (or their replacements) amounted to 20 percent or more of the total assets of the new corporation on December 1, 1950.

The special ceiling rates for new corporations are not available to corporations which receive more than 50 percent of their gross income (not counting dividends and capital gains) from contracts or sub-contracts which are of the types subject to renegotiation.

2. Management and technical service fees (sec. 502)

Section 502 of the bill provides an exclusion from excess profits tax for management and technical service fees paid to domestic corporations by certain affiliated foreign corporations in return for information and other services furnished in connection with the production or improvement of products of the type manufactured by the domestic corporation. The exemption is limited to fees received from foreign

corporations in which the domestic corporation owns at least 10 percent of the stock and the exclusion applies only if such remuneration constitutes income derived from sources without the United States.

The bill makes a conforming amendment in that it excludes these earnings of domestic corporations from their base-period earnings. Also any expenses attributable to the production of this type of income are disallowed as deductions for excess profits tax purposes.

3. Base period of fiscal-year corporations (sec. 503)

The present law provides certain variations in the base period with respect to corporations on a fiscal-year basis. Taxpayers with fiscal years ending after December 31, but before April 1, use as their base period 48 months ending with their last taxable year ending prior to April 1, 1950. For example, a taxpayer with a March 31 fiscal year has as its base period the 48 months from April 1, 1946, through March 31, 1950. A somewhat different procedure is followed in the case of taxpayers whose fiscal years end after March 31 and before December 31. Such taxpayers are required to use the 48-month period beginning on January 1, 1946, and ending on December 31, 1949.

Section 503 of the bill provides that, in lieu of its regular base period, any taxpayer with a fiscal year beginning before January 1, 1950, and ending after March 31, 1950, may, for purposes of the general average method of computing the excess profits credit, use the 48 months ending with March 31, 1950. However, if this latter period is used, the excess profits tax net income for January, February, and March of 1950 is to be computed by the use of the "weighted excess profits net income" as defined in section 435 (e) (2) (E). The "weighted excess profits net income" is 100 percent of the excess profits net income for a taxable year ending on or before June 30, 1950, 90 percent for a taxable year ending in July, August, or September 1950, and 80 percent for a year ending in October or November 1950.

4. Extension of growth alternative to new corporations (sec. 504)

New corporations are not entitled to the growth alternative under section 435 (e) of present law because this relief is available only to corporations which commenced business before the beginning of their base period (ordinarily January 1, 1946, and in no case later than April 1, 1946).

Section 504 of the bill permits corporations which commenced business during the base period to use the growth alternative in computing their excess profits credit based on income if they meet the other eligibility requirements in sec. 435 (e). The amendment will not apply to corporations which commenced business after the end of the base period since the eligibility tests under the growth alternative are written in terms of base-period experience. However, such corporations formed in the excess profits tax period will ordinarily have the benefits of the lower over-all tax ceilings provided by section 501 of the bill for new corporations.

Corporations formed after 2 years of the base period had elapsed, and before the end of the base period, ordinarily will automatically become eligible for the growth alternative. This is because the eligibility requirements of section 435 (e) (1) (A) (other than the

total asset limitation) are based upon a comparison of the taxpayer's total payroll, or gross receipts, in 1946 and 1947 with its total payroll, or gross receipts, in 1948 and 1949. Therefore, corporations formed in the latter half of the base period (except for corporations which were "acquiring corporations" prior to July 1, 1950, in tax-free exchanges of the types described in pt. II of the excess profits tax subchapter) must automatically meet the tests of growth in those respects because such corporations had no payrolls and no gross receipts in the first half of the base period. For corporations which commenced business prior to the middle of the base period (ordinarily January 1, 1948), qualification for the growth formula will not be automatic as in the case of the corporations described above, but should prove relatively easy to meet in most cases since total payroll or gross receipts for two full years of the business in the second half of the base period will be compared with payroll or gross receipts for something less than two full years of business in the first half of the base period. This ease of qualification will diminish as the corporation's starting date approaches the beginning of the base period until for a corporation commencing business on the first day of the base period it will be on substantially the same footing as those old corporations now entitled to the growth alternative.

New corporations formed before the end of the base period which meet the eligibility requirements of section 435 (e) (1) (B) will also be entitled to use the special growth alternative provided in section 435 (e) (2) (G). However, in order to qualify under that provision a corporation will have to have been in existence for all of 1949 and at least part of 1948 in order to meet the entrance requirement that its excess profits net income for the calendar year 1949 must have been not more than 25 percent of its excess profits net income for the calendar year 1948.

5. Technical amendment of growth alternative (sec. 505)

Section 435 (e) (2) (G) of the code provides a special alternative average base period net income for corporations whose excess profits net income for 1949 is not more than 25 percent of their excess profits net income for 1948. In effect, such a taxpayer is granted an alternative average base period net income equal to the sum of one-half its excess profits net income for 1948 and 40 percent of its excess profits net income for 1950.

In order to qualify for the above alternative, present law requires that the taxpayer qualify for the growth alternative "only" under the provisions of section 435 (e) (1) (B). Corporations can qualify under section 435 (e) (1) (B) if they meet certain tests of increased net sales of new products in the base period. However, section 435 (e) (1) (A) has an alternative eligibility requirement which is based upon certain tests of increased payroll and gross receipts.

Under present law, the alternative average base period net income provided by section 435 (e) (2) (G) is denied to taxpayers qualifying for the growth alternative both under section 435 (e) (1) (B) and 435 (e) (1) (A).

Section 505 of the bill extends the benefits of section 435 (e) (2) (G) to taxpayers qualifying under section 435 (e) (1) (B) whether or not they qualify under section 435 (e) (1) (A).

6. *Inadmissible assets of banks (sec. 506)*

Under the present law, both the taxpayer using the average earnings credit and the taxpayer using the invested capital credit are allowed to increase their credits by specified percentages of the net additions to their capital after 1949. However, except in the case of taxpayers with less than \$5 million of capital who use the invested capital credit based on assets, and except in the case of taxpayers who use the credit based on the historical invested capital, an increase in investment in inadmissible assets will offset dollar for dollar what would otherwise be a capital addition, even though the increase in total assets available for investment is greater than the increase in capital. For example, if a corporation increases its capital by \$1 million on the first day of an excess profits tax year and then on the same day invests \$500,000 of the new capital in inadmissible assets, it is only allowed under the present law to increase its credit for that year with respect to \$500,000, because the \$500,000 increase in inadmissibles is subtracted from the capital addition of \$1 million in arriving at the net addition to capital which may be taken into account.

An increase in the capital of a bank may be accompanied by an increase in deposits of several times that amount, total assets being increased by the new capital and increased deposits. However, since a bank invests additional funds deposited with it as well as its additional capital, an investment of even a small part of its additional assets in inadmissible municipal bonds may completely offset its capital additions. Thus, under present law the bank may have no additional credit based upon the new capital in such cases.

Section 506 of the bill provides that while a bank's increase in inadmissibles in an excess profits tax year will still serve to reduce its increase in capital in the same year, if its total assets increase more than its capital increases the net capital addition will be reduced only by a percentage based on the ratio of additional inadmissible assets to the additional total assets acquired since the beginning of its first excess profits tax year. A similar proportion is to be used where there is a decrease in capital accompanied by a larger decrease in total assets and also accompanied by a decrease in inadmissible assets.

This section of the bill also provides an adjustment of the inadmissible asset factor in the computation of base period capital additions for banks which is based on a similar ratio principle.

Under the present law a corporation computes base period capital additions by comparing its "yearly base period capital" at the beginning of its first excess profits tax year, at the beginning of the preceding year, and at the beginning of the second preceding year. The bill provides that, in determining its yearly base period capital for each year, a bank is to subtract from the amount of its equity and borrowed capital a percentage of that amount which is equal to the ratio of its inadmissible assets to its total assets, instead of subtracting the entire amount of its inadmissible assets as is the case with other corporations. This provision of the bill, with respect to the base period capital additions of banks, is optional for taxable years beginning before the date of enactment of the bill and mandatory thereafter.

This section of the bill also provides that, in the case of all corporations (whether or not they are banks), the "yearly base period

capital," for purposes of computing base period capital additions, is in no event to be less than zero. Thus, in any case where inadmissible assets at the beginning of a year exceed the total equity and borrowed capital, the yearly base period capital will be zero.

7. Reductions in inadmissible assets subsequent to the base period (sec. 507)

Under the 1950 Excess Profits Tax Act, changes in inadmissible assets subsequent to the base period do not constitute a capital addition or reduction (although reductions in inadmissibles are subtracted from capital reductions and increases in inadmissibles are subtracted from capital additions).

Section 507 of the bill provides (except in the case of banks) that in computing the average earnings credit, a reduction in inadmissibles subsequent to the base period, to the extent that the reduction exceeds any net capital reduction, is to be treated as if the amount of the reduction were a capital addition, provided that the funds obtained by selling, inadmissible assets are invested in operating assets. Similar treatment is provided for banks, but with an adjustment for total assets. Operating assets are defined as tangible inventory items and tangible property used in the taxpayer's trade or business.

8. Dealers in municipal bonds (sec. 508)

In computing the invested capital credit and in computing capital additions, certain adjustments are made to exclude from the invested capital certain assets known as "inadmissible assets." These include stock in other corporations, State and local government obligations and partially tax-exempt Federal obligations. The dividends and interest from these securities are not subject to the excess profits tax.

However, dealers in municipal bonds are subject to excess profits tax on their profits from the sale of these bonds. Municipal bonds are their stock in trade or inventory and the gain on the sale of the bonds is treated, therefore, as ordinary income rather than as a capital gain.

Section 508 of the bill provides, in effect, that where tax-exempt or partially tax-exempt bonds are held by a dealer primarily for sale to customers in the ordinary course of his trade or business, the dealer may elect to treat such bonds as admissible assets, provided that he also elects to include in his excess profits net income the interest on such bonds.

9. Base period abnormalities (sec. 509)

Under present law, if an abnormality exists in the taxpayer's lowest year of earnings during the base period, that year is automatically eliminated from the average base period net income computation. However, if an abnormality occurred in one of the remaining periods of 12 months or less in the base period, section 442 of the code provides that the taxpayer may, if it was in business at the beginning of its base period, substitute for its actual excess profits net income for the period of the abnormality an amount determined by multiplying its total assets for the last day of the year of the abnormality by the rate of return of its industry for that period.

The alternative average base period net income provided by section 442 is available, if the taxpayer can establish for any taxable year within its base period either that its normal production, output,

or operation was interrupted or diminished because of the occurrence, either prior to, or during the taxable year, of events "unusual and peculiar" in the experience of the taxpayer or that the business of the taxpayer was depressed because of temporary economic circumstances unusual in its case. This is known as an "abnormality."

The bill provides an additional alternative eligibility requirement under section 442. Section 509 of the bill provides that where the earnings of the taxpayer's third-best base period year were less than 35 percent of the average of the earnings of his two best base period years and where an abnormality has occurred in the prior year, the taxpayer will automatically be entitled to use its industry rate of return for the third best year. This new provision is limited, however, so that the substituted earnings may not in any case exceed the average of the taxpayer's two best years.

The requirement of present law that the substitute excess profits net income provided by section 442 may be utilized for a single abnormal year only if it exceeds 110 percent of the taxpayer's excess profits net income for that year computed without the substitution does not apply to taxpayers who are eligible under this provision.

10. Capital reduction for loans made by parent corporations to subsidiaries (sec. 510)

Section 510 of the bill provides that where a subsidiary corporation computes its average earnings credit on the basis of the industry rate of return applied to its total assets and where such subsidiary has borrowed funds from its parent corporation on open account, the amount so borrowed is to be eliminated from its total assets.

11. Change in products committed to prior to close of base period (sec. 511)

Section 443 of present law provides that where a corporation made a substantial change in the products or services it furnished during the last 3 years of its base period, and, within 3 years after the change, the new product accounted for more than 40 percent of gross income or 33 percent of net income and net income increased 25 percent, then the corporation is entitled to determine its average base period net income by multiplying its industry rate of return by its total assets.

As the above description indicates, present law confines this type of relief to corporations which actually introduced a new product before the end of the base period.

Section 511 of the bill provides that where a substantial change in the products produced by a taxpayer has been made after the end of the base period, such a change is to be deemed to have been made in the base period, for the purpose of qualifying for the alternative average base period net income available under section 443 of the code, if the taxpayer, prior to July 1, 1950, commenced the construction of the facilities necessary to the production of the new product, and if such construction and the production of the new product were in furtherance of a course of action to which the taxpayer (or a corporation with which the taxpayer had the privilege of filing a consolidated return for its first excess profits tax year) was committed prior to the end of the base period. This commitment must be evidenced by a contract with another person and that contract must have granted a license, franchise, or similar rights essential for the production of the new product.

12. Technical amendment relating to new corporations (sec. 512)

A new corporation computing its income credit under section 445 of the code for any of its first 3 years which are excess profits tax years is, under the present law, entitled to apply the industry rate of return only to its total assets at the beginning of its first excess profits tax year plus its net capital addition or less its net capital reduction after that date. Thus, the industry rate can be applied only to increases in its equity capital and 75 percent of increases in its borrowed capital, to the extent that its assets are acquired after the beginning of its first excess profits tax year. This treatment is less favorable than that provided for other new corporations or that provided for corporations using other relief sections involving the industry rate of return because it provides for the inclusion of only 75 percent of borrowed capital.

Section 512 of the bill provides that a new corporation computing its income credit under section 445 for any of its first 3 years which are excess profits tax years is to be entitled to its industry rate of return applied to equity capital plus 100 percent of borrowed capital, less interest on borrowed capital. Also, for purposes of computing a net capital reduction for any of these three years under section 445, decreases in borrowed capital and increases in loans to members of a controlled group are counted at 100 percent.

13. Regulated public utility credit for intrastate pipelines (sec. 513)

The alternative excess profits tax credit for certain regulated public utilities provided by section 448 of the code extends, under present law, to corporations engaged as common carriers in the furnishing or sale of gas, oil or other petroleum products (including shale oil) by pipeline, if subject to the jurisdiction of the Interstate Commerce Commission. The alternative credit in these cases is, in effect, equal to a return of 6 percent upon total equity and borrowed capital after normal tax and surtax.

Since the jurisdiction of the Interstate Commerce Commission extends only to interstate pipelines, under present law the special credit provided by section 448 is denied those pipelines whose operations are entirely intrastate in character.

Section 513 of the bill amends section 448 of the code to provide that pipeline common carriers subject, with respect to rates, to the jurisdiction of the public service commissions of any State shall be eligible for the regulated public utility credit. The same 6 percent credit is made applicable as in the case of interstate pipelines.

14. Lessor railroad corporations (sec. 514)

Section 448 of the code provides an alternative excess profits tax credit for certain regulated public utilities. In the case of railroads this alternative credit is equal to a return of 6 percent upon total equity and borrowed capital after, in effect, normal tax and surtax. To establish eligibility for this alternative credit a railroad corporation must be engaged "as a common carrier in the furnishing or sale of transportation by railroad" and must be subject to the jurisdiction of the Interstate Commerce Commission. Furthermore, such a railroad can qualify only if 80 percent or more of its gross income (computed without regard to capital gains and losses) is derived from the furnishing or sale of railroad transportation.

Section 141 of the code permits the filing of consolidated returns by affiliated corporations which are regulated public utilities within the meaning of section 448. Section 514 of the bill provides that certain lessor railroad corporations will be permitted to qualify for the regulated public utility credit where they file consolidated returns with their lessee railroad corporations which qualify under section 448.

15. Exempt excess output of sulphur, potash, metallurgical grade limestone and chemical grade limestone (sec. 515)

Section 453 of the present law provides a partial exemption for coal and iron mines, timber properties, and natural gas and metal mining properties not in operation during the base period. One-third of the net income in the current taxable year of these properties is exempt from excess profits tax.

Coal and iron mines, timber properties and natural gas properties which were in operation during the base period are also extended special relief under this provision of present law which exempts from excess profits tax one-half the income from excess output during the taxable year. The excess output is the production in excess of average annual production from the property (whether or not then owned by the taxpayer) during the period 1946-June 30, 1950.

Nonmetallic minerals are not provided the special treatment described above, either in the case of new or old properties. Section 515 of the bill extends the special treatment described above to sulphur, potash, and metallurgical or chemical grade limestone deposits.

16. Transition from World War II production and increase in peacetime capacity (sec. 516)

Section 516 of the bill extends to corporations meeting certain requirements the benefits of the special growth alternative described in section 435 (e) (2) (G) of the code. In general, this permits corporations to compute an alternative average base period net income on the basis of the sum of one-half of their income in 1948 and 40 percent of their income in 1950.

To qualify under this provision a corporation must be a manufacturing corporation which commenced business before 1940, and it must meet the following requirements:

1. The adjusted basis of the corporation's real property and depreciable tangible property must not be in excess of \$10 million as of the beginning of its base period.

2. The unadjusted basis of the corporation's real property and depreciable tangible property at the close of its base period must be 250 percent or more of the basis of such facilities at the beginning of its base period.

3. Seventy percent of the corporation's income for the years 1942 through 1945 must be attributable to contracts with the United States or related subcontracts, but less than 20 percent of the corporation's income during the base period and in the calendar year 1950 must be attributable to contracts with the United States or related subcontracts.

4. Both the corporation's profits in 1945 and the average of its profits in 1948 and 1949 must be at least 300 percent of the average of its profits for 1946 and 1947.

17. Special relief provision for corporations suffering catastrophes (sec. 517)

Section 517 of the bill provides that manufacturing corporations suffering from a catastrophe in the last 36 months of the base period may: (1) substitute their average excess profits net income in their base period, prior to the year in which the catastrophe occurred, for their earnings during the year in which the catastrophe occurred; or (2) compute their average base period net income under the growth alternative provided in section 435 (e) (2) (G) of the code. This growth alternative, in general, permits corporations to compute their average base period net income on the basis of one-half of their income in 1948 and 40 percent of their income in 1950.

A catastrophe is defined as a fire, storm, explosion, or other casualty which rendered inoperative all of the facilities of a plant or plants accounting for at least 15 percent of a corporation's total facilities. As a result of the catastrophe the corporation's normal operation must have been "substantially interrupted" for more than 12 months, and the production facility destroyed must have been replaced before the end of the base period by a production facility with at least an equivalent adjusted basis.

18. Consolidation of newspapers (sec. 518)

Section 518 of the bill provides an alternative average base period net income for any taxpayer which was engaged primarily in the newspaper publishing business and which, after the middle of its base period and prior to June 30, 1950, consolidated substantially all of its mechanical circulation, advertising, and accounting operations in connection with its newspaper publishing business with the similar operations of another corporation engaged in the newspaper publishing business in the same locality.

The alternative average base period net income provided is the actual average base period net income determined under section 435 (d), plus the amount by which the average annual expenses attributable to the operations which were consolidated, during the two taxable years preceding the taxable year in which the consolidation occurred, exceeded the expenses attributable to the same operations during the next taxable year beginning after the consolidation, after adjusting the actual expenses of the latter year for increases in labor costs and newsprint costs after the consolidation.

In order to be eligible for this alternative, the taxpayer must establish to the satisfaction of the Secretary that the consolidation resulted in substantial reductions in the expenses which would have been incurred had the consolidation not taken place. Furthermore, either the deductions of the taxpayer for the taxable year following that of the consolidation must not be more than 80 percent of the average of those deductions for the 2 years preceding the year of the consolidation, or the taxpayer's income in the year following the year of the consolidation must be at least 125 percent of its average base period income.

19. Special relief provision for companies engaged in television broadcasting during the base period (sec. 519)

Section 519 provides corporations which engaged in the television broadcasting business before January 1, 1951, with an alternative method of computing their average base period net income. If these

corporations engaged in some other business during the base period they may compute an average base period net income for their non-television business (using the general average method) and add to it a special average base period net income figure for their television broadcasting business. A taxpayer may compute this latter figure by multiplying its total television assets either by the average base period industry rate of return for radio broadcasting, or (if the taxpayer was in the radio broadcasting business during the base period) by its own individual base period rate of return on its own radio broadcasting business. If the taxpayer was engaged in the television broadcasting business during the base period, the industry rate of return or its individual radio rate of return will be applied to its total television assets at the close of the base period. If the taxpayer acquired its television broadcasting business after the close of the base period and before January 1, 1951, the industry rate of return or its individual radio rate of return will be applied to its total television assets at the end of the first month in which it engaged in the television broadcasting business.

Appropriate adjustments are to be made where assets previously used in nontelevision business have been used to acquire the television broadcasting business, to prevent a double counting of the income of these assets.

20. Construction resulting in an increase in capacity completed after end of base period (sec. 520)

Section 444 of present law provides that a corporation which commenced business before its base period and made substantial changes in its facilities during the last 36 months of the base period may use a substitute average base period net income. This substitute is determined by applying its industry rate of return to its total assets.

To qualify for relief under the "change in capacity" formula, the corporation must have added to its facilities in a manner which—

1. resulted in an increase of 100 percent or more in its productive capacity; or
2. resulted in an increase of 50 percent or more in its productive capacity and resulted in an increase in the adjusted basis of its total facilities of 50 percent; or
3. resulted in an increase in the unadjusted basis of its total facilities of 100 percent or more.

Section 520 of the bill provides that if a corporation completed construction of a manufacturing establishment during its first taxable year ending after June 30, 1950, and meets certain conditions described below, this addition or replacement, for purposes of section 444 (b) of present law, is to be treated as if it had been added to its total facilities on the last day of its base period. However, in order to qualify, the corporation must, prior to the end of its base period, have completed 40 percent of the construction, and the completion of the establishment must have been in pursuance of a plan to which the corporation was committed prior to the end of its base period.

21. Taxable exchanges (sec. 521)

Part II of the Excess Profits Tax Act of 1950 provides rules under which an acquiring corporation may utilize the earnings experience of a predecessor corporation in computing its own average earnings base. However, under the Excess Profits Tax Act of 1950, the acquir-

ing corporation may use this earnings experience only where the assets of the predecessor corporation were acquired in certain tax-free exchanges. In general, these tax-free exchanges occur where the assets of a predecessor corporation are acquired by the acquiring corporation in exchange for its stock. Under the present law the earnings experience of a predecessor corporation may not be used by an acquiring corporation where the assets were acquired by purchase for cash or in some other type of taxable exchange.

Section 521 of the bill provides that in the case of taxable exchanges occurring prior to December 1, 1950, where the predecessor corporation has been liquidated and a purchasing corporation has obtained substantially all of the predecessor corporation's assets, the purchasing corporation may use the predecessor corporation's base period experience in computing its average base period net income under the general average method. However, it is to be permitted the use of this base only to the extent that new funds were used for the purchase of these assets. These provisions are also to apply where the predecessor was a sole proprietorship or partnership, in which case the base period income of the predecessor is to be computed as if it were a corporation.

Similarly, where a predecessor corporation had two or more separate businesses, a corporation which purchased one of these businesses is entitled to use the earnings experience of the business in computing its average base period net income under the general average method. However, in such a case the predecessor corporation must have disposed of all of its businesses in a single plan of complete liquidation. Where a purchasing corporation purchased only one of several businesses of a selling corporation, the portion of the base period experience of the seller which is made available to the purchasing corporation is to be determined under regulations on the basis of an allocation based on value or on the basis of the earnings experience of the assets purchased. These provisions also apply where the predecessor was a partnership.

The bill also permits a purchasing corporation to use the earnings experience of a business of another corporation if the other corporation was liquidated and its assets were distributed to its shareholders who forthwith sold them to the purchasing corporation.

The bill further provides that in the case of taxable exchanges a purchasing corporation is not to be denied the use of the earnings base of a predecessor merely on the grounds that a franchise or license, which was an important source of earnings of the predecessor, cannot be transferred from the predecessor to the acquiring corporation, but must be obtained by the latter from the same source. An example of this would be an automobile dealer agency.

This amendment is limited to taxable exchanges occurring before December 1, 1950.

22. Exemption for strategic minerals (sec. 522)

Section 450 of the code exempts from excess profits tax income attributable to the mining of certain strategic minerals. Section 522 of the bill adds bauxite to the present list of exempt strategic minerals.

23. Consolidated returns (sec. 613)

Section 613 of the bill amends the consolidated return provisions of the code to permit a corporation exempt from excess profits tax

under section 454 (f) of the code, which has filed a consent to be included in a consolidated return for a taxable year ending after June 30, 1950, the right to amend its election within 90 days after the date of enactment of this act.

VI. STRUCTURAL CHANGES IN ESTATE AND GIFT TAXES

1. *Foreign estate tax credit (sec. 603)*

Under present law the United States asserts estate-tax liability with respect to the entire estate, wherever situated (except real property outside the United States), of decedents who were either domiciled in the United States or citizens of the United States. Since many other countries, like the United States, tax property situated within their boundaries, estates of citizens of the United States who were foreign residents are quite likely to be subjected to a double tax. With a considerable number of foreign countries, the United States has entered into estate-tax conventions which provide relief for this problem and other treaties at present are under consideration. However, in other cases the possibility of double taxation still exists.

Section 603 of the bill removes this double taxation by providing a foreign estate tax credit in the case of United States citizens and residents (subject to a limitation indicated below) where the double tax arises from the United States imposing a tax on the entire estate, and a foreign country imposing an estate tax on property situated within that country. The foreign estate tax credit is allowed both against the basic estate tax and the additional estate tax. As in the case of the income tax, a foreign tax credit is allowed in the case of those who were residents but not citizens of the United States only if the foreign country in which the decedent was a citizen allows a similar foreign tax credit in the case of citizens of the United States who are residents of that country. As in the case of the foreign tax credit allowed for income tax purposes, the foreign estate tax credit is limited in a manner which permits the offsetting of taxes paid the foreign country with respect to property situated in that country only to the extent that such property is taxed by the United States. Thus, if a foreign country imposes an estate tax at a higher effective rate than that provided by the United States, a credit is to be allowed only to the extent of the effective rate of tax imposed by the United States.

This provision is effective with respect to estates of decedents dying after the date of enactment of this bill. It does not affect any treaty obligations of the United States.

2. *United States bonds held by nonresident aliens (sec. 604)*

Section 604 of the bill deals with the status under the estate and gift taxes of obligations of the United States Government owned by nonresident aliens not engaged in trade or business in the United States. It provides that United States Government bonds issued on or after March 1, 1941, are to be included in the gross estates of the nonresident aliens, and that gifts of Government bonds issued on or after March 1, 1941, are to be subject to gift tax.

The amendment will apply only in the case of estates of decedents who die after the date of enactment of this bill or to gifts made after such date.

3. *Works of art loaned by nonresident aliens (sec. 605)*

Section 605 of the bill provides that works of art owned by a nonresident alien which are loaned to public galleries or museums in the United States for exhibition purposes are to be exempt from estate tax if the nonresident alien dies while the works of art are in this country.

Present law (sec. 863 (c) of the code) limits the exemption to works of art loaned to the National Gallery of Art.

This provision is effective with respect to estates of decedents dying after the date of enactment of this bill.

4. *Estate taxes of servicemen killed in Korea (sec. 606)*

The bill provides the same estate tax treatment for members of the Armed Forces dying in combat zones or from wounds received in combat zones as was previously provided for servicemen dying during World War II.

Section 606 provides that the additional estate tax is not to apply to the estate of a decedent dying while in active service as a member of the military or naval forces of the United States if the decedent was either killed in action while serving in a combat zone, or died as a result of wounds or other injuries, or a disease, suffered while in line of duty by reason of a hazard to which he was subjected as an incident of such military or naval service.

This provision is effective with respect to deaths occurring after the commencement of hostilities in Korea (after June 24, 1950) and before January 1, 1954.

5. *Reversionary interest of decedents dying prior to February 10, 1939 (sec. 607)*

The provisions of the Technical Changes Act of 1949 apply only with respect to the decedents dying after February 10, 1939, the date of enactment of the Internal Revenue Code. In the case of such decedents, property is included in the gross estate by reason of the retention of a reversionary interest in a transfer made before October 8, 1949, only if the reversionary interest is express and is worth more than 5 percent immediately before the decedent's death.

On March 18, 1937, Treasury Decision 4729 was issued by the Treasury Department, providing that property should not be taxed by reason of the retention of a reversionary interest. Section 607 of the bill provides that property transferred by a decedent dying after March 18, 1937, and before February 11, 1939 is not to be included in the estate of the decedent because of a possibility of reverter if the regulations in effect at the time of the death of the decedent did not provide for the inclusion of property so transferred.

6. *Decedents dying in 1950 with pre-1931 life estates retained (sec. 608)*

The Technical Changes Act of 1949 provided that, in the case of life estates retained in transfers made on or before March 3, 1931 (and in some cases before June 7, 1932), the property would not be included in the decedent's gross estate by reason of retention of the life estate if the decedent died before January 1, 1950. The 1949 act also provided that these life estates could be released free of estate and gift tax at any time during 1949 or 1950. The 1949 act containing this tax-free release provision became law on October 25, 1949. There have been several cases in which decedents died in 1950

before releasing their pre-1931 life estates, possibly because they were not aware of the tax-free release provision or were not in condition to effect a release.

In the case of life estates retained in transfers made on or before March 3, 1931, section 608 of the bill provides that property will not be included in the decedent's gross estate by reason of retention of the life estate if the decedent died before January 1, 1951 (instead of January 1, 1950, as provided by the present law).

7. Pre-1916 transfers with reversionary interests retained (609)

Under the present law a transfer in trust prior to 1931 is not subject to estate tax by reason of the retention of a life estate provided that the decedent died prior to 1950 (1951 under section 608 of this bill) and a transfer prior to October 8, 1949, is not subject to estate tax by reason of the retention of a reversionary interest unless the reversionary interest is express, rather than arising by operation of law, and exceeds 5 percent of the value of the property immediately before the decedent's death. The present law makes no distinction between transfers made before the enactment of the estate tax, September 8, 1916, and transfers made after that date. However, from 1927 to 1934 the regulations provided that transfers made before enactment of the estate tax would not be taxable. Also, prior to the decision of the Supreme Court in the Hallock case in 1940 it was felt that property would not be taxed in a decedent's estate by reason of his retention of a reversionary interest.

Section 609 of the bill provides, in effect, that property will not be included in the estate of a decedent by reason of the retention of a reversionary interest in a transfer made prior to September 8, 1916, where the decedent died after February 10, 1939, the date of enactment of the Internal Revenue Code.

8. Reversionary interests in life insurance—Decedents dying after October 21, 1942 (Sec. 610)

The Revenue Act of 1942 provided that, in determining the proportion of life-insurance premiums paid by the decedent, premiums paid by a decedent on or before January 10, 1941, are included if the decedent at any time after that date possessed an incident of ownership in the policy. Since a reversionary interest was construed to be an incident of ownership, the retention of any reversionary interest, regardless of its size and regardless of whether it was express or by operation of law, had the effect of making the premiums paid by the decedent includible for purposes of the premium payment test. In order to make the treatment of life insurance consistent with the treatment of other property under the Technical Changes Act of 1949, the Revenue Act of 1950 provided that a reversionary interest should be considered an incident of ownership only if it were express and, at some time after January 10, 1941, exceeded 5 percent of the value of the policy. The provision in the 1950 act was an amendment of the Revenue Act of 1942, so that it was effective with respect to the estates of decedents dying after October 21, 1942. However, the 1950 provision did not provide for the reopening of closed cases. In this respect it was different from the 1949 amendment of section 811 (c), which provided a 1-year period during which claims for refund could be filed for closed cases.

Section 610 of the bill amends section 503 of the Revenue Act of 1950 in order to permit the reopening of closed cases if a claim was filed within 1 year from the date of the enactment of the Technical Changes Act of 1949, on October 25, 1949.

VII. EXCISE TAXES

It is estimated that at the levels of production anticipated in the fiscal year 1952 excise tax changes made by the bill, when fully effective, will raise revenues by \$1,204 million. As shown in table 13, almost all of the excise-tax revenue provided by the bill is raised from the manufacturers' excises, the new taxes on gambling and the taxes on alcoholic beverages and tobacco. No rate increases are provided in the case of the retail excises, the excises on transportation and communication, or the admission taxes.

TABLE 13.—*Excise-tax revenue raised by the bill by major sources*

[At estimated fiscal year 1952 levels of production and consumption but in a full year of operation]

Type of excess tax	Additional revenue (in millions of dollars)
Alcoholic beverages -----	\$252
Tobacco products -----	156
Manufacturer -----	428
Retail -----	—7
Transportation and communication -----	—14
Amusement and recreation -----	—18
Gambling -----	407
Total -----	1,204

The excise-tax changes made by the bill become effective on the first day of the first month which begins more than 10 days after the date of enactment of the bill. The bill also provides that the excise-rate increases are to expire on April 1, 1954. The increases in the occupational taxes on dealers in liquor and coin-operated gaming devices are an exception to this rule. These increases are permanent. With November 1 as the effective date for these changes, it is estimated that the bill will increase excise-tax revenues by \$787 million in the fiscal year 1952 (this includes the floor stock taxes), raising total receipts for 1952 from excises to \$9,347 million..

A. ALCOHOLIC BEVERAGES

1. *Distilled spirits (secs. 451, 462)*

Section 451 of the bill increases the tax on distilled spirits from \$9 to \$10.50 per proof gallon. The increase of \$1.50 per proof gallon amounts to about 26 cents a fifth on the ordinary type of whisky bottled at about 85 proof. Under present law the \$9 per gallon tax on distilled spirits averages about 40 percent of the retail price per bottle, including tax. The tax imposed by the bill will raise this figure to about 43 percent. This assumes the addition in full of the tax to current prices, but no price mark-up on the tax.

At the present time, although the general tax rate on distilled spirits is \$9 a proof gallon, a draw-back of \$6 per proof gallon is provided for distilled spirits used for medicines, medicinal preparations, food products, flavors, or flavoring extracts which are unfit for beverage pur-

poses. This leaves a net tax of \$3 per proof gallon in such cases. The bill increases these draw-backs so that a net tax of \$1 per proof gallon is finally paid. With the tax rate of \$10.50 per proof gallon this is accomplished in section 462 of the bill providing in section 3250 (1) of the code a draw-back of \$9.50 per proof gallon. When the tax rate reverts to \$9 per proof gallon, the draw-back is to be decreased to \$8 per proof gallon.

2. Beer (*sec. 453*)

Section 453 of the bill increases the tax imposed on fermented malt liquor, or beer, by \$1 per barrel, or from the \$8 per barrel provided by present law to \$9 per barrel. This is an increase in tax of $12\frac{1}{2}$ percent as contrasted to an increase of $16\frac{2}{3}$ percent provided in the case of distilled spirit. Under present law the tax on beer represents about 15 percent of the average retail price (including tax) and under the bill this is increased to between 16 and 17 percent. In the case of a 12-ounce bottle of beer the tax increase represents an increase of about one-third of 1 cent.

3. Wines (*sec. 452*)

Section 452 of the bill to provide for about the same increase in the tax on wines as in the case of beer, namely, an increase of approximately $12\frac{1}{2}$ percent. Thus, in the case of still wines, including vermouth, the tax per gallon is to be—

(a) increased from 15 to 17 cents where the alcoholic content of the wine is not more than 14 percent,

(b) increased from 60 to 67 cents where the alcoholic content of the wine is over 14 percent but not over 21 percent; and

(c) increased from \$2 to \$2.25 where the alcoholic content of the wine is over 21 percent but not over 24 percent.¹⁴

In the case of sparkling wines, liqueurs, and cordials the tax per half pint is to be:

(a) increased from 15 to 17 cents in the case of champagne or sparkling wines; and

(b) increased from 10 to 12 cents in the case of liqueurs, cordials, and artificially carbonated wines.

Most of the wine consumption in the United States today is represented by the first two categories of still wines. Natural, or table, wines with an alcoholic content not over 14 percent and including such wines as sauterne, claret, and burgundy represent about one-quarter of the total consumption. Sweet or dessert wines with an alcoholic content between 14 and 21 percent and including such wines as port, sherry, tokay, and muscatel represent approximately three-fourths of the total consumption in the United States today. These wines are fortified with brandy or alcohol before the natural fermentation is completed. Sparkling wines account for most of the small remaining consumption in the United States today and in large part represent imports.

In terms of retail price the tax under present law represents about 4 percent of the retail price (including tax) in the case of table wines, and is to be increased by about one-half of 1 percent under the bill. The tax on sweet wines under present law represents about 15 percent

¹⁴ Wines with alcoholic content in excess of 24 percent are subject to the tax on distilled spirits.

of the retail price and under the bill this percentage is to be increased by slightly more than 1 percentage point. The tax on sparkling wines represents about 25 percent of the retail price under present law and under the bill is to be increased to about 26½ percent.

4. Occupational taxes on dealers in liquor (sec. 461)

Retail dealers in liquor other than those dealing exclusively in wine and beer are required under section 3250 of the code to pay a special annual occupational tax of \$27.50. Section 461 of the bill raises this occupational tax to \$50 a year.

Section 461 of the bill also increases the occupational taxes on wholesale dealers in liquors and wholesale dealers in malt liquors. Section 3250 (a) (1) of the code imposes a special occupational tax of \$110 on wholesale dealers in liquors. This includes wholesale dealers in wines, as well as wholesale dealers in distilled spirits. The bill raises this tax to \$200. Section 3250 (d) of the code provides an occupational tax of \$55 for wholesale dealers in malt liquor. This tax is raised to \$100.

5. Spirits lost in floods of 1951 (sec. 498)

Section 498 of the bill provides for tax refunds or credits to distillers or rectifiers for internal revenue tax and custom's duties previously paid with respect to spirits which have been lost or rendered unmarketable as a result of floods during the year 1951. To be eligible for this tax refund or credit the spirits must still be in the possession of—

1. The person originally paying the tax,
2. a rectifier, or
3. a wholesale or retail liquor dealer.

It is also provided that the refunds or credits may be made in the case of any of the above persons except retail liquor dealers who replaced for someone else distilled spirits destroyed or rendered unmarketable by a flood if the replacement was made without compensation. In order to be eligible for the refund or credit a claimant must furnish proof that the tax or duty was fully paid, that the damage was sustained as the result of the flood conditions, that he was not insured against loss of the tax, and in the case of replacements that he has actually replaced the full equivalent of the distilled spirits destroyed.

B. TOBACCO PRODUCTS

1. Cigarettes (sec. 421)

In the case of cigarettes, section 421 of the bill increases the tax provided by section 2000 of the code from \$3.50 per thousand to \$4 per thousand. In effect, this raises the tax on the ordinary package of 20 cigarettes from 7 cents to 8 cents. The present tax on cigarettes represents about 34 percent of the retail price including tax. The increase will raise this to about 37 percent.

2. Snuff, chewing tobacco, and smoking tobacco (sec. 423)

In the case of snuff, chewing tobacco, and smoking tobacco section 423 of the bill reduces the tax from 18 cents per pound to 10 cents per pound.

C. MANUFACTURERS' EXCISES

1. Gasoline and diesel fuel (secs. 489, 441)

Section 489 of the bill provides for a one-half cent increase in the gasoline tax, raising the Federal gasoline tax, provided by section 3412 of the code, from $1\frac{1}{2}$ to 2 cents per gallon. Since the tax on gasoline is a specific and not an ad valorem tax, the percentage relationship of the tax to the retail price will vary with the variation in the price of gasoline. In 1950 the tax was 6 percent of the retail price, including tax, and in 1940 it was $8\frac{1}{2}$ percent of the retail price. The bill will result in a tax equal to about 8 percent of the retail price of gasoline including tax.

Section 441 of the bill also adds a new section 2450 to the code imposing a tax of 2 cents per gallon on diesel fuel for diesel-powered highway vehicles. The tax is imposed on the retailer selling the diesel fuel for highway use and also on persons using the diesel fuel in highway vehicles if no tax was collected from the retailer. Of this 2 cents per gallon tax, $1\frac{1}{2}$ cents is permanent. The remaining $\frac{1}{2}$ cent tax terminates as of April 1, 1954.

2. Passenger cars and motorcycles (sec. 481 (b))

Section 481 (b) of the bill increases the tax, provided by section 3403 of the code, on passenger cars and motorcycles from 7 to 10 percent of the manufacturer's price. However, the bill removes the tax on house trailers. The present tax on passenger cars on the average represents 5 percent of the retail price, including tax. The increase provided by this bill will raise this to somewhat over 7 percent.

3. Automobile trucks, busses, and truck trailers (sec. 481 (a))

Section 481 (a) of the bill increases the tax on automobile trucks, busses, and truck trailers, provided by section 3403 of the code, from 5 to 8 percent of the manufacturer's price.

4. Automotive parts and accessories (sec. 481 (c), (d), (f))

Section 481 (c) of the bill increases the tax on automotive parts and accessories, provided by section 3403 of the code, from 5 to 8 percent of the manufacturer's price.

With respect to reconditioned or rebuilt parts, where such sales are subject to the parts and accessories tax under present law, section 481 (d) of the bill provides an amendment which excludes from the tax base the fair market value of any like part traded in for a reconditioned or rebuilt part.

Section 481 (f) of the bill amends section 3443 of the code to provide for a credit or refund of the tax on automotive parts and accessories where the parts or accessories are used or resold for the repair or replacement of farm equipment parts. However, this crediting or refunding device is not made available in the case of spark plugs, storage batteries, leaf springs, coils, timers, and tire chains. An exemption is already provided by existing regulations for automotive parts and accessories sold to manufacturers for use on new farm equipment with the exception of the items specifically listed above. The provision applies the same policy to sales of repair or replacement parts, making use, in this case, of a crediting or refunding procedure.

5. *Tires on toys, etc. (sec. 481 (h))*

Section 481 (h) of the bill makes a revision in the 5-cent-per-pound manufacturers' tax on tires. Section 3400 of the code is amended to exclude from this tax tires which are not more than 20 inches in diameter and one and three-fourths of an inch in cross section if the tires are of all-rubber construction. The bill also excludes tires with internal wire fasteners, irrespective of size. Under present law, the tax on tires is applicable to all tires regardless of the use for which they are intended. This provision has the effect of removing the tax in the case of tires for baby buggies, lawn mowers, children's tricycles, scooters, coaster wagons, etc.

6. *Electric, gas, and oil appliances (sec. 485)*

Section 485 of the bill revises the base of the 10 percent manufacturer's tax on electric, gas and oil appliances provided by section 3406 of the code. Except in the case of electric direct motor-driven fans and air circulators, the bill removes from tax all appliances of a non-household type. In the case of the former, only industrial type electric direct motor-driven fans and air circulators are removed from the base of the tax. In addition, the bill exempts from tax all electric heating pads. It also adds the following household types of items to the base of this tax:

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| 1. Electric exhaust blowers. | 10. Electric ice cream freezers. |
| 2. Electric belt-driven fans. | 11. Electric mangles. |
| 3. Electric or gas clothes driers. | 12. Electric motion or still picture projectors. |
| 4. Electric door chimes. | 13. Electric pants pressers. |
| 5. Electric dehumidifiers. | 14. Power lawn mowers. |
| 6. Electric dishwashers. | 15. Electric sheets and spreads. |
| 7. Electric floor polishers and waxers. | 16. Electric garbage disposal units. |
| 8. Electric food choppers and grinders. | |
| 9. Electric hedge trimmers. | |

The items taxed under present law which will continue to be subject to tax under the bill are electric direct motor-driven fans and air circulators of the nonindustrial type and the following household types of appliances:

1. Electric, gas, and oil water heaters.
2. Electric, gas, and oil appliances for cooking or warming food or beverages for consumption on the premises.
3. Electric flat irons.
4. Electric air heaters (but not furnaces).
5. Electric immersion heaters.
6. Electric blankets.
7. Electric mixers, whippers, and juicers.

Of the items added to the base of the tax, the most important in terms of revenue are power lawn mowers, electric dishwashers, and electric and gas clothes driers. This 10-percent manufacturers' tax, when expressed as a percentage of the retail price of the electric, gas, and oil appliances, including tax, represents about a 6-percent tax.

7. *Navigation receivers sold to the United States Government (sec. 482)*

Section 482 of the bill makes a revision in the base of the 10-percent manufacturers' excise tax on radio receiving sets, television receiving sets, etc., imposed by section 3404 of the code. "A communication, detection, or navigation receiver of the type used in commercial, military, or marine installations," is exempted from this tax if sold to the United States for its exclusive use.

8. *Refrigeration equipment (sec. 483)*

Under present law, a 10-percent manufacturers' tax is imposed on household type mechanical refrigerators, quick-freeze units, and refrigerating and freezing apparatus. In the case of refrigerating and freezing apparatus, present law provides that the tax does not apply in the case of sales of refrigerator components to wholesalers and retailers for resale to manufacturers of taxable refrigerators, quick-freeze units or refrigerating or cooling apparatus. Where refrigerating apparatus is sold to a wholesaler or retailer for resale to a manufacturer of nontaxable refrigerators or refrigeration equipment the tax does apply. However, if a manufacturer of refrigeration equipment sells it directly to another manufacturer of refrigeration equipment, no tax applies irrespective of whether or not the refrigeration equipment sold by the second manufacturer is taxable.

Section 483 of the bill amends section 3405 (b) of the Code to provide that, under regulations prescribed by the Secretary of the Treasury, the tax is not to apply to refrigeration components sold to wholesalers or retailers where the components are held for resale to manufacturers of refrigeration and freezing equipment (and finally so sold) irrespective of whether or not the equipment sold by the latter manufacturers is taxable equipment.

9. *Sporting goods (sec. 484)*

Section 484 of the bill makes two changes in the 10-percent manufacturers' tax imposed on sporting goods by section 3406 of the code.

Under present law this tax covers virtually all types of sporting equipment although certain toy or children-sized items are exempt. The first change made by the bill with respect to the sporting goods tax is to remove from its application specific types of articles which are used predominantly for school sports and by children. The items removed from the application of the tax are as follows:

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| 1. Baseballs and baseball equipment. | 10. Push balls. |
| 2. Basketballs. | 11. Skates. |
| 3. Boxing gloves and other boxing equipment. | 12. Snow toboggans and sleds not more than 60 inches in length. |
| 4. Fencing equipment. | 13. Soccer balls. |
| 5. Footballs and other football equipment. | 14. Softballs and other softball equipment. |
| 6. Gymnasium equipment and apparatus. | 15. Track hurdles. |
| 7. Hockey equipment. | 16. Vaulting equipment. |
| 8. Indoor baseballs and other indoor baseball equipment. | 17. Volleyballs and other volleyball equipment. |
| 9. Mass balls. | 18. Water polo equipment. |
| | 19. Wrestling head harness. |

The items which will remain in the base of the tax are as follows:

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| 1. Badminton equipment. | 10. Lacrosse equipment. |
| 2. Billiard and pool tables, balls, and cues. | 11. Polo equipment. |
| 3. Bowling balls and pins. | 12. Skis and ski poles. |
| 4. Clay pigeons and traps for throwing clay pigeons. | 13. Snow shoes. |
| 5. Cricket balls and bats. | 14. Snow toboggans and sleds more than 60 inches in length. |
| 6. Croquet balls and mallets. | 15. Squash equipment. |
| 7. Curling stones. | 16. Squash equipment. |
| 8. Deck-tennis equipment. | 17. Table-tennis equipment. |
| 9. Golf clubs and other golf equipment. | 18. Tennis equipment. |
| | 19. Fishing equipment. |

The second change made by the bill is to raise the rate of tax from 10 percent to 15 percent of the manufacturer's price with respect to all of the items remaining in the tax base, except fishing equipment. In that case the bill leaves the rate at 10 percent. The tax receipts from that source are earmarked for conservation and this bill makes no change in this arrangement. Under present law the tax on sporting goods is about 6 percent of the retail price including tax and under the bill will be (except for fishing equipment) between 10 percent and 11 percent of the retail price.

10. Photographic apparatus and film (sec. 486)

Section 3406 of the code imposes a 25-percent tax on sales at the manufacturers' level of photographic apparatus, which is defined as including cameras weighing 4 pounds or less, lenses, photographic apparatus and equipment, and any apparatus or equipment designed especially for photographic purposes. A 15-percent manufacturers' tax is also imposed on photographic films (except X-ray films), photographic plates, and sensitized paper. Under present law, the tax on film is about 9 percent, and tax on equipment is about 13 percent, of the retail price.

Section 486 of the bill decreases the 25-percent tax on photographic apparatus to 20 percent and increases the 15-percent tax on film to 20 percent. The bill also revises the bases of these taxes so that they are imposed only on film, cameras, and lenses, and only on those which, insofar as administratively possible, do not represent a cost of doing business. Under the bill, the tax on these items will represent a tax of between 11 and 12 percent of the retail price.

In the case of photoflash bulbs, the bill provides floor stock refunds. That is, wholesalers, retailers and others having inventories of photoflash bulbs intended for sale on the date the elimination of the tax becomes effective would be credited, or would receive a refund, with respect to the tax paid on their inventories of photoflash bulbs.

11. Electrical energy (sec. 488)

Section 3411 of the code imposes upon vendors of electrical energy sold to domestic or commercial consumers a tax equal to $3\frac{1}{3}$ percent of the price charged. Section 488 of the bill repeals this tax.

12. Fountain pens, ball-point pens, and mechanical pencils (sec. 487)

Section 487 of the bill adds a new section 3408 to the code imposing a 15-percent manufacturers' tax on fountain pens, ball-point pens, and mechanical pencils. At the present time some pens and pencils are subject to the 20-percent retail tax on jewelry and related items where they have nonessential parts which are ornamented with precious metals. These pens and pencils are not included in the base of the new manufacturers' tax.

13. Cigarette, cigar, and pipe lighters (sec. 487)

Section 487 of the bill imposes a manufacturer's tax on all mechanical lighters for cigarettes, cigars, and pipes which are not now taxed as jewelry. The manufacturer's tax on mechanical lighters is imposed at a 15-percent rate.

D. RETAIL EXCISES

1. *Toilet preparations (sec. 431)*

Section 431 of the bill makes three changes in the 20-percent retail tax on toilet preparations imposed by sections 2402 and 1650 of the code.

The first of these changes exempts from this tax baby oils, powders, lotions, and other toilet articles unless they are advertised or sold as being usable by adults.

The second change exempts toilet preparations purchased by barber shops and beauty parlors for use in these establishments. Under present law these items are subject to tax at the time they are purchased by the barber shop or beauty parlor. However, toilet preparations purchased by a barber shop or beauty parlor for resale to customers are not taxable until sold to the ultimate user. To distinguish the purchases for resale made by the barber shop or beauty parlor from the purchases for their own use, the establishment is required to file a certificate, if no tax is paid at the time of purchase, indicating that the items will not be used in the establishment. Such certificates are not presently required in the case of tax-paid purchases for use in the establishment. The bill eliminates repeals the tax on toilet preparations purchased by barber shops, beauty parlors, and similar establishments if intended for use in such establishments. This amendment also has the effect of eliminating the requirement of exemption certificates in connection with sales of cosmetics to barber shops and beauty parlors either for professional use therein or for resale once the businesses have established their nontaxable status as barber shops or beauty parlors.

The third change exempts from the application of this tax miniature samples of toilet preparations sold by manufacturers or distributors to house-to-house salesmen if the samples are for demonstration purposes only.

E. TRANSPORTATION AND COMMUNICATION EXCISES

1. *Domestic telegraph, cable, and radio messages (sec. 491)*

Sections 1650 and 3465 of the code impose a 25-percent tax on amounts paid for domestic telegraph, cable, or radio dispatches or messages. Section 491 of the bill reduces the tax on domestic telegraph, cable, or radio messages to 15 percent.

2. *Long-distance telephone calls from members of the Armed Forces in combat areas (sec. 492)*

Section 492 of the bill provides that the 25-percent tax on long-distance telephone calls is not to apply to calls from combat zones initiated by members of the Armed Forces.

3. *Transportation of persons (secs. 493, 494)*

The bill makes two changes in the 15-percent tax on amounts paid for the transportation of persons provided by sections 1650 and 3469 of the code. One of these exempts certain fishing trips from the tax on the transportation of persons. Under present law amounts paid for transportation in boats where the transportation takes place for the sole purpose of fishing from the boat have been held to be taxable

under these sections. Section 493 of the bill exempts from the tax on the transportation of persons amounts paid for transportation by boat for the purpose of fishing from such boat.

The second change made by the bill in the tax on the transportation of persons excludes from the application of the tax amounts paid in the case of certain types of transportation by vessels. In 1947 the tax on the transportation of persons was amended to exclude, from the application of the tax, amounts paid for transportation outside of the northern portion of the Western Hemisphere. However, amounts paid for transportation partially within United States, Canada, or Mexico, and partially outside of the northern portion of the Western Hemisphere, were continued under the tax with respect to that part of the transportation "which is from any port or station within the United States, Canada, or Mexico to any other port or station within the United States, Canada, or Mexico." For example, under present law if a vessel leaving New York for London stops at Boston for servicing or refueling, a part of the tickets purchased by its passengers is subject to the transportation tax. Section 494 of the bill provides that in the case of transportation by vessels making intermediate stops at ports in United States, Canada, or Mexico on voyages between United States and a port outside of the northern portion of the Western Hemisphere, the charge for the transportation between the intermediate stop and the port in the United States, where the transportation begins or ends, is not to be subject to the transportation tax, if the vessels are not authorized both to discharge and take on passengers at the intermediate stops.

4. *Transportation of excavation material (sec. 495)*

Under present law section 3475 of the code imposes a 3-percent tax on amounts paid for the transportation of property (in the case of coal the tax is 4 cents per short ton). In the case of building contractors paying for hauling dirt, rocks and other excavation material to some designated place the Bureau of Internal Revenue has held that a charge is being made for the transportation of property and, therefore, that such hauls are subject to tax. (Where excavation material has been removed without designating the place it is to be taken, no tax has been applied, since the Bureau has considered this to be merely the payment for removal of waste rather than a charge for the transportation of property.) Since March 13, 1951, the Bureau of Internal Revenue has followed the rule laid down by the Third Circuit Court of Appeals in *Edward H. Ellis & Sons, Inc., v. United States* that where excavation material has been hauled from one point on a construction project to another point on the same project, no transportation tax is due. However, tax still is imposed where the excavation material is taken off the construction project to some designated place, even though such place is adjacent to, or near the construction project. Section 495 of the bill exempts from this tax charges made for the use of motor vehicles for the movement of earth, rock, or other excavated material from a construction project to an adjacent area. The bill also provides that no inferences are to be drawn because of the enactment of this provision with respect to the tax on the charge for transporting other excavated material.

F. EXCISES ON AMUSEMENTS OR RECREATION

1. *General admissions (secs. 401, 402)*

Sections 1650 and 1700 of the code impose a tax of 1 cent for each 5 cents or major fraction thereof charged for admission. The bill makes two changes in the application of this tax.

The first change in the admissions tax, made by section 401 of this bill, deals with the amount paid for admission. Under present law a person admitted free or at reduced rates is required to pay the same amount of tax as a person who is charged the regular admission price, unless he is an employee, a municipal officer on official business, a child under 12, a serviceman, or (if admission is free) a hospitalized veteran. Section 401 of the bill exempts free admissions from tax in all cases and bases the tax on amounts actually paid where persons are admitted at reduced rates.

The second change provides exemptions from the admissions tax where the proceeds inure to certain types of organizations. Section 402 of the bill exempts from this tax admissions where all the proceeds inure to—

1. Churches or conventions of churches.

2. Educational organizations if such organizations normally maintain regular faculties and curricula and normally have regularly organized bodies of pupils or students in attendance at the places where their educational activities are regularly carried on.

3. Charitable organizations if such organizations are supported in whole or in part by funds contributed by the United States or any State or political subdivision thereof, or are primarily supported by contributions of the general public.

4. Societies or organizations conducted for the sole purpose of maintaining symphony orchestras or operas and receiving substantial support from voluntary contributions.

5. Organizations exempt under section 101 (6) and organized prior to October 1, 1951, which are operated for the purpose of conducting an annual chautauqua program of educational, cultural, and religious activities at a permanent location.

6. National Guard organizations.

7. Reserve officers' organizations.

8. Veterans' organizations.

9. Police or fire departments, pension or retirement funds set up for the benefit of their members and funds set up for the benefit of the heirs of members.

However, in the case of any of the above types of organizations, admissions are not exempt if they are to—

1. Motion-picture exhibitions.

2. Wrestling and boxing matches.

3. Carnivals, rodeos, or circuses where professionals participate for compensation.

4. Athletic contests unless the proceeds inure exclusively to the benefit of elementary or secondary schools (or, in the case of an athletic contest between two elementary or secondary schools, inure to the benefit of a hospital for crippled children).

The bill also exempts general admissions to nonprofit agriculture fairs; admissions to concerts conducted by nonprofit civic associa-

tions; admissions to swimming pools and other places providing facilities for physical exercise if operated by a governmental unit; admissions to a home or garden which is temporarily opened to the general public as a part of a program conducted by a society or organization to permit the inspection of historical homes and gardens if no part of the proceeds inures to the benefit of any private person; and admissions to historical sites, houses, and shrines, and associated museums if operated by an organization for the preservation of such place and if no proceeds inure to any private person.

2. *Cabarets (sec. 404)*

Section 404 of the bill relates to the application of the 20-percent tax on cabarets to ballrooms and dance halls. Some courts have construed the cabaret tax to apply in the case of ballrooms and dance halls where it was possible to purchase incidental refreshments, services or merchandise in such places. The bill amends section 1700 (e) of the code to provide that the cabaret tax shall not apply in such cases.

G. EXCISES ON GAMBLING

Section 471 of the bill adds a new chapter 27A to the code which imposes a 10-percent excise tax upon wagers of certain types, principally those placed with bookmakers and lottery operators, and a \$50 per year occupational tax both upon persons engaged in accepting such wagers and upon persons who receive wagers for the persons so engaged. The bill provides that payment of either the tax on wagers or the occupational tax does not serve to exempt any person from any penalties provided under either State or Federal law with respect to engaging in the taxed activities.

1. *Tax on wagers (sec. 471)*

The wagering tax is placed upon wagers, without regard to the outcome of individual bets. The tax is limited (1) to wagers on sports events or contests placed with a person engaged in the business of accepting such wagers, (2) to wagers placed in a wagering pool which involves a sports event or contest, if the pool is conducted for profit, and (3) to wagers placed in a lottery conducted for profit.

The tax will extend to wagers on any sport, such as horse racing, prizefights, basketball, baseball, or football, including sports exhibitions and trials. Moreover, the event wagered upon need not be a sports activity but can be any type of contest, such as an election or the outcome of primaries and nominating conventions.

Wagers on sports events or contests, to be taxable, must be placed with a person engaged in the business of accepting such wagers. This requirement excludes from tax the purely "social" or "friendly" type of bet. A person is considered to be in the business of accepting wagers if he is engaged as a principal who, in accepting wagers, does so on his own account. The principals in such transactions are commonly referred to as "bookmakers," although no technical definition of "bookmaker," such as the maintenance of a handbook or other device for the recording of wagers, is required. A wager is to be considered as "placed" with a principal when it has been placed with another person acting for him. To be "engaged in the business of

accepting such wagers" a person need not be either so engaged to the exclusion of all other activities or even primarily so engaged. Thus, for example, an individual may be primarily engaged as a salesman, and also, for the purposes of this tax, be engaged in the business of accepting wagers.

As previously stated, wagers placed in a wagering pool with respect to a sports event or a contest are taxable if the pool is conducted for profit. A pool will be considered as being operated for profit, if, for example, a person appropriated to himself a percentage of the amount contributed to the pool or required a fee for the privilege of contributing to the pool.

As in the case of bookmaking transactions, a wager will be considered as "placed" in a pool or in a lottery whether placed directly with the person who conducts the pool or lottery or with another person acting for such a person.

A contribution to a lottery will be considered a taxable wager only if the lottery is conducted for profit, as is the case with respect to wagering pools. The term "lottery," means any scheme for the distribution of property by chance among persons who have paid or have agreed to pay a valuable consideration for the chance, whether called a lottery, raffle, gift enterprise, or some other name. The bill specifically provides that the term includes "policy" or the so-called numbers game and similar types of wagering.

The bill excludes from the term "lottery" any game of a type in which the wagers are usually placed, the winner or winners are usually determined, and the distribution of prizes or other property is usually made, in the presence of all persons placing wagers in the game. Among those games which are within the scope of the exclusion are card games, roulette games, dice games, and gambling wheels. On the other hand, punchboards would not normally be excluded under this definition.

The bill provides specifically that the tax is not to apply with respect to wagers placed in pari-mutuel wagering enterprises licensed under State law. Also excluded from the tax are wagers placed in coin-operated devices with respect to which an occupational tax is imposed by section 3267 of the code. The bill provides that, for the purposes of the tax, the term "lottery" does not include any drawing conducted by organizations exempt from tax under section 101 of the code where no part of the net proceeds derived from such drawing inures to the benefit of any private shareholder or individual.

Liability for the wagering tax is placed upon the person who is engaged in the business of accepting wagers or who conducts the pool or lottery. Thus, the tax is to be collected from the bookmaker proper or from the person who conducts the pool or lottery as the principal. Monthly returns of tax are required. A credit is provided in the case of so-called lay-off money. In order to avoid the risk inherent in accepting disproportionate amounts of wagers on certain horses or numbers, the bookmaker or policy operator "lays off" a portion of his bets with another bookmaker or policy operator. In such cases it is the person with whom the bet is laid off who bears the actual risk of the wager even though it is the person with whom the bet was originally placed that the bettor looks to for his winnings or to whom he pays his losses. With respect to such laid-off wagers the

bookmaker or policy operator who originally accepts the wager is to be liable for the 10-percent tax upon it but may claim a credit or refund for the amount of the tax if the bet is laid off with another person who also is liable to the wagering tax. The credit will be allowable only with respect to amounts laid off with persons also liable to the tax on wagers.

A wager is the amount risked by the person placing the bet rather than the amount which he stands to win. Thus, if a person bets \$5 against a bookmaker's \$7 with respect to the outcome of a prize fight, the wager, for the purpose of the tax, is \$5. The amount subject to tax will include not only the wager proper but also any charge incident to the placing of the wager. On the other hand, the bill specifically provides that the taxable amount is not to include an amount equal to the tax if it has been collected as a separate charge from the bettor. This exclusion conforms to the pattern of the other excises.

The bill contains provisions designed to prevent avoidance of the tax through transfer of wagering activities to points outside of the United States.

Any person who willfully fails to pay the tax provided or to make a return or to keep required records (including a daily record of the gross amount of wagers received) is made liable to criminal penalties (in addition to the civil penalties) of up to 1 year's imprisonment and a fine up to \$10,000.

2. Occupational tax (sec. 471)

In addition to the tax on wagers described above, the bill imposes an occupational tax of \$50 per year upon any person liable to the tax on wagers and upon any person engaged in receiving wagers for him.

The bill provides that a person who pays the occupational tax must, as part of his registration, identify those persons who are engaged in receiving wagers for or on his behalf, and, in addition, identify the persons on whose behalf he is engaged in receiving wagers.

In general, the provisions of the occupational tax follow the pattern of the other occupational taxes imposed under the code and require registration, posting of special tax stamp by the taxpayers, the maintenance by the collector of a list of taxpayers for public inspection, etc. Special penalties are imposed for failure to pay the tax or to post or exhibit the stamp.

3. Coin-operated gaming devices (sec. 463)

Section 3267 (a) of the code provides an occupational tax of \$150 per year in the case of coin-operated gaming devices. Section 463 of the bill raises this to \$250 per year.

H. FLOOR STOCK TAXES AND REFUNDS

Both floor stock taxes and floor stock refunds are imposed or granted one time only: a tax when an increase in rates occurs and a refund when a decrease in rates occurs. They are imposed or granted with respect to inventories of items which are beyond the point at which an excise tax ordinarily is imposed at the time the increase or decrease in rates occurs. They are used only in the case of taxes imposed at the

manufacturers' level, since only in these cases are there any inventories of items held by persons other than consumers which have not been affected by recent changes in the excise rates.

Under the bill floor stock taxes are imposed with respect to the increases in the tax on distilled spirits, beer, wine, and cigarettes (secs. 451 (c), 453 (b), 452 (b), 422). In the case of gasoline a floor stock tax is also imposed (by sec. 489 (b)), but only with respect to stocks of gasoline held by retailers other than at their retail establishments and with respect to wholesalers. The rates of tax under these floor stock taxes are the same as the increases in tax provided for these items.

The bill also provides for certain floor stock refunds at the time of the termination, April 1, 1954, of the excise increases made by this bill. The refunds are to be limited to the items on which floor stock taxes are imposed at the effective date of the increase; that is, they are limited to distilled spirits, beer, wine, and cigarettes and to stocks of gasoline held by retailers at other than their retail establishments (secs. 454, 422, 489 (b)). The refunds are to be granted only with respect to the increases imposed by this bill, and only if the owner of the inventories can show that for 3 months after the reduction date the prices charged for the items reflect the tax decreases made.

VIII. MISCELLANEOUS

1. *Claims under the Renegotiation Act (sec. 617)*

Section 201 (c) of the Renegotiation Act of 1951 fixes the expiration date for the filing of claims for net renegotiation rebates arising under the World War II statute. Among other requirements it is provided that a net renegotiation rebate is not to be repaid unless a claim has been filed with the Administrator of General Services on or before June 30, 1951. Such claims could not be filed until the Federal tax audit was completed for the affected years.

Section 617 of the bill extends the time for filing a claim for such net renegotiation rebates to October 31, 1951.

2. *Prohibition upon denial of Social Security Act funds (sec. 618)*

Titles I, IV, X, or XIV of the Social Security Act relate to grants by the Federal Government to States for aid to the needy in the case of the aged, dependent children, blind, or permanently and totally disabled. The Federal Government and the States share the cost of these assistance programs. However, a State is not entitled to payments from the Federal Government unless the State plan has been approved by the Federal Security Administrator. Under existing law a State assistance plan in order to be approved must provide safeguards which restrict the use or disclosure of information concerning individuals receiving the aid to purposes directly connected with the administration of the assistance program.

Section 618 of the bill provides that no State or any of its agencies or political subdivisions is to be deprived of any grant-in-aid to which it otherwise is or has become entitled under title I, IV, X, or XIV of the Social Security Act as the result of State legislation permitting public access to records of the disbursement of any of these payments. However, the State legislation must prohibit the use of any list or names obtained from the records for commercial or political purposes.

Under this provision the State of Indiana, which has a law which permits public access to the records of disbursements of public welfare funds but which contains a prohibition upon the use of any lists or names for commercial or political purposes of any nature, will be entitled to receive its payments under the Social Security Act in the future and will also be entitled to receive any payments which have been withheld because of the Indiana law.

3. Removal of tax-exempt expense allowances of the President, Vice President, Speaker of the House, and Members of Congress (sec. 619)

Under present law the President receives a salary of \$100,000 and an expense allowance of \$50,000; the Vice President and the Speaker of the House receive a salary of \$30,000 and an expense allowance of \$10,000; Members of Congress other than the Speaker receive a salary of \$12,500 and an expense allowance of \$2,500. In each of these cases the expense allowance is fully tax exempt. No accounting by the recipient is required in order to establish a right to this exemption alone.

Section 619 of the bill amends title 3 of the United States Code and section 601 of the Legislative Reorganization Act of 1946 to remove the tax exemption of these several expense allowances. As a result these individuals will continue to receive the same salary and the same expense allowance as under present law, but the expense allowance must be included in gross income and will be taxed unless offset by allowable deductions or credits.

With respect to the compensation of the President and the Vice President, this amendment will be effective at noon on January 20, 1953. With respect to the compensation of the Speaker of the House and of Members of Congress, the amendment is effective as of January 3, 1953.



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